HomeStreet, Inc.
Form 10-Q
May 05, 2016
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: March 31, 2016
Commission file number: 001-35424

_____

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

_____

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

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

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

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

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

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

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

The number of outstanding shares of the registrant's common stock as of May 3, 2016 was 24,798,321.60.

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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.

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PART I
ITEM 1.
FINANCIAL
STATEMENTS

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

(in thousands, except share data)	March 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents (includes interest-earning instruments of $19,072 and $2,079)	$46,356	$32,684
Investment securities (includes $653,825 and $541,151 carried at fair value)	687,081	572,164
Loans held for sale (includes $687,656 and $632,273 carried at fair value)	696,692	650,163
Loans held for investment (net of allowance for loan losses of $31,305 and $29,278; includes $18,327 and $21,544 carried at fair value)	3,523,551	3,192,720
Mortgage servicing rights (includes $133,449 and $156,604 carried at fair value)	148,851	171,255
Other real estate owned	7,273	7,531
Federal Home Loan Bank stock, at cost	40,548	44,342
Premises and equipment, net	67,323	63,738
Goodwill	20,366	11,521
Other assets	179,211	148,377
Total assets	$5,417,252	$4,894,495
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$3,823,027	$3,231,953
Federal Home Loan Bank advances	883,574	1,018,159
Accounts payable and other liabilities	119,662	117,251
Long-term debt	61,857	61,857
Total liabilities	4,888,120	4,429,220
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred stock, no par value, authorized 10,000 shares, issued and outstanding, 0 shares and 0 shares	—	—
Common stock, no par value, authorized 160,000,000, issued and outstanding, 24,550,219 shares and 22,076,534 shares	511	511
Additional paid-in capital	273,168	222,328
Retained earnings	251,292	244,885
Accumulated other comprehensive income (loss)	4,161	(2,449)
Total shareholders' equity	529,132	465,275
Total liabilities and shareholders' equity	$5,417,252	$4,894,495

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

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

	Three Months Ended March 31,	
(in thousands, except share data)	2016	2015
Interest income:		
Loans	$ 42,734	$ 31,647
Investment securities	3,053	2,394
Other	267	205
	46,054	34,246
Interest expense:		
Deposits	3,569	2,582
Federal Home Loan Bank advances	1,419	612
Federal funds purchased and securities sold under agreements to repurchase	—	5
Long-term debt	311	265
Other	64	48
	5,363	3,512
Net interest income	40,691	30,734
Provision for credit losses	1,400	3,000
Net interest income after provision for credit losses	39,291	27,734
Noninterest income:		
Net gain on mortgage loan origination and sale activities	61,263	61,887
Mortgage servicing income	8,129	4,297
Income from WMS Series LLC	136	564
Depositor and other retail banking fees	1,595	1,139
Insurance agency commissions	394	415
Gain on sale of investment securities available for sale	35	—
Bargain purchase gain	—	6,628
Other	156	443

	71,708		75,373	
Noninterest expense:				
Salaries and related costs	67,284		57,593	
General and administrative	15,522		12,825	
Amortization of core deposit intangibles	532		336	
Legal	443		467	
Consulting	1,672		5,565	
Federal Deposit Insurance Corporation assessments	716		525	
Occupancy	7,155		5,840	
Information services	7,534		6,120	
Net cost from operation and sale of other real estate owned	495		211	
	101,353		89,482	
Income before income taxes	9,646		13,625	
Income tax expense	3,239		3,321	
NET INCOME	$	6,407	$	10,304
Basic income per share	$	0.27	$	0.60
Diluted income per share	$	0.27	$	0.59
Basic weighted average number of shares outstanding	23,676,506		17,158,303	
Diluted weighted average number of shares outstanding	23,877,376		17,355,076	

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 March 31, 2016	2015
Net income	$6,407	$10,304
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 $3,572 and $1,167	6,633	2,167
Reclassification adjustment for net gains included in net income, net of tax expense of $12 and $0	(23)	—
Other comprehensive income	6,610	2,167
Comprehensive income	$13,017	$12,471

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

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

(in thousands, except share data)	Number of shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2015	14,856,611	$ 511	$ 96,615	$ 203,566	$ 1,546	$ 302,238
Net income	—	—	—	10,304	—	10,304
Share-based compensation expense	—	—	407	—	—	407
Common stock issued	7,182,137	—	124,279	—	—	124,279
Other comprehensive income	—	—	—	—	2,167	2,167
Balance, March 31, 2015	22,038,748	$ 511	$ 221,301	$ 213,870	$ 3,713	$ 439,395
Balance, January 1, 2016	22,076,534	$ 511	$ 222,328	$ 244,885	$ (2,449)	$ 465,275
Net income	—	—	—	6,407	—	6,407
Share-based compensation expense	—	—	411	—	—	411
Common stock issued	2,473,685	—	50,429	—	—	50,429
Other comprehensive income	—	—	—	—	6,610	6,610
Balance, March 31, 2016	24,550,219	$ 511	$ 273,168	$ 251,292	$ 4,161	$ 529,132

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

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

(in thousands)	Three Months Ended March 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$6,407	$10,304
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	3,763	4,631
Provision for credit losses	1,400	3,000
Fair value adjustment of loans held for sale	(7,833)	(7,948)
Fair value adjustment of loans held for investment	869	—
Origination of mortgage servicing rights	(13,704)	(14,415)
Change in fair value of mortgage servicing rights	35,471	16,546
Net gain on sale of investment securities	(35)	—
Net gain on sale of loans originated as held for investment	(202)	—
Net fair value adjustment, gain on sale and provision for losses on other real estate owned	388	91
Loss on disposal of fixed assets	85	—
Net deferred income tax benefit	(6,397)	(4,563)
Share-based compensation expense	400	393
Bargain purchase gain	—	(6,628)
Origination of loans held for sale	(1,613,692)	(1,575,683)
Proceeds from sale of loans originated as held for sale	1,569,466	1,359,798
Cash used by changes in operating assets and liabilities:		
Increase in accounts receivable and other assets	(17,782)	(6,208)
(Decrease) increase in accounts payable and other liabilities	(4,501)	4,655
Net cash used in operating activities	(45,897)	(216,027)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(94,240)	—
Proceeds from sale of investment securities	9,761	—
Principal repayments and maturities of investment securities	9,137	7,561
Proceeds from sale of other real estate owned	164	1,375
Proceeds from sale of loans originated as held for investment	10,298	—
Mortgage servicing rights purchased from others	—	(3)
Origination of loans held for investment and principal repayments, net	(207,807)	(92,162)
Proceeds from sale of property and equipment	572	—
Purchase of property and equipment	(6,899)	(4,136)
Net cash acquired from acquisitions	17,494	112,196
Net cash (used in) provided by investing activities	(261,520)	24,831

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(in thousands)	Three Months Ended March 31, 2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits, net	$465,053	$247,591
Proceeds from Federal Home Loan Bank advances	3,618,950	1,440,000
Repayment of Federal Home Loan Bank advances	(3,767,950)	(1,434,000)
Federal funds purchased and proceeds from securities sold under agreements to repurchase	—	58,180
Repayment of securities sold under agreements to repurchase	—	(98,730)
Proceeds from Federal Home Loan Bank stock repurchase	51,571	4,438
Purchase of Federal Home Loan Bank stock	(46,546)	—
Proceeds from stock issuance, net	—	65
Excess tax benefit related to the exercise of stock options	11	14
Net cash provided by financing activities	321,089	217,558
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,672	26,362
CASH AND CASH EQUIVALENTS:		
Beginning of year	32,684	30,502
End of period	$46,356	$56,864
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest paid	$6,113	$3,473
Federal and state income taxes paid (refunds), net	(1,360)	7,819
Non-cash activities:		
Loans held for investment foreclosed and transferred to other real estate owned	353	3,562
Loans transferred from held for investment to held for sale	4,567	4,295
Loans transferred from held for sale to held for investment	—	24,549
Ginnie Mae loans recognized with the right to repurchase, net	1,920	603
Simplicity acquisition:		
Assets acquired, excluding cash acquired	—	737,570
Liabilities assumed	—	718,924
Bargain purchase gain	—	6,628
Common stock issued	$—	$124,214

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

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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 real estate lending, including mortgage banking activities, and commercial and consumer banking. The consolidated financial statements include the accounts of HomeStreet, Inc. and its wholly owned subsidiaries, HomeStreet Capital Corporation and HomeStreet Bank (the “Bank”), and the Bank’s subsidiaries, HomeStreet/WMS, Inc., HomeStreet Reinsurance, Ltd., Continental Escrow Company and Union Street Holdings LLC. HomeStreet Bank was formed in 1986 and is a state-chartered 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), loans held for investment (Note 4, Loans and Credit Quality), investment securities (Note 3, Investment Securities), and derivatives (Note 6, Derivatives and Hedging Activities). Certain amounts in the financial statements from prior periods have been reclassified to conform to the current financial statement presentation.

These unaudited interim financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The results of operations in the interim financial statements do not necessarily indicate the results that may be expected for the full year. The interim financial information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission (“2015 Annual Report on Form 10-K”).

Recent Accounting Developments

On March 30, 2016, the FASB issued Accounting Standards Update ("ASU") 2016-09, Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The FASB issued this ASU as part of its initiative to reduce complexity in accounting standards. This new accounting standard simplifies several areas of accounting for share- based payment transactions, including tax provision, classification in the cash-flow statement, forfeitures, and statutory tax withholding requirements. The amendments in this ASU are effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. Early application is permitted upon issuance. The Company is currently evaluating the provisions of ASU 2016-09 and does not expect the new standard 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 is permitted upon issuance. 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. 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.

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

On April 7, 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. The ASU was issued to simplify the presentation of debt issuance costs. This guidance requires that debt issuance costs related to a recognized debt liability be presented on the statement of financial condition as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts. This guidance becomes effective for the Company for the interim and annual periods beginning after December 15, 2015, and early adoption is permitted for financial statements that have not been previously issued. The guidance is required to be applied on a retrospective basis to each individual period presented on the statement of financial condition. The adoption of this guidance will result in a reclassification of debt issuance costs from other assets to consolidated obligations on the statement of financial condition. The Company adopted this guidance during the current interim period and determined there was no material impact on the Company's consolidated financial statements.

On April 15, 2015, the FASB issued ASU 2015-05, Customer's Accounting for Fees Paid in Cloud Computing Arrangement. The ASU was issued to clarify a customer's accounting for fees paid in a cloud computing arrangement. The amendments provide guidance to customers in determining whether a cloud computing arrangement includes a software license that should be accounted for as internal-use software. If the arrangement does not contain a software license, it would be accounted for as a service contract. This guidance becomes effective for the Company for the interim and annual periods beginning after December 15, 2015; early adoption is permitted. The Company can elect to adopt the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. The Company adopted this guidance during the current interim period and determined there was no material impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation. The ASU provides an additional requirement for a limited partnership or similar entity to qualify as a voting interest entity, amending the criteria for consolidating such an entity and eliminating the deferral provided under previous guidance for investment companies. In addition, the new guidance amends the criteria for evaluating fees paid to a decision maker or service provider as a variable interest and amends the criteria for evaluating the effect of fee arrangements and related parties on a VIE primary beneficiary determination. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015. The Company adopted this guidance during the current interim period and determined there was no material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU clarifies the principles for recognizing revenue from contracts with customers. 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. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

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NOTE 2–BUSINESS COMBINATIONS:

Recent Acquisition Activity

On February 1, 2016, the Company completed its acquisition of Orange County Business Bank ("OCBB") located in Irvine, California. Also on February 1, 2016, OCBB was merged with and into HomeStreet Bank. 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 2,459,408 shares of HomeStreet common stock. The provisional application of the acquisition method of accounting resulted in goodwill of $8.8 million. The primary objective for this acquisition is to grow our Commercial and Consumer Banking segment. Along with two de novo branches opened in California during the quarter, adding Orange County Business Bank’s branch brings HomeStreet’s Southern California retail deposit branch network to ten locations.

On December 11, 2015, the Company acquired a former AmericanWest Bank retail deposit branch and certain related assets located in Dayton, Washington. This acquisition increases HomeStreet’s network of branches in eastern Washington to a total of five retail deposit branches. The Company purchased the branch from Banner Bank, which had recently acquired AmericanWest Bank. The purchase resulted in a bargain purchase gain of $381 thousand.

Simplicity Acquisition

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

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

The acquisition was accounted for under the acquisition method of accounting pursuant to ASC 805, Business Combinations. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of acquisition date. The Company made significant estimates and exercised significant judgment in estimating the fair

values and accounting for such acquired assets and assumed liabilities.

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

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

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

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

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The following table provides a breakout of Simplicity merger-related expense for the three months ended March 31, 2015:

(in thousands)	Three Months Ended March 31, 2015
Noninterest expense	
Salaries and related costs	$5,931
General and administrative	749
Legal	284
Consulting	4,988
Occupancy	163
Information services	50
Total noninterest expense	$12,165

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

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

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

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

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

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Unaudited Pro Forma Results of Operations

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

(in thousands, except share data)	Three Months Ended March 31, 2016	2015
Net interest income	$46,054	$ 35,217
Provision for credit losses	1,400	3,000
Total noninterest income	71,708	69,494
Total noninterest expense	101,353	85,591
Net income	$6,407	$ 11,215
Basic income per share	$0.27	$ 0.51
Diluted income per share	$0.27	$ 0.51
Basic weighted average number of shares outstanding	23,676,506	22,038,748
Diluted weighted average number of shares outstanding	23,877,376	22,038,748

NOTE 3–INVESTMENT SECURITIES:

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

	At March 31, 2016			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	$82,745	$ 222	$ (572)	$82,395
Commercial	24,548	124	(42)	24,630
Municipal bonds	223,878	5,164	(118)	228,924
Collateralized mortgage obligations:				
Residential	112,027	566	(417)	112,176
Commercial	82,471	1,467	(116)	83,822
Corporate debt securities	80,692	1,118	(958)	80,852

U.S. Treasury securities	41,034	5	(13)	41,026
	$647,395	$ 8,666	$ (2,236)	$653,825

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(in thousands)	At December 31, 2015 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	$69,342	$ 19	$ (1,260)	$68,101
Commercial	18,142	14	(305)	17,851
Municipal bonds	168,722	3,460	(313)	171,869
Collateralized mortgage obligations:				
Residential	86,167	32	(1,702)	84,497
Commercial	80,190	43	(1,100)	79,133
Corporate debt securities	81,280	125	(2,669)	78,736
U.S. Treasury securities	41,047	—	(83)	40,964
	$544,890	$ 3,693	$ (7,432)	$541,151

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 March 31, 2016 and December 31, 2015, 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 March 31, 2016 and December 31, 2015, substantially all securities held had ratings available by external ratings agencies.

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

(in thousands)	At March 31, 2016 Less than 12 months Gross unrealized losses	Fair value	12 months or more Gross unrealized losses	Fair value	Total Gross unrealized losses	Fair value
Mortgage-backed securities:						
Residential	$(193)	$20,221	$(378)	$26,429	$(571)	$46,650
Commercial	(42)	6,543	—	—	(42)	6,543
Municipal bonds	(61)	24,443	(58)	5,165	(119)	29,608
Collateralized mortgage obligations:						
Residential	(14)	10,552	(403)	10,703	(417)	21,255
Commercial	(47)	10,980	(69)	4,030	(116)	15,010
Corporate debt securities	(10)	3,062	(948)	24,162	(958)	27,224
U.S. Treasury securities	(13)	26,023	—	—	(13)	26,023
	$(380)	$101,824	$(1,856)	$70,489	$(2,236)	$172,313

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	At December 31, 2015					
	Less than 12 months		12 months or more		Total	
(in thousands)	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Mortgage-backed securities:						
Residential	$(572)	$36,477	$(688)	$21,119	$(1,260)	$57,596
Commercial	(305)	16,072	—	—	(305)	16,072
Municipal bonds	(211)	21,302	(101)	5,839	(312)	27,141
Collateralized mortgage obligations:						
Residential	(673)	50,490	(1,029)	26,028	(1,702)	76,518
Commercial	(986)	60,812	(115)	4,348	(1,101)	65,160
Corporate debt securities	(1,142)	36,953	(1,527)	27,405	(2,669)	64,358
U.S. Treasury securities	(83)	40,964	—	—	(83)	40,964
	$(3,972)	$263,070	$(3,460)	$84,739	$(7,432)	$347,809

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 March 31, 2016 and December 31, 2015. In addition, as of March 31, 2016 and December 31, 2015, the Company had not made a decision to sell any of its debt securities held, nor did the Company consider it more likely than not that it would be required to sell such securities before recovery of their amortized cost basis.

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

	At March 31, 2016									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
(in thousands)	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
Mortgage-backed securities:										
Residential	$—	— %	$3	0.36 %	$2,911	1.60 %	$79,481	1.86 %	$82,395	1.85 %
Commercial	—	—	—	—	24,630	2.18	—	—	24,630	2.18
Municipal bonds	2,256	3.57	8,628	3.11	39,100	3.16	178,940	3.25	228,924	3.70
Collateralized mortgage obligations:										

Residential	—	—	—	—	3,748	1.30	108,428	1.84	112,176	1.82
Commercial	—	—	—	—	60,044	2.46	23,778	1.98	83,822	2.32
Corporate debt securities	—	—	16,823	2.92	32,541	3.29	31,488	3.83	80,852	3.42
U.S. Treasury securities	40,027	0.39	999	0.64	—	—	—	—	41,026	0.40
Total available for sale	$42,283	0.56 %	$26,453	2.89 %	$162,974	2.71 %	$422,115	2.85 %	$653,825	2.66 %

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	At December 31, 2015									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
(in thousands)	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
Mortgage-backed securities:										
Residential	$—	— %	$4	0.39 %	$3,176	1.63 %	$64,921	1.88 %	$68,101	1.87 %
Commercial	—	—	—	—	17,851	2.20	—	—	17,851	2.20
Municipal bonds	510	2.09	8,828	3.33	31,806	3.16	130,725	3.99	171,869	3.79
Collateralized mortgage obligations:										
Residential	—	—	—	—	153	0.92	84,344	1.74	84,497	1.74
Commercial	—	—	5,354	1.87	56,506	2.29	17,273	1.87	79,133	2.17
Corporate debt securities	—	—	10,413	2.70	38,291	3.20	30,032	3.64	78,736	3.31
U.S. Treasury securities	39,971	0.39	993	0.63	—	—	—	—	40,964	0.40
Total available for sale	$40,481	0.41 %	$25,592	2.65 %	$147,783	2.69 %	$327,295	2.83 %	$541,151	2.60 %

Sales of investment securities available for sale were as follows.

	Three Months Ended March 31,	
(in thousands)	2016	2015
Proceeds	$9,761	$ —
Gross gains	35	—
Gross losses	$—	$ —

There were $118.7 million and $101.3 million in investment securities pledged to secure advances from the FHLB at March 31, 2016 and December 31, 2015, respectively. At March 31, 2016 and December 31, 2015, there were $24.0 million and $21.4 million, respectively, of securities pledged to secure derivatives in a liability position.

The Company assesses the creditworthiness of the counterparties that hold the pledged collateral and has determined that these arrangements have little risk. There were no securities pledged under repurchase agreements at March 31, 2016 and December 31, 2015.

Tax-exempt interest income on securities available for sale totaling $967 thousand and $784 thousand for the three months ended March 31, 2016 and 2015, respectively, were recorded in the Company's consolidated statements of operations.

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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 2015 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 March 31, 2016	At December 31, 2015
Consumer loans		
Single family[1]	$1,231,707	$1,203,180
Home equity and other	275,405	256,373
	1,507,112	1,459,553
Commercial loans		
Commercial real estate	661,932	600,703
Multifamily	543,887	426,557
Construction/land development	629,820	583,160
Commercial business	213,084	154,262
	2,048,723	1,764,682
	3,555,835	3,224,235
Net deferred loan fees and costs	(979)	(2,237)
	3,554,856	3,221,998
Allowance for loan losses	(31,305)	(29,278)
	$3,523,551	$3,192,720

(1) Includes $18.3 million and $21.5 million at March 31, 2016 and December 31, 2015, 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 $1.82 billion and $1.73 billion at March 31, 2016 and December 31, 2015, respectively, were pledged to secure borrowings from the FHLB as part of our liquidity management strategy. Additionally, loans totaling $549.2 million and $572.0 million at March 31, 2016 and December 31, 2015, 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.

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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 March 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, commercial real estate and construction/land development within the state of Washington, which represented 16.5%, 13.9% and 10.8% of the total portfolio, respectively. Additionally, we had a concentration representing 10% or more by state and property type for the loan classes of single family and multifamily within the state of California, which represented 12.7% and 10.0% of the total portfolio, respectively. At December 31, 2015 we had concentrations representing 10% or more of the total portfolio by state and property type for the loan classes of single family, commercial real estate and construction/land development within the state of Washington, which represented 18.0% and 14.7% and 11.3% of the total portfolio, respectively. Additionally, we had a concentration representing 10% or more by state and property type for the single family loan class within the state of California, which represented 13.6% of the total portfolio.

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 March 31, 2016. 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 2015 Annual Report on Form 10-K.

Activity in the allowance for credit losses was as follows.

	Three Months Ended March 31,	
(in thousands)	2016	2015
Allowance for credit losses (roll-forward):		
Beginning balance	$30,659	$22,524
Provision for credit losses	1,400	3,000
Recoveries, net of charge-offs	364	104
Ending balance	$32,423	$25,628
Components:		
Allowance for loan losses	$31,305	$24,916
Allowance for unfunded commitments	1,118	712
Allowance for credit losses	$32,423	$25,628

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

	Three Months Ended March 31, 2016				
(in thousands)	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$8,942	$ (32)	$ 84	$ 32	$9,026
Home equity and other	4,620	(94)	251	75	4,852
	13,562	(126)	335	107	13,878
Commercial loans					
Commercial real estate	4,847	—	—	328	5,175
Multifamily	1,194	—	—	638	1,832
Construction/land development	9,271	(42)	210	(153)	9,286
Commercial business	1,785	(26)	13	480	2,252
	17,097	(68)	223	1,293	18,545
Total allowance for credit losses	$30,659	$ (194)	$ 558	$ 1,400	$32,423

	Three Months Ended March 31, 2015				
(in thousands)	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$9,447	$ —	$ 65	$ 447	$9,959
Home equity and other	3,322	(82)	84	7	3,331
	12,769	(82)	149	454	13,290
Commercial loans					
Commercial real estate	3,846	(16)	—	721	4,551
Multifamily	673	—	—	(12)	661
Construction/land development	3,818	—	14	1,171	5,003
Commercial business	1,418	—	39	666	2,123
	9,755	(16)	53	2,546	12,338
Total allowance for credit losses	$22,524	$ (98)	$ 202	$ 3,000	$25,628

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

	At March 31, 2016					
(in thousands)	Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total
Consumer loans						
Single family	$8,813	$ 213	$9,026	$1,133,351	$ 80,029	$1,213,380
Home equity and other	4,784	68	4,852	273,976	1,429	275,405
	13,597	281	13,878	1,407,327	81,458	1,488,785
Commercial loans						
Commercial real estate	5,160	15	5,175	658,797	3,135	661,932
Multifamily	1,832	—	1,832	540,780	3,107	543,887
Construction/land development	9,286	—	9,286	627,237	2,583	629,820
Commercial business	1,987	265	2,252	210,149	2,935	213,084
	18,265	280	18,545	2,036,963	11,760	2,048,723
Total loans evaluated for impairment	31,862	561	32,423	3,444,290	93,218	3,537,508
Loans held for investment carried at fair value						18,327 (1)
Total loans held for investment	$31,862	$ 561	$32,423	$3,444,290	$ 93,218	$3,555,835

(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.

	At December 31, 2015					
(in thousands)	Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total
Consumer loans						
Single family	$8,723	$ 219	$8,942	$1,101,891	$ 79,745	$1,181,636
Home equity and other	4,545	75	4,620	254,762	1,611	256,373
	13,268	294	13,562	1,356,653	81,356	1,438,009
Commercial loans						
Commercial real estate	4,847	—	4,847	597,571	3,132	600,703
Multifamily	1,194	—	1,194	423,424	3,133	426,557
Construction/land development	9,271	—	9,271	579,446	3,714	583,160
Commercial business	1,512	273	1,785	151,924	2,338	154,262
	16,824	273	17,097	1,752,365	12,317	1,764,682
Total loans evaluated for impairment	30,092	567	30,659	3,109,018	93,673	3,202,691
Loans held for investment carried at fair value						21,544 (1)
Total loans held for investment	$30,092	$ 567	$30,659	$3,109,018	$ 93,673	$3,224,235

(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.

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Impaired Loans

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

(in thousands)	At March 31, 2016 Recorded investment	Unpaid principal balance[1][2]	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$78,723	$80,875	$ —
Home equity and other	791	869	—
	79,514	81,744	—
Commercial loans			
Commercial real estate	2,573	2,863	—
Multifamily	3,107	3,410	—
Construction/land development	2,583	3,047	—
Commercial business	2,008	2,375	—
	10,271	11,695	—
	$89,785	$93,439	$ —
With an allowance recorded:			
Consumer loans			
Single family	$1,306	$1,419	$ 213
Home equity and other	638	638	68
	1,944	2,057	281
Commercial loans			
Commercial real estate	562	611	15
Commercial business	927	987	265
	1,489	1,598	280
	$3,433	$3,655	$ 561
Total:			
Consumer loans			
Single family[3]	$80,029	$82,294	$ 213
Home equity and other	1,429	1,507	68
	81,458	83,801	281
Commercial loans			
Commercial real estate	3,135	3,474	15
Multifamily	3,107	3,410	—
Construction/land development	2,583	3,047	—
Commercial business	2,935	3,362	265
	11,760	13,293	280
Total impaired loans	$93,218	$97,094	$ 561

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

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

(3) Includes $77.4 million in performing TDRs.

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(in thousands)	At December 31, 2015 Recorded investment	Unpaid principal balance[1][2]	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$78,240	$80,486	$ —
Home equity and other	955	1,033	—
	79,195	81,519	—
Commercial loans			
Commercial real estate	3,132	3,421	—
Multifamily	3,133	3,429	—
Construction/land development	3,714	4,214	—
Commercial business	1,373	1,475	—
	11,352	12,539	—
	$90,547	$94,058	$ —
With an allowance recorded:			
Consumer loans			
Single family	$1,505	$1,618	$ 219
Home equity and other	656	656	75
	2,161	2,274	294
Commercial loans			
Commercial business	965	1,019	273
	965	1,019	273
	$3,126	$3,293	$ 567
Total:			
Consumer loans			
Single family[3]	$79,745	$82,104	$ 219
Home equity and other	1,611	1,689	75
	81,356	83,793	294
Commercial loans			
Commercial real estate	3,132	3,421	—
Multifamily	3,133	3,429	—
Construction/land development	3,714	4,214	—
Commercial business	2,338	2,494	273
	12,317	13,558	273
Total impaired loans	$93,673	$97,351	$ 567

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

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

(3) Includes $74.7 million in single family performing TDRs.

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

	Three Months Ended March 31,	
(in thousands)	2016	2015
Consumer loans		
Single family	$79,887	$78,285
Home equity and other	1,520	2,497
	81,407	80,782
Commercial loans		
Commercial real estate	3,134	24,858
Multifamily	3,120	3,453
Construction/land development	3,148	5,470
Commercial business	2,636	3,499
	12,038	37,280
	$93,445	$118,062

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.

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

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

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

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

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

- Cash flow deficiencies or trends are of a magnitude to jeopardize current and future payments with no immediate relief. A loss is not presently expected, however the outlook is sufficiently uncertain to preclude ruling out the possibility.
- The borrower has been unable to adjust to prolonged and unfavorable industry or economic trends.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	At March 31, 2016				
(in thousands)	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$1,195,764[(1)]	$4,179	$ 17,572	$ 14,192	$1,231,707
Home equity and other	273,158	71	671	1,505	275,405
	1,468,922	4,250	18,243	15,697	1,507,112
Commercial loans					
Commercial real estate	593,723	62,243	3,322	2,644	661,932
Multifamily	522,256	19,431	1,651	549	543,887
Construction/land development	607,600	10,499	10,625	1,096	629,820
Commercial business	169,832	38,963	2,661	1,628	213,084
	1,893,411	131,136	18,259	5,917	2,048,723
	$3,362,333	$135,386	$ 36,502	$ 21,614	$3,555,835

(1) Includes $18.3 million of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

	At December 31, 2015				
(in thousands)	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$1,165,990[(1)]	$7,933	$ 16,439	$ 12,818	$1,203,180
Home equity and other	253,912	381	478	1,602	256,373
	1,419,902	8,314	16,917	14,420	1,459,553
Commercial loans					
Commercial real estate	535,903	55,058	7,067	2,675	600,703
Multifamily	403,604	20,738	1,657	558	426,557
Construction/land development	552,819	25,520	4,407	414	583,160
Commercial business	120,969	30,300	1,731	1,262	154,262
	1,613,295	131,616	14,862	4,909	1,764,682
	$3,033,197	$139,930	$ 31,779	$ 19,329	$3,224,235

(1) Includes $21.5 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 March 31, 2016 and 2015, 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 2015 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 FHA or guaranteed by the VA are generally maintained on accrual status even if 90 days or more past due.

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

	At March 31, 2016						
(in thousands)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days or more past due and accruing[2]
Consumer loans							
Single family	$10,624	$ 4,173	$41,410	$56,207	$1,175,500[1]	$1,231,707	$ 32,487 [2]
Home equity and other	1,017	71	1,505	2,593	272,812	275,405	2
	11,641	4,244	42,915	58,800	1,448,312	1,507,112	32,489
Commercial loans							
Commercial real estate	2,433	—	3,120	5,553	656,379	661,932	—
Multifamily	—	—	113	113	543,774	543,887	—
Construction/land development	—	—	1,003	1,003	628,817	629,820	—
Commercial business	2,001	—	1,367	3,368	209,716	213,084	17
	4,434	—	5,603	10,037	2,038,686	2,048,723	17
	$16,075	$ 4,244	$48,518	$68,837	$3,486,998	$3,555,835	$ 32,506

	At December 31, 2015						
(in thousands)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days or more past due and accruing[2]
Consumer loans							
Single family	$7,098	$ 3,537	$48,714	$59,349	$1,143,831[1]	$1,203,180	$ 36,595 [2]
Home equity and other	1,095	398	1,576	3,069	253,304	256,373	—
	8,193	3,935	50,290	62,418	1,397,135	1,459,553	36,595
Commercial loans							
Commercial real estate	233	—	2,341	2,574	598,129	600,703	—
Multifamily	—	—	119	119	426,438	426,557	—
Construction/land development	77	—	339	416	582,744	583,160	—
Commercial business	—	—	692	692	153,570	154,262	17
	310	—	3,491	3,801	1,760,881	1,764,682	17
	$8,503	$ 3,935	$53,781	$66,219	$3,158,016	$3,224,235	$ 36,612

(1) Includes $18.3 million and $21.5 million of loans at March 31, 2016 and December 31, 2015, respectively, where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

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

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

	At March 31, 2016		
(in thousands)	Accrual	Nonaccrual	Total
Consumer loans			
Single family	$1,222,784[1]	$ 8,923	$1,231,707
Home equity and other	273,902	1,503	275,405
	1,496,686	10,426	1,507,112
Commercial loans			
Commercial real estate	658,812	3,120	661,932
Multifamily	543,774	113	543,887
Construction/land development	628,816	1,004	629,820
Commercial business	211,735	1,349	213,084
	2,043,137	5,586	2,048,723
	$3,539,823	$ 16,012	$3,555,835

	At December 31, 2015		
(in thousands)	Accrual	Nonaccrual	Total
Consumer loans			
Single family	$1,191,061[1]	$ 12,119	$1,203,180
Home equity and other	254,797	1,576	256,373
	1,445,858	13,695	1,459,553
Commercial loans			
Commercial real estate	598,362	2,341	600,703
Multifamily	426,438	119	426,557
Construction/land development	582,821	339	583,160
Commercial business	153,588	674	154,262
	1,761,209	3,473	1,764,682
	$3,207,067	$ 17,168	$3,224,235

(1) Includes $18.3 million and $21.5 million of loans at March 31, 2016 and December 31, 2015, where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

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

	Three Months Ended March 31, 2016			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	5	$ 1,020	$ —
	Payment restructure	15	3,171	—
Total consumer				
	Interest rate reduction	5	1,020	—
	Payment restructure	15	3,171	—
		20	4,191	—
Total loans				
	Interest rate reduction	5	1,020	—
	Payment restructure	15	3,171	—
		20	$ 4,191	$ —

	Three Months Ended March 31, 2015			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	11	$ 2,390	$ —
Home equity and other				
	Interest rate reduction	1	37	—
Total consumer				
	Interest rate reduction	12	2,427	—
Total loans				
	Interest rate reduction	12	2,427	—
		12	$ 2,427	$ —

The following tables present loans that were modified as TDRs within the previous 12 months and subsequently re-defaulted during the three months ended March 31, 2016 and 2015, 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 March 31,			
	2016		2015	
(dollars in thousands)	Number of loan relationships that	Recorded investment	Number of loan relationships that	Recorded investment

	re-defaulted	re-defaulted
Consumer loans		
Single family	1 $ 271	6 $ 1,498
	1 271	6 1,498
	1 $ 271	6 $ 1,498

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NOTE 5–DEPOSITS:

Deposit balances, including stated rates, were as follows.

(in thousands)	At March 31, 2016	At December 31, 2015
Noninterest-bearing accounts	$880,985	$ 643,028
NOW accounts, 0.00% to 1.00% at March 31, 2016 and December 31, 2015	495,467	408,477
Statement savings accounts, due on demand, 0.00% to 1.00% at March 31, 2016 and December 31, 2015	300,952	292,092
Money market accounts, due on demand, 0.00% to 1.45% at March 31, 2016 and December 31, 2015	1,244,064	1,155,464
Certificates of deposit, 0.05% to 3.80% at March 31, 2016 and December 31, 2015	901,559	732,892
	$3,823,027	$ 3,231,953

There were $2.7 million in public funds included in deposits at both March 31, 2016 and December 31, 2015.

Interest expense on deposits was as follows.

	Three Months Ended March 31,	
(in thousands)	2016	2015
NOW accounts	$492	$322
Statement savings accounts	254	255
Money market accounts	1,367	1,139
Certificates of deposit	1,456	866
	$3,569	$2,582

The weighted-average interest rates on certificates of deposit at March 31, 2016 and December 31, 2015 were 0.91% and 0.96% respectively.

Certificates of deposit outstanding mature as follows.

(in thousands)	At March 31, 2016
Within one year	$ 625,698
One to two years	207,524
Two to three years	24,901
Three to four years	28,347
Four to five years	15,089
	$ 901,559

The aggregate amount of time deposits in denominations of $100 thousand or more at March 31, 2016 and December 31, 2015 was $376.0 million and $290.1 million, respectively. The aggregate amount of time deposits in denominations of more than $250 thousand at March 31, 2016 and December 31, 2015 was $76.5 million and $81.7 million, respectively. There were $223.6 million and $120.3 million of brokered deposits at March 31, 2016 and December 31, 2015, respectively.

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NOTE 6–DERIVATIVES AND HEDGING ACTIVITIES:

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

We held no derivatives designated as a fair value, cash flow or foreign currency hedge instrument at March 31, 2016 or December 31, 2015. Derivatives are reported at their respective fair values in the other assets or accounts payable and other liabilities line items on the consolidated statements of financial condition, with changes in fair value reflected in current period earnings.

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

The collateral used under the Company's master netting agreements is typically cash, but securities may be used under agreements with certain counterparties. Receivables related to cash collateral that has been paid to counterparties is included in other assets on the Company's consolidated statements of financial condition. Any securities pledged to counterparties as collateral remain on the consolidated statement of financial condition. Refer to Note 3, Investment Securities, for further information on securities collateral pledged. At March 31, 2016 and December 31, 2015, 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 2015 Annual Report on Form 10-K.

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

	At March 31, 2016		
	Notional amount	Fair value derivatives	
(in thousands)		Asset	Liability
Forward sale commitments	$1,939,613	$5,384	$(8,399)
Interest rate swaptions	90,000	14	—
Interest rate lock and purchase loan commitments	856,195	28,497	(15)
Interest rate swaps	1,455,050	42,367	(13,403)
Total derivatives before netting	$4,340,858	76,262	(21,817)

Netting adjustment/Cash collateral [1]	(5,798)	18,724
Carrying value on consolidated statements of financial condition	$70,464	$(3,093)

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	At December 31, 2015		
	Notional amount	Fair value derivatives	
(in thousands)		Asset	Liability
Forward sale commitments	$1,069,102	$1,885	$(1,496)
Interest rate lock and purchase loan commitments	594,360	17,719	(8)
Interest rate swaps	1,109,350	8,670	(4,007)
Total derivatives before netting	$2,772,812	28,274	(5,511)
Netting adjustment/Cash collateral [1]		8,971	5,411
Carrying value on consolidated statements of financial condition		$37,245	$(100)

(1) Includes cash collateral of $12.9 million and $14.4 million at March 31, 2016 and December 31, 2015 respectively, 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 March 31, 2016				
(in thousands)	Gross fair value	Netting adjustments/ Cash collateral[1]	Carrying value	Securities not offset in consolidated balance sheet (disclosure-only netting)	Net amount
Derivative assets	$76,262	$ (5,798)	$70,464	$ —	$70,464
Derivative liabilities	$(21,817)	$ 18,724	$(3,093)	$ 1,310	$(1,783)

	At December 31, 2015				
(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	$28,274	$ 8,971	$37,245	$ —	$37,245
Derivative liabilities	$(5,511)	$ 5,411	$(100)	$ 5	$(95)

(1) Includes cash collateral of $12.9 million and $14.4 million at March 31, 2016 and December 31, 2015 respectively, as part of the netting adjustments which primarily consists of collateral transferred by the Company at the initiation of derivative transactions and held by the counterparty as security.

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

(in thousands)	Three Months Ended March 31, 2016	2015
Recognized in noninterest income:		
Net gain on mortgage loan origination and sale activities [1]	$(1,092)	$8,003
Mortgage servicing income [2]	31,707	12,234
	$30,615	$20,237

(1) Comprised of 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.

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NOTE 7–MORTGAGE BANKING OPERATIONS:

Loans held for sale consisted of the following.

(in thousands)	At March 31, 2016	At December 31, 2015
Single family	$683,059	$ 632,273
Multifamily	2,202	11,076
Other	11,431	6,814
Total loans held for sale	$696,692	$ 650,163

Loans sold consisted of the following.

	Three Months Ended March 31,	
(in thousands)	2016	2015
Single family	$1,471,583	$1,316,959
Multifamily	47,970	26,173
Other	11,143	—
Total loans sold	$1,530,696	$1,343,132

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

	Three Months Ended March 31,	
(in thousands)	2016	2015
Single family:		
Servicing value and secondary market gains[(1)]	$54,127	$56,289
Loan origination and funding fees	5,328	4,455
Total single family	59,455	60,744
Multifamily	1,529	939
Other	279	204
Total net gain on mortgage loan origination and sale activities	$61,263	$61,887

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

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.

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

(in thousands)	At March 31, 2016	At December 31, 2015
Single family		
U.S. government and agency	$15,302,363	$14,628,596
Other	678,569	719,215
	15,980,932	15,347,811
Commercial		
Multifamily	946,191	924,367
Other	62,566	79,513
	1,008,757	1,003,880
Total loans serviced for others	$16,989,689	$16,351,691

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

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

	Three Months Ended March 31,	
(in thousands)	2016	2015
Balance, beginning of period	$2,922	$1,956
Additions [1]	27	487
Realized losses [2]	(224)	(332)
Balance, end of period	$2,725	$2,111

(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 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 $8.6 million and $9.6 million were recorded in other assets as of March 31, 2016 and December 31, 2015, 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 March 31, 2016 and December 31, 2015, delinquent or defaulted mortgage loans currently in Ginnie Mae pools that the Company has recognized on its consolidated statements of financial condition totaled $31.0 million and $29.0 million, respectively, with a corresponding amount recorded within accounts payable and other

liabilities on the consolidated statements of financial condition. The recognition of previously sold loans does not impact the accounting for the previously recognized MSRs.

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

(in thousands)	Three Months Ended March 31, 2016	2015
Servicing income, net:		
Servicing fees and other	$12,530	$9,063
Changes in fair value of single family MSRs due to modeled amortization [1]	(7,257)	(9,235)
Amortization of multifamily MSRs	(637)	(454)
	4,636	(626)
Risk management, single family MSRs:		
Changes in fair value due to changes in model inputs and/or assumptions [2]	(28,214)	(7,311)
Net gain from derivatives economically hedging MSR	31,707	12,234
	3,493	4,923
Mortgage servicing income	$8,129	$4,297

(1) Represents changes due to collection/realization of expected cash flows and curtailments.
(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.

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

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

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

(rates per annum) [1]	Three Months Ended March 31, 2016	2015
Constant prepayment rate ("CPR") [2]	17.28%	16.13%
Discount rate [3]	10.25%	10.32%

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

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

(dollars in thousands)	At March 31, 2016
Fair value of single family MSR	$133,449
Expected weighted-average life (in years)	4.19
Constant prepayment rate [1]	19.65 %
Impact on 25 basis points adverse change	$(15,116)
Impact on 50 basis points adverse change	$(30,982)
Discount rate	10.50 %
Impact on fair value of 100 basis points increase	$(3,680)
Impact on fair value of 200 basis points increase	$(7,157)

(1) Represents the expected lifetime average.

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

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

(in thousands)	Three Months Ended March 31, 2016	2015
Beginning balance	$156,604	$112,439
Additions and amortization:		
Originations	12,316	14,813
Purchases	—	3
Changes due to modeled amortization[1]	(7,257)	(9,235)
Net additions and amortization	5,059	5,581
Changes in fair value due to changes in model inputs and/or assumptions [2]	(28,214)	(7,311)
Ending balance	$133,449	$110,709

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

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

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

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

(in thousands)	Three Months Ended March 31, 2016	2015
Beginning balance	$14,651	$10,885
Origination	1,388	582
Amortization	(637)	(454)
Ending balance	$15,402	$11,013

At March 31, 2016, the expected weighted-average life of the Company's multifamily MSRs was 10 years. Projected amortization expense for the gross carrying value of multifamily MSRs is estimated as follows.

(in thousands)	At March 31, 2016
Remainder of 2016	$ 1,734
2017	2,201
2018	2,045
2019	1,938
2020	1,806
2021 and thereafter	5,678
Carrying value of multifamily MSR	$ 15,402

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NOTE 8–COMMITMENTS, GUARANTEES AND CONTINGENCIES:

Commitments

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

The Company makes certain unfunded loan commitments as part of its lending activities that have not been recognized in the Company's financial statements. These include commitments to extend credit made as part of the Company's lending activities on loans the Company intends to hold in its loans held for investment portfolio. The aggregate amount of these unrecognized unfunded loan commitments existing at March 31, 2016 and December 31, 2015 was $50.4 million and $52.9 million, respectively.

In the ordinary course of business, the Company extends secured and unsecured open-end loans to meet the financing needs of its customers. Undistributed construction loan commitments, where the Company has an obligation to advance funds for construction progress payments, were $438.1 million and $456.4 million at March 31, 2016 and December 31, 2015, respectively. Unused home equity and commercial banking funding lines totaled $237.7 million and $216.5 million at March 31, 2016 and December 31, 2015, respectively. The Company has recorded an allowance for credit losses on loan commitments, included in accounts payable and other liabilities on the consolidated statements of financial condition, of $1.1 million and $1.4 million at March 31, 2016 and December 31, 2015, respectively.

Guarantees

In the ordinary course of business, the Company sells loans through the Fannie Mae Multifamily Delegated Underwriting and Servicing Program ("DUS®)[1] that are subject to a credit loss sharing arrangement. The Company services the loans for Fannie Mae and shares in the risk of loss with Fannie Mae under the terms of the DUS contracts. Under the program, the DUS lender is contractually responsible for the first 5% of losses and then shares in the remainder of losses with Fannie Mae with a maximum lender loss of 20% of the original principal balance of each DUS loan. For loans that have been sold through this program, a liability is recorded for this loss sharing arrangement under the accounting guidance for guarantees. As of March 31, 2016 and December 31, 2015, the total unpaid principal balance of loans sold under this program was $946.2 million and $924.4 million, respectively. The Company's reserve liability related to this arrangement totaled $3.2 million and $3.0 million at March 31, 2016 and December 31, 2015, respectively. There were no actual losses incurred under this arrangement during the three months ended March 31, 2016 and 2015.

Mortgage repurchase liability

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

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

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

[1] DUS® is a registered trademark of Fannie Mae 40

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The total unpaid principal balance of loans sold on a servicing-retained basis that were subject to the terms and conditions of these representations and warranties totaled $16.04 billion and $15.43 billion as of March 31, 2016 and December 31, 2015, respectively. At March 31, 2016 and December 31, 2015, the Company had recorded a mortgage repurchase liability for loans sold on a servicing-retained and servicing-released basis, included in accounts payable and other liabilities on the consolidated statements of financial condition, of $2.7 million and $2.9 million, respectively.

Contingencies

In the normal course of business, the Company may have various legal claims and other similar contingent matters outstanding for which a loss may be realized. For these claims, the Company establishes a liability for contingent losses when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. For claims determined to be reasonably possible but not probable of resulting in a loss, there may be a range of possible losses in excess of the established liability. At March 31, 2016, we reviewed our legal claims and determined that there were no material claims that were considered to be probable or reasonably possible of resulting in a loss. As a result, the Company did not have any material amounts reserved for legal claims as of March 31, 2016.

NOTE 9–FAIR VALUE MEASUREMENT:

For a further discussion of fair value measurements, including information regarding the Company’s valuation methodologies and the fair value hierarchy, see Note 17, Fair Value Measurement within our 2015 Annual Report on Form 10-K.

Valuation Processes

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

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

We obtain pricing from third party service providers for determining the fair value of a substantial portion of our investment securities available for sale. We have processes in place to evaluate such third party pricing services to ensure information obtained and valuation techniques used are appropriate. For fair value measurements obtained from third party services, we monitor and review the results to ensure the values are reasonable and in line with

market experience for similar classes of securities. While the inputs used by the pricing vendor in determining fair value are not provided, and therefore unavailable for our review, we do perform certain procedures to validate the values received, including comparisons to other sources of valuation (if available), comparisons to other independent market data and a variance analysis of prices by Company personnel that are not responsible for the performance of the investment securities.

Estimation of Fair Value

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

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

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

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

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Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Loans held for investment		
Loans held for investment, excluding collateral dependent loans and loans transferred from held for sale	Fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	For the carrying value of loans see Note 1–Summary of Significant Accounting Policies of the 2015 Annual Report on Form 10-K. Estimated fair value classified as Level 3.
Loans held for investment, collateral dependent	Fair value is based on appraised value of collateral, which considers sales comparison and income approach methodologies. Adjustments are made for various factors, which may include: • Adjustments for variations in specific property qualities such as location, physical dissimilarities, market conditions at the time of sale, income producing characteristics and other factors • Adjustments to obtain “upon completion” and “upon stabilization” values (e.g., property hold discounts where the highest and best use would require development of a property over time) • Bulk discounts applied for sales costs, holding costs and profit for tract development and certain other properties	Carried at lower of amortized cost or fair value of collateral, less the estimated cost to sell. Classified as a Level 3 nonrecurring fair value measurement in periods where carrying value is adjusted to reflect the fair value of collateral.
Loans held for investment transferred from loans held for sale	Fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Level 3 recurring fair value measurement
Mortgage servicing rights		
Single family MSRs	For information on how the Company measures the fair value of its single family MSRs, including key economic assumptions and the sensitivity of fair value to changes in those assumptions, see Note 7, Mortgage Banking Operations.	Level 3 recurring fair value measurement
Multifamily MSRs	Fair value is based on discounted estimated future servicing fees and other revenue, less estimated costs to service the loans.	Carried at lower of amortized cost or fair value Estimated fair value classified as Level 3.

Derivatives		
Interest rate swaps Interest rate swaptions Forward sale commitments	Fair value is based on quoted prices for identical or similar instruments, when available. When quoted prices are not available, fair value is based on internally developed modeling techniques, which require the use of multiple observable market inputs including: • Forward interest rates • Interest rate volatilities	Level 2 recurring fair value measurement
Interest rate lock and purchase loan commitments	The fair value considers several factors including: • Fair value of the underlying loan based on quoted prices in the secondary market, when available. • Value of servicing • Fall-out factor	Level 3 recurring fair value measurement

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Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Other real estate owned (“OREO”)	Fair value is based on appraised value of collateral, less the estimated cost to sell. See discussion of "loans held for investment, collateral dependent" above for further information on appraisals.	Carried at lower of amortized cost or fair value of collateral (Level 3), less the estimated cost to sell.
Federal Home Loan Bank stock	Carrying value approximates fair value as FHLB stock can only be purchased or redeemed at par value.	Carried at par value. Estimated fair value classified as Level 2.
Deposits		
Demand deposits	Fair value is estimated as the amount payable on demand at the reporting date.	Carried at historical cost. Estimated fair value classified as Level 2.
Fixed-maturity certificates of deposit	Fair value is estimated using discounted cash flows based on market rates currently offered for deposits of similar remaining time to maturity.	Carried at historical cost. Estimated fair value classified as Level 2.
Federal Home Loan Bank advances	Fair value is estimated using discounted cash flows based on rates currently available for advances with similar terms and remaining time to maturity.	Carried at historical cost. Estimated fair value classified as Level 2.
Long-term debt	Fair value is estimated using discounted cash flows based on current lending rates for similar long-term debt instruments with similar terms and remaining time to maturity.	Carried at historical cost. Estimated fair value classified as Level 2.

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The following table presents the levels of the fair value hierarchy for the Company's assets and liabilities measured at fair value on a recurring basis.

(in thousands)	Fair Value at March 31, 2016	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	$82,395	$—	$82,395	$—
Commercial	24,630	—	24,630	—
Municipal bonds	228,924	—	228,924	—
Collateralized mortgage obligations:				
Residential	112,176	—	112,176	—
Commercial	83,822	—	83,822	—
Corporate debt securities	80,852	—	80,852	—
U.S. Treasury securities	41,026	—	41,026	—
Single family mortgage servicing rights	133,449	—	—	133,449
Single family loans held for sale	687,656	—	642,098	45,558
Single family loans held for investment	18,327	—	—	18,327
Derivatives				
Forward sale commitments	5,384	—	5,384	—
Interest rate swaptions	14	—	14	—
Interest rate lock and purchase loan commitments	28,497	—	—	28,497
Interest rate swaps	42,367	—	42,367	—
Total assets	$1,569,519	$—	$1,343,688	$225,831
Liabilities:				
Derivatives				
Forward sale commitments	$8,399	$—	$8,399	$—
Interest rate lock and purchase loan commitments	15	—	—	15
Interest rate swaps	13,403	—	13,403	—
Total liabilities	$21,817	$—	$21,802	$15

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(in thousands)	Fair Value at December 31, 2015	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	$68,101	$—	$68,101	$—
Commercial	17,851	—	17,851	—
Municipal bonds	171,869	—	171,869	—
Collateralized mortgage obligations:				
Residential	84,497	—	84,497	—
Commercial	79,133	—	79,133	—
Corporate debt securities	78,736	—	78,736	—
U.S. Treasury securities	40,964	—	40,964	—
Single family mortgage servicing rights	156,604	—	—	156,604
Single family loans held for sale	632,273	—	582,951	49,322
Single family loans held for investment	21,544	—	—	21,544
Derivatives				
Forward sale commitments	1,884	—	1,884	—
Interest rate swaptions	—	—	—	—
Interest rate lock and purchase loan commitments	17,719	—	—	17,719
Interest rate swaps	8,670	—	8,670	—
Total assets	$1,379,845	$—	$1,134,656	$245,189
Liabilities:				
Derivatives				
Forward sale commitments	$1,496	$—	$1,496	$—
Interest rate lock and purchase loan commitments	8	—	—	8
Interest rate swaps	4,007	—	4,007	—
Total liabilities	$5,511	$—	$5,503	$8

There were no transfers between levels of the fair value hierarchy during the three months ended March 31, 2016 and 2015.

Level 3 Recurring Fair Value Measurements

The Company's level 3 recurring fair value measurements consist of single family mortgage servicing rights, single family loans held for investment where fair value option was elected, certain single family loans held for sale, and interest rate lock and purchase loan commitments, which are accounted for as derivatives. For information regarding fair value changes and activity for single family MSRs during the three months ended March 31, 2016 and 2015, see Note 7, Mortgage Banking Operations of this Form 10-Q.

During the first quarter of 2016, the Company transferred certain loans from held for sale to held for investment. These loans were originated as held for sale loans where the Company has elected fair value option. The Company determined these loans to be level 3 recurring assets as the valuation technique included a significant unobservable input. The total amount of held for investment loans where fair value option election was made was $18.3 million at March 31, 2016.

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

(dollars in thousands)	At March 31, 2016 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for investment, fair value option	$18,327	Income approach	Implied spread to benchmark interest rate curve	4.22%	4.66%	4.40%

(dollars in thousands)	At December 31, 2015 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for investment, fair value option	$21,544	Income approach	Implied spread to benchmark interest rate curve	3.26%	4.35%	4.01%

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

(dollars in thousands)	At March 31, 2016 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for sale, fair value option	$45,558	Income approach	Implied spread to benchmark interest rate curve	4.07%	5.96%	4.45%
			Market price movement from comparable bond	—%	0.55%	0.38%

(dollars in thousands)	At December 31, 2015 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for sale, fair value option	$49,322	Income approach	Implied spread to benchmark interest rate curve	2.68%	7.62%	3.91%
			Market price movement from comparable bond	(0.43)%	(0.06)%	(0.27)%

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

(in thousands)	Three Months Ended March 31, 2016	2015
Beginning balance, net	$17,711	$11,933
Total realized/unrealized gains[(1)]	44,528	55,986

Settlements	(33,757)	(41,900)
Ending balance, net	$28,482	$26,019

(1) All realized and unrealized gains and losses are recognized in earnings as net gain from mortgage loan origination and sale activities on the consolidated statements of operations. There were net unrealized gains (losses) of $28.5 million and $26.0 million for the three months ended March 31, 2016 and 2015, respectively, recognized on interest rate lock and purchase loan commitments outstanding at March 31, 2016 and 2015, respectively.

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

	At March 31, 2016					
(dollars in thousands)	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock and purchase loan commitments, net	$28,482	Income approach	Fall out factor	0.80%	64.62%	13.19%
			Value of servicing	0.42%	2.05%	0.87%

	At December 31, 2015					
(dollars in thousands)	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock and purchase loan commitments, net	$17,711	Income approach	Fall out factor	0.60%	61.16%	15.80%
			Value of servicing	0.53%	1.71%	0.80%

Nonrecurring Fair Value Measurements

Certain assets held by the Company are not included in the tables above, but are measured at fair value on a nonrecurring basis. These assets include certain loans held for investment and other real estate owned that are carried at the lower of cost or fair value of the underlying collateral, less the estimated cost to sell. The estimated fair values of real estate collateral are generally based on internal evaluations and appraisals of such collateral, which use the market approach and income approach methodologies. All impaired loans are subject to an internal evaluation completed quarterly by management as part of the allowance process.

The fair value of commercial properties are generally based on third-party appraisals that consider recent sales of comparable properties, including their income-generating characteristics, adjusted (generally based on unobservable inputs) to reflect the general assumptions that a market participant would make when analyzing the property for purchase. The Company uses a fair value of collateral technique to apply adjustments to the appraisal value of certain commercial loans held for investment that are collateralized by real estate. During the three months ended March 31, 2016 and 2015, the Company recorded no adjustments to the appraisal values of certain commercial loans held for investment that are collateralized by real estate.

The Company uses a fair value of collateral technique to apply adjustments to the stated value of certain commercial loans held for investment that are not collateralized by real estate. During three months ended March 31, 2016, the Company did not apply any adjustments to the stated value of such loans. During three months ended March 31, 2015, the Company applied a range of stated value adjustments of 25.0% to 48.4%, with a weighted average of 33.0%. During the three months ended March 31, 2016 and 2015, the Company did not apply any adjustment to the appraisal value of OREO.

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

the property.

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

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The following tables present assets that had changes in their recorded fair value during the three months ended March 31, 2016 and 2015 and still held at the end of the respective reporting period.

(in thousands)	Three Months Ended March 31, 2016 Fair Value of Assets Held at March 31, 2016	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$2,619	$ —	$ —	$2,619	$ (34)
Other real estate owned[2]	5,485	—	—	5,485	(391)
Total	$8,104	$ —	$ —	$8,104	$ (425)

(in thousands)	Three Months Ended March 31, 2015 Fair Value of Assets Held at March 31, 2015	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$8,347	$ —	$ —	$8,347	$ 13
Other real estate owned[2]	195	—	—	195	(168)
Total	$8,542	$ —	$ —	$8,542	$ (155)

(1) Represents the carrying value of loans for which adjustments are based on the fair value of the collateral.

(2) Represents other real estate owned where an updated fair value of collateral is used to adjust the carrying amount subsequent to the initial classification as other real estate owned.

Fair Value of Financial Instruments

The following presents the carrying value, estimated fair value and the levels of the fair value hierarchy for the Company's financial instruments other than assets and liabilities measured at fair value on a recurring basis.

(in thousands)	At March 31, 2016 Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$46,356	$46,356	$46,356	$—	$ —
Investment securities held to maturity	33,256	31,763	—	31,763	—
Loans held for investment	3,505,224	3,546,034	—	—	3,546,034

Loans held for sale - transferred from held for investment	6,834	6,834	—	—	6,834	
Loans held for sale – multifamily	2,202	2,202	—	2,202	—	
Mortgage servicing rights – multifamily	15,402	17,198	—	—	17,198	
Federal Home Loan Bank stock	40,548	40,548	—	40,548	—	
Liabilities:						
Deposits	$3,823,027	$3,805,945	$—	$3,805,945	$	—
Federal Home Loan Bank advances	883,574	887,529	—	887,529	—	
Long-term debt	61,857	60,260	—	60,260	—	

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(in thousands)	At December 31, 2015 Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$32,684	$32,684	$32,684	$—	$ —
Investment securities held to maturity	31,013	31,387	—	31,387	—
Loans held for investment	3,171,176	3,255,740	—	—	3,255,740
Loans held for sale - transferred from held for investment	6,814	6,814	—	—	6,814
Loans held for sale – multifamily	11,076	11,076	—	11,076	—
Mortgage servicing rights – multifamily	14,651	16,412	—	—	16,412
Federal Home Loan Bank stock	44,342	44,342	—	44,342	—
Liabilities:					
Deposits	$3,231,953	$3,229,670	$—	$3,229,670	$ —
Federal Home Loan Bank advances	1,018,159	1,021,344	—	1,021,344	—
Long-term debt	61,857	60,239	—	60,239	—

NOTE 10–EARNINGS PER SHARE:

The following table summarizes the calculation of earnings per share.

(in thousands, except share and per share data)	Three Months Ended March 31, 2016	2015
Net income	$6,407	$ 10,304
Weighted average shares:		
Basic weighted-average number of common shares outstanding	23,676,507	17,158,303
Dilutive effect of outstanding common stock equivalents [(1)]	200,870	196,773
Diluted weighted-average number of common stock outstanding	23,877,377	17,355,076
Earnings per share:		
Basic earnings per share	$0.27	$ 0.60
Diluted earnings per share	$0.27	$ 0.59

(1) Excluded from the computation of diluted earnings per share (due to their antidilutive effect) for the three months ended March 31, 2016 and 2015 were certain stock options and unvested restricted stock issued to key senior management personnel and directors of the Company. The aggregate number of common stock equivalents related to such options and unvested restricted shares, which could potentially be dilutive in future periods, was zero and 102,382 at March 31, 2016 and 2015, respectively.

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NOTE 11–BUSINESS SEGMENTS:

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

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

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

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

Financial highlights by operating segment were as follows.

	Three Months Ended March 31, 2016		
(in thousands)	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$5,045	$35,646	$40,691
Provision for credit losses	—	1,400	1,400
Noninterest income	67,065	4,643	71,708
Noninterest expense	64,723	36,630	101,353
Income before income taxes	7,387	2,259	9,646
Income tax expense	2,522	717	3,239
Net income	$4,865	$1,542	$6,407
Total assets	$904,252	$4,513,000	$5,417,252

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(in thousands)	Three Months Ended March 31, 2015		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$5,627	$25,107	$30,734
Provision for credit losses	—	3,000	3,000
Noninterest income	65,292	10,081	75,373
Noninterest expense	53,816	35,666	89,482
Income (loss) before income taxes	17,103	(3,478)	13,625
Income tax expense	6,785	(3,464)	3,321
Net income (loss)	$10,318	$(14)	$10,304
Total assets	$1,050,614	$3,553,789	$4,604,403

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

NOTE 12–ACCUMULATED OTHER COMPREHENSIVE INCOME:

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

(in thousands)	Three Months Ended March 31,	
	2016	2015
Beginning balance	$(2,449)	$1,546
Other comprehensive income before reclassifications	6,633	2,167
Amounts reclassified from accumulated other comprehensive income	(23)	—
Net current-period other comprehensive income	6,610	2,167
Ending balance	$4,161	$3,713

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

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

(in thousands)	Three Months Ended March 31, 2016	2015
Gain on sale of investment securities available for sale	$ 35	$ —
Income tax expense	12	—
Total, net of tax	$ 23	$ —

NOTE 13–SUBSEQUENT EVENTS:

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

- the qualifying disclosures and other factors referenced in this Form 10-Q including, but not limited to, those listed under Item 1A "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations;"
- our ability to implement new or expanded business products and business lines;
- our ability to grow our geographic footprint and our various lines of business, and to manage that growth effectively, including our effectiveness in managing the associated costs and in generating the expected revenues and strategic benefits;
- our ability to manage the credit risks of our lending activities, including potential increases in loan delinquencies, nonperforming assets and write offs, decreased collateral values, inadequate loan reserve amounts and the effectiveness of our hedging strategies;
- our ability to effectively integrate any recent or future acquisitions with our operations;
- costs associated with the integration of new personnel from growth through acquisitions and hiring initiatives, including increased salary costs, and time and attention required from our management team to identify, investigate and successfully complete such acquisitions;
- our ability to control costs while meeting operational needs and retaining key members of our senior management team and other key managers and business producers;
-

our ability to implement and maintain appropriate disclosure controls and procedures and internal controls over financial reporting;

- our ability to achieve compliance with complex new regulatory requirements, including laws and regulations such as those related to the Dodd-Frank Act and the Final Truth In Lending Act ("TILA")/Real Estate Settlement Procedures Act ("RESPA") Integrated Disclosure Rule (“Rule”) which took effect on October 3, 2015;
- compliance with Basel III capital requirements and related regulations, as well as restrictions that may be imposed by our federal and state regulatory authorities, including the extent to which regulatory initiatives may affect our capital, liquidity and earnings;

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- compliance with requirements of investors and/or government-owned or sponsored entities, including Fannie Mae, Freddie Mac, Ginnie Mae, the Federal Housing Administration (the "FHA") the Department of Housing and Urban Development ("HUD") and the Department of Veterans' Affairs (the "VA");
- general economic conditions, either nationally or in our market area, including increases in mortgage interest rates, declines in housing refinance activities, changes in the availability and affordability of single family housing, employment trends, business contraction, consumer confidence, real estate values and other economic pressures;
- the effect on our mortgage origination and resale operations of changes in mortgage markets generally, including the uncertain impact on the market for non-qualified mortgage loans resulting from regulations which took effect in January 2014, changes in monetary policies and economic trends and initiatives that affect our mortgage origination and servicing operations;
- the impact of changes to local zoning and land use ordinances that may impact the availability of single family housing in our market areas;
- the impact of and our ability to anticipate and respond effectively to changes in the levels of general interest rates, mortgage interest rates, deposit interest rates, our net interest margin and funding sources;
- our ability to control costs while meeting operational needs and retaining key members of our senior management team and other key managers and business producers;
- our ability to maintain confidentiality, integrity, and availability of enterprise data, including unauthorized electronic access, physical security threats, and inadvertent disclosure, which could lead to reputational harm and litigation risks; and
- competition.

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

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

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

This report contains forward-looking statements. For a discussion about such statements, including the risks and uncertainties inherent therein, see "Forward-Looking Statements." Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and Notes presented elsewhere in this report and in HomeStreet, Inc.'s 2015 Annual Report on Form 10-K.

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Summary Financial Data

(dollars in thousands, except share data)	At or for the Three Months Ended Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	Jun. 30, 2015	Mar. 31, 2015
Income statement data (for the period ended):					
Net interest income	$40,691	$ 39,740	$ 39,634	$ 38,230	$ 30,734
Provision for credit losses	1,400	1,900	700	500	3,000
Noninterest income	71,708	65,409	67,468	72,987	75,373
Noninterest expense	101,353	92,725	92,026	92,335	89,482
Income before income taxes	9,646	10,524	14,376	18,382	13,625
Income tax expense	3,239	1,846	4,415	6,006	3,321
Net income	$6,407	$ 8,678	$ 9,961	$ 12,376	$ 10,304
Basic income per share	$0.27	$ 0.39	$ 0.45	$ 0.56	$ 0.60
Diluted income per share	$0.27	$ 0.39	$ 0.45	$ 0.56	$ 0.59
Common shares outstanding	24,550,219	22,076,534	22,061,702	22,065,249	22,038,748
Weighted average number of shares outstanding:					
Basic	23,676,506	22,050,022	22,035,317	22,028,539	17,158,303
Diluted	23,877,376	22,297,183	22,291,810	22,292,734	17,355,076
Shareholders' equity per share	$21.55	$ 21.08	$ 20.87	$ 20.29	$ 19.94
Financial position (at period end):					
Cash and cash equivalents	$46,356	$ 32,684	$ 37,303	$ 46,197	$ 56,864
Investment securities	687,081	572,164	602,018	509,545	476,102
Loans held for sale	696,692	650,163	882,319	972,183	865,322
Loans held for investment, net	3,523,551	3,192,720	3,012,943	2,900,675	2,828,177
Mortgage servicing rights	148,851	171,255	146,080	153,237	121,722
Other real estate owned	7,273	7,531	8,273	11,428	11,589
Total assets	5,417,252	4,894,495	4,975,653	4,866,248	4,604,403
Deposits	3,823,027	3,231,953	3,307,693	3,322,653	3,344,223
Federal Home Loan Bank advances	883,574	1,018,159	1,025,745	922,832	669,419
Federal funds purchased and securities sold under agreements to repurchase	—	—	—	—	9,450
Shareholders' equity	$529,132	$ 465,275	$ 460,458	$ 447,726	$ 439,395
Financial position (averages):					
Investment securities	$625,695	$ 584,519	$ 539,330	$ 506,904	$ 462,762
Loans held for investment	3,399,479	3,120,644	2,975,624	2,861,223	2,370,763
Total interest-earning assets	4,629,507	4,452,326	4,394,557	4,266,382	3,473,652
Total interest-bearing deposits	2,734,975	2,587,125	2,573,512	2,626,925	2,205,585
Federal Home Loan Bank advances	896,726	987,803	887,711	783,801	515,958
Federal funds purchased and securities sold under agreements to repurchase	—	100	—	4,336	41,734
Total interest-bearing liabilities	3,693,558	3,636,885	3,523,080	3,476,919	2,825,134
Shareholders’ equity	$510,883	$ 470,635	$ 460,489	$ 455,721	$ 370,008

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Summary Financial Data (continued)

(dollars in thousands, except share data)	At or for the Three Months Ended				
	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	Jun. 30, 2015	Mar. 31, 2015
Financial performance:					
Return on average shareholders' equity [1]	5.02 %	7.38 %	8.65 %	10.86 %	11.14 %
Return on average assets	0.51 %	0.71 %	0.83 %	1.06 %	1.08 %
Net interest margin [2]	3.55 %	3.61 %	3.67 %	3.63 %	3.60 %
Efficiency ratio [3]	90.17 %	88.18 %	85.92 %	83.02 %	84.33 %
Asset quality:					
Allowance for credit losses	$32,423	$30,659	$27,887	$26,448	$25,628
Allowance for loan losses/total loans [4]	0.88 %	0.91 %	0.89 %	0.88 %	0.87 %
Allowance for loan losses/nonaccrual loans	195.51 %	170.54 %	138.27 %	120.97 %	117.48 %
Total nonaccrual loans [5][6]	$16,012	$17,168	$19,470	$21,308	$21,209
Nonaccrual loans/total loans	0.45 %	0.53 %	0.64 %	0.73 %	0.74 %
Other real estate owned	$7,273	$7,531	$8,273	$11,428	$11,589
Total nonperforming assets [6]	$23,285	$24,699	$27,743	$32,736	$32,798
Nonperforming assets/total assets	0.43 %	0.50 %	0.56 %	0.67 %	0.71 %
Net (recoveries) charge-offs	$(364)	$(872)	$(739)	$(320)	$(104)
Regulatory capital ratios for the Bank:					
Tier 1 leverage capital (to average assets)	10.17 %	9.45 %	9.69 %	9.46 %	11.47 % [7]
Tier 1 common equity risk-based capital (to risk-weighted assets)	13.09 %	13.03 %	13.35 %	13.17 %	13.75 %
Tier 1 risk-based capital (to risk-weighted assets)	13.09 %	13.03 %	13.35 %	13.17 %	13.75 %
Total risk-based capital (to risk-weighted assets)	13.93 %	13.91 %	14.15 %	13.97 %	14.57 %
Regulatory capital ratios for the Company:					
Tier 1 leverage capital (to average assets)	10.50 %	9.94 %	10.00 %	9.87 %	11.95 % [7]
Tier 1 common equity risk-based capital (to risk-weighted assets)	10.60 %	10.51 %	10.65 %	10.66 %	11.12 %
Tier 1 risk-based capital (to risk-weighted assets)	11.89 %	11.93 %	12.09 %	12.02 %	12.55 %
Total risk-based capital (to risk-weighted assets)	12.63 %	12.69 %	12.79 %	12.72 %	13.26 %

(1) Net earnings available to common shareholders divided by average shareholders' equity.

(2) Net interest income divided by total average interest-earning assets on a tax equivalent basis.

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

(4) Includes loans acquired with bank acquisitions. Excluding acquired loans, allowance for loan losses /total loans was 1.07%, 1.10%, 1.11%, 1.12% and 1.15% at March 31, 2016, December 31, 2015, September 30, 2015, June 30, 2015 and March 31, 2015, respectively.

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

(6) Includes $2.6 million, $1.2 million, $1.5 million, $1.2 million and $1.4 million of nonperforming loans guaranteed by the SBA at March 31, 2016, December 31, 2015, September 30, 2015, June 30, 2015 and March 31, 2015, respectively.

(7) March 31, 2015 Tier 1 leverage capital (to average assets) includes average assets from the Simplicity merger for one month. If the Simplicity merger had occurred on January 1, 2015, the Bank's Tier 1 leverage capital would

have been 9.95% and the Company's Tier 1 leverage capital would have been 10.38% at March 31, 2015.

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(in thousands)	At or for the Three Months Ended Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	Jun. 30, 2015	Mar. 31, 2015
SUPPLEMENTAL DATA:					
Loans serviced for others					
Single family	$15,980,932	$15,347,811	$14,271,187	$12,980,045	$11,910,254
Multifamily	946,191	924,367	866,880	840,051	773,092
Other	62,566	79,513	86,567	83,982	83,574
Total loans serviced for others	$16,989,689	$16,351,691	$15,224,634	$13,904,078	$12,766,920
Loan production volumes:					
Single family mortgage closed loans[1][2]	$1,573,148	$1,648,735	$1,934,151	$2,022,656	$1,606,893
Single family mortgage interest rate lock commitments[2]	1,803,703	1,340,148	1,806,767	1,882,955	1,901,238
Single family mortgage loans sold[2]	1,471,583	1,830,768	1,965,223	1,894,387	1,316,959
Multifamily mortgage originations	39,094	53,279	47,342	79,789	24,428
Multifamily mortgage loans sold	$47,970	$63,779	$42,333	$72,459	$26,173

(1) Represents single family mortgage production volume designated for sale to the secondary market during each respective period.

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

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Management's Overview of First Quarter of 2016 Financial Performance

HomeStreet is a diversified financial services company founded in 1921 headquartered in Seattle, Washington and serving customers primarily in the western United States, including Hawaii. HomeStreet, Inc. is a holding company whose operating subsidiaries are principally engaged in real estate lending, including mortgage banking activities, and commercial and consumer banking. Our primary subsidiaries are HomeStreet Bank and HomeStreet Capital Corporation. HomeStreet Bank is a Washington state-chartered commercial bank that provides consumer, mortgage and commercial loans, deposit products and services, non-deposit investment products, private banking and cash management services. Our primary loan products include consumer loans, single family residential mortgages, loans secured by commercial real estate, construction loans for residential and commercial real estate projects, commercial business loans and agricultural loans. HomeStreet Bank converted from a Washington chartered savings bank to a Washington chartered commercial bank as of February 28, 2016. In connection with this bank charter conversion, HomeStreet, Inc. also became a bank holding company and elected to be a financial holding company on the same date.

HomeStreet Capital Corporation, a Washington corporation, originates, sells and services multifamily mortgage loans under the Fannie Mae Delegated Underwriting and Servicing Program ("DUS®)[1] in conjunction with HomeStreet Bank. Doing business as HomeStreet Insurance Agency, we provide insurance products and services for consumers and businesses. We also offer single family home loans through our partial ownership in an affiliated business arrangement with WMS Series LLC, whose home loan businesses are known as Windermere Mortgage Services and Penrith Home Loans.

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

With the March 2015 Simplicity Bancorp ("Simplicity") merger, we added commercial and consumer banking products and services, including seven retail bank branches, to our then existing Southern California single family mortgage lending office network. Continuing our expansion into central and eastern Washington that we began with our acquisition of Yakima National Bank in 2014, in December 2015 we acquired a branch in Dayton, Washington, expanding our operations in eastern Washington.

Also, during 2015, we launched HomeStreet commercial capital as a division of HomeStreet Bank. HomeStreet commercial capital is an Orange County, California-based commercial real estate lending group originating permanent loans primarily up to $10 million in size, a portion of which we intend to sell into the secondary market. We also added a team specializing in U.S. Small Business Administration ("SBA") lending also located in Orange County, California.

On February 1, 2016, we continued our expansion in Southern California by acquiring Orange County Business Bank ("OCBB") located in Irvine, California. Also on February 1, 2016, OCBB was merged with and into HomeStreet Bank. The purchase price of this acquisition was $55.9 million. The addition of OCBB's branch plus two de novo bank branches opened in San Diego during the first quarter of 2016 brings HomeStreet's Southern California retail deposit branch network to ten locations.

At March 31, 2016, we had total assets of $5.42 billion, net loans held for investment of $3.52 billion, deposits of $3.82 billion and shareholders' equity of $529.1 million. Through the OCBB acquisition, we added $188.5 million of assets, $125.8 million of loans, $126.5 million of deposits and $8.8 million of goodwill.

Results for the first quarter of 2016 reflect the continued growth of our mortgage banking business and expansion of our commercial and consumer business. During the past twelve months, we have increased our lending capacity by adding loan origination and operations personnel in all of our lending lines of business. We added 12 lending centers and eight retail deposit branches to bring our total home loan centers to 65, our total commercial lending centers to eight and our total retail deposit branches to 48.

[1] DUS® is a registered trademark of Fannie Mae 58

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Consolidated Financial Performance

(in thousands, except per share data and ratios)	At or for the Three Months Ended March 31, 2016	2015
Selected statement of operations data		
Total net revenue [1]	$112,399	$106,107
Total noninterest expense	101,353	89,482
Provision for credit losses	1,400	3,000
Income tax expense	3,239	3,321
Net income	$6,407	$10,304
Financial performance		
Diluted income per share	$0.27	$0.59
Return on average common shareholders' equity	5.02 %	11.14 %
Return on average assets	0.51 %	1.08 %
Net interest margin	3.55 %	3.60 %

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

Commercial and Consumer Banking Segment Results

Commercial and Consumer Banking segment net income was $1.5 million for the first quarter of 2016 compared to a net loss of $14 thousand for the first quarter of 2015. The increase in net income is primarily due to higher net interest income from higher average balances of interest-earning assets, partially offset by higher noninterest expense. Included in net income for three months ended March 31, 2016 were merger-related expenses, net of tax, of $3.4 million. Included in net income during the three months ended March 31, 2015 were merger-related expenses, net of tax, of $7.9 million, partially offset by a bargain purchase gain of $6.6 million.

Commercial and Consumer Banking segment net interest income was $35.6 million for the first quarter of 2016, an increase of $10.5 million, or 42.0%, from $25.1 million for the first quarter of 2015, reflecting higher average balances of loans held for investment as a result of organic growth and acquisitions.

The Company recorded $1.4 million of provision for credit losses for the first quarter of 2016 compared to $3.0 million for the first quarter of 2015. Net recoveries were $364 thousand in the first quarter of 2016 compared to net recoveries of $104 thousand in the first quarter of 2015. Overall, the allowance for loan losses (which excludes the allowance for unfunded commitments) was 0.88% of loans held for investment at March 31, 2016 compared to 0.87% at March 31, 2015. Excluding acquired loans, the allowance for loan losses was 1.07% of loans held for investment at March 31, 2016 compared to 1.15% at March 31, 2015. Nonperforming assets were $23.3 million, or 0.43% of total assets at March 31, 2016, compared to $32.8 million, or 0.71% of total assets at March 31, 2015.

Commercial and Consumer Banking segment noninterest expense of $36.6 million for the first quarter of 2016 increased $1.0 million, or 2.7%, from $35.7 million for the first quarter of 2015, primarily due to the continued organic growth of our commercial real estate and commercial business lending units and the expansion of our branch banking network. Over the past 12 months, we added 8 retail deposit branches, six de novo and two from acquisitions, and increased the segment's headcount by 17.6%. During the same period, the commercial and consumer banking segment further expanded its commercial lending business with the launch of HomeStreet commercial capital and the

addition of a team specializing in SBA lending, while opening four commercial lending centers.

Mortgage Banking Segment Results

Mortgage Banking segment net income was $4.9 million for the first quarter of 2016, compared to net income of $10.3 million for the first quarter of 2015. The 52.8% decrease in net income is primarily due to higher noninterest expense resulting from the continued growth and expansion of our mortgage banking segment and increased costs resulting from new regulatory and disclosure requirements for the mortgage industry.

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Mortgage Banking noninterest income of $67.1 million for the first quarter of 2016 increased $1.8 million, or 2.72%, from $65.3 million for the first quarter of 2015, primarily due to a $3.5 million, or 89.5% increase in mortgage servicing income, partially offset by a $1.3 million, or 2.1%, decrease in net gain on mortgage loan origination and sale activities.

Mortgage Banking noninterest expense of $64.7 million for the first quarter of 2016 increased $10.9 million, or 20.27%, from $53.8 million for the first quarter of 2015, primarily due to higher salary and related expenses and general and administrative expenses resulting from overall growth in personnel and expansion into new markets. We added eight home loan centers and increased the segment's headcount by 28.3% during the past twelve months.

Regulatory Matters

The Company and the Bank remain above current “well-capitalized” regulatory minimums. Under the Basel III standards, the Bank's Tier 1 leverage and total risk-based capital ratios at March 31, 2016 were 10.17% and 13.93%, respectively. The Company's Tier 1 leverage and total risk-based capital ratios at March 31, 2016 were 10.50% and 12.63%, respectively. At December 31, 2015, the Bank's Tier 1 leverage and total risk-based capital ratios were 9.46% and 13.92%. The Company's Tier 1 leverage and total risk-based capital ratios at December 31, 2015 were 9.95% and 12.70%, respectively.

For more on the Basel III requirements as they apply to us, please see “Capital Management" within the Liquidity and Capital Resources section of this Form 10-Q.

Critical Accounting Policies and Estimates

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

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

These policies and estimates are described in further detail in Part II, Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 1, Summary of Significant Accounting Policies, within our 2015 Annual Report on Form 10-K.

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Results of Operations

Average Balances and Rates

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

	Three Months Ended March 31,							
	2016				2015			
(in thousands)	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Assets:								
Interest-earning assets: [1]								
Cash and cash equivalents	$40,038	$44	0.44	%	$49,376	$24	0.20	%
Investment securities	625,695	3,766	2.41	%	462,762	2,980	2.58	%
Loans held for sale	564,295	5,487	3.90	%	590,751	5,664	3.84	%
Loans held for investment	3,399,479	37,278	4.38	%	2,370,763	26,023	4.41	%
Total interest-earning assets	4,629,507	46,575	4.02	%	3,473,652	34,691	4.01	%
Noninterest-earning assets [2]	402,697				341,539			
Total assets	$5,032,204				$3,815,191			
Liabilities and shareholders' equity:								
Deposits:								
Interest-bearing demand accounts	$415,725	492	0.48	%	$176,247	$180	0.41	%
Savings accounts	296,539	254	0.34	%	232,582	265	0.46	%
Money market accounts	1,187,476	1,364	0.46	%	1,064,567	1,135	0.43	%
Certificate accounts	835,235	1,525	0.73	%	732,189	1,029	0.57	%
Total interest-bearing deposits	2,734,975	3,635	0.53	%	2,205,585	2,609	0.48	%
Federal Home Loan Bank advances	896,726	1,419	0.63	%	515,958	612	0.48	%
Federal funds purchased and securities sold under agreements to repurchase	—	—	—	%	41,734	26	0.25	%
Long-term debt	61,857	311	1.99	%	61,857	265	1.74	%
Total interest-bearing liabilities	3,693,558	5,365	0.59	%	2,825,134	3,512	0.50	%
Noninterest-bearing liabilities	827,763				620,049			
Total liabilities	4,521,321				3,445,183			
Shareholders' equity	510,883				370,008			
Total liabilities and shareholders' equity	$5,032,204				$3,815,191			
Net interest income [3]		$41,210				$31,179		
Net interest spread			3.43	%			3.51	%
Impact of noninterest-bearing sources			0.12	%			0.09	%
Net interest margin			3.55	%			3.60	%

(1) The average balances of nonaccrual assets and related income, if any, are included in their respective categories.
(2) Includes former loan balances that have been foreclosed and are now reclassified to OREO.
(3) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of $519 thousand and $445 thousand for the three months ended March 31, 2016 and 2015 , respectively. The estimated federal statutory tax rate was 35% for the periods presented.

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Interest on Nonaccrual Loans

We do not include interest collected on nonaccrual loans in interest income. When we place a loan on nonaccrual status, we reverse the accrued but unpaid interest, reducing interest income and we stop amortizing any net deferred fees. Additionally, if interest is received on nonaccrual loans, the interest collected on the loan is recognized as an adjustment to the cost basis of the loan. The net decrease to interest income due to adjustments made for nonaccrual loans, including the effect of additional interest income that would have been recorded during the period if the loans had been accruing, was $664 thousand and $328 thousand for the three months ended March 31, 2016 and 2015, respectively.

Net Income

For the three months ended March 31, 2016, net income was $6.4 million, a decrease of $3.9 million, or 37.8%, from $10.3 million for the three months ended March 31, 2015. Included in net income for the three months ended March 31, 2016 were merger-related expenses, net of tax, of $3.4 million. Included in net income during the three months ended March 31, 2015 were merger-related expenses, net of tax, of $7.9 million, partially offset by a bargain purchase gain of $6.6 million.

Net Interest Income

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

Net interest income on a tax equivalent basis for the first quarter of 2016 increased $10.0 million, or 32.2%, from the first quarter of 2015. The net interest margin was 3.55% for the first quarter of 2016 compared to 3.60% for the first quarter of 2015. The decrease in the net interest margin was primarily due to an increase in the cost of interest-bearing liabilities, partially offset by an increase in noninterest-bearing liabilities.

Total average interest-earning assets increased 33.3% from the first quarter of 2015 primarily as a result of growth in average loans held for investment, both organically and through merger activities. Additionally, the growth in our average loans held for investment resulted from increased commercial portfolio lending as we continued to grow our Commercial and Consumer Banking segment.

Total interest income on a tax equivalent basis in the first quarter of 2016 increased $11.9 million, or 34.3%, from the first quarter of 2015 resulting from higher average balances of loans held for investment, which increased $1.03 billion, or 43.4%, from the first quarter of 2015.

Total interest expense in the first quarter of 2016 increased $1.9 million, or 52.8% from the first quarter of 2015 primarily resulting from higher average balances of interest-bearing deposits and FHLB advances.

Provision for Credit Losses

We recorded a provision for credit losses of $1.4 million for first quarter of 2016 compared to a provision of $3.0 million for the first quarter of 2015.

Nonaccrual loans were $16.0 million at March 31, 2016, a decrease of $1.2 million, or 6.7%, from $17.2 million at December 31, 2015. Nonaccrual loans as a percentage of total loans decreased to 0.45% at March 31, 2016 from 0.53% at December 31, 2015.

Net recoveries were $364 thousand in the first quarter of 2016 compared to net recoveries of $104 thousand in the first quarter of 2015. For a more detailed discussion on our allowance for loan losses and related provision for loan losses, see Credit Risk Management within Management's Discussion and Analysis of this Form 10-Q.

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Noninterest Income

Noninterest income consisted of the following.

(in thousands)	Three Months Ended March 31, 2016	2015	Dollar Change	Percent Change
Noninterest income				
Net gain on mortgage loan origination and sale activities [1]	$61,263	$61,887	$(624)	(1)%
Mortgage servicing income	8,129	4,297	3,832	89
Income from WMS Series LLC	136	564	(428)	(76)
Depositor and other retail banking fees	1,595	1,139	456	40
Insurance agency commissions	394	415	(21)	(5)
Gain on sale of investment securities available for sale	35	—	35	NM
Bargain purchase gain	—	6,628	(6,628)	(100)
Other	156	443	(287)	(65)
Total noninterest income	$71,708	$75,373	$(3,665)	(5)%

NM = not meaningful

(1) Single family and multifamily mortgage banking activities.

Our noninterest income is heavily dependent upon our single family mortgage banking activities, which are comprised of mortgage origination and sale as well as mortgage servicing activities. The level of our mortgage banking activity fluctuates and is highly sensitive to changes in mortgage interest rates, as well as to general economic conditions such as employment trends and housing supply and affordability. The decrease in noninterest income in the first quarter of 2016 compared to the first quarter of 2015 was primarily the result of a bargain purchase gain of $6.6 million from the Simplicity merger included in noninterest income for the first quarter of 2015, partially offset by higher mortgage servicing income in the first quarter of 2016. Our servicing portfolio totaled $16.99 billion at March 31, 2016 compared to $12.77 billion at March 31, 2015.

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

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

(in thousands)	Three Months Ended March 31, 2016	2015	Dollar Change	Percent Change
Single family held for sale:				
Servicing value and secondary market gains[1]	$54,127	$56,289	$(2,162)	(4)%
Loan origination and funding fees	5,328	4,455	873	20
Total single family held for sale	59,455	60,744	(1,289)	(2)
Multifamily	1,529	939	590	63
Other	279	204	75	37
Net gain on mortgage loan origination and sale activities	$61,263	$61,887	$(624)	(1)%

NM = not meaningful

(1)

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

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

(in thousands)	Three Months Ended March 31, 2016	2015	Dollar Change	Percent Change
Single family mortgage closed loan volume [1]	$1,573,148	$1,606,893	$(33,745)	(2)%
Single family mortgage interest rate lock commitments [1]	$1,803,703	1,901,238	$(97,535)	(5)%

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

The decrease in net gain on mortgage loan origination and sale activities in the first quarter of 2016 compared to the first quarter of 2015 reflected lower single family mortgage interest rate lock commitments. We continue to expand our mortgage lending network, growing production personnel by 12.1% at March 31, 2016 compared to March 31, 2015.

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

(in thousands)	Three Months Ended March 31, 2016	2015
Effect of changes to the mortgage repurchase liability recorded in net gain on mortgage loan origination and sale activities:		
New loan sales [1]	$(569)	(487)
Other changes in estimated repurchase losses[2]	542	—
	$(27)	$(487)

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

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

Mortgage servicing income consisted of the following.

(in thousands)	Three Months Ended March 31, 2016	2015	Dollar Change	Percent Change
Servicing income, net:				
Servicing fees and other	$12,530	$9,063	$3,467	38%
Changes in fair value of MSRs due to modeled amortization [1]	(7,257)	(9,235)	1,978	(21)
Amortization of multifamily MSRs	(637)	(454)	(183)	40
	4,636	(626)	5,262	(841)
Risk management:				
Changes in fair value of MSRs due to changes in model inputs and/or assumptions [2]	(28,214)	(7,311)	(20,903)	286

Net gain (loss) from derivatives economically hedging MSRs	31,707	12,234	19,473	159
	3,493	4,923	(1,430)	(29)
Mortgage servicing income	$8,129	$4,297	$3,832	89 %

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

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

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The increase in mortgage servicing income for the first quarter of 2016 compared to the first quarter of 2015 was primarily attributable to higher servicing income, partially offset by lower risk management results. The decrease in risk management results was primarily attributable to gains from model assumption adjustments in the first quarter of 2015 to better align modeled borrower prepayment behavior with observed borrower prepayment behavior. There was no model assumption adjustment in first quarter of 2016.

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

Mortgage servicing fees collected in the first quarter of 2016 increased compared to the first quarter of 2015 primarily as a result of higher average balances of loans serviced for others during the year. Our loans serviced for others portfolio was $16.99 billion at March 31, 2016 compared to $12.77 billion at March 31, 2015.

Income from WMS Series LLC decreased in the first quarter of 2016 compared to the first quarter of 2015 primarily due to a 23.3% decrease in interest rate lock commitments and a 23.9% decrease in closed loan volume, which were $111.9 million and $98.6 million, respectively, for the first quarter of 2016 compared to $145.9 million and $129.6 million, respectively, for the same period in 2015.

Depositor and other retail banking fees for the first quarter of 2016 increased from the first quarter of 2015 primarily due to an increase in the number of transaction accounts as we grew our retail deposit branch network both organically and through merger activities. The following table presents the composition of depositor and other retail banking fees for the periods indicated.

(in thousands)	Three Months Ended March 31, 2016	2015	Dollar Change	Percent Change
Fees:				
Monthly maintenance and deposit-related fees	$698	$515	183	36 %
Debit Card/ATM fees	880	612	268	44
Other fees	17	12	5	42
Total depositor and other retail banking fees	$1,595	$1,139	456	40 %

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Noninterest Expense

Noninterest expense consisted of the following.

(in thousands)	Three Months Ended March 31, 2016	2015	Dollar Change	Percent Change
Noninterest expense				
Salaries and related costs	$67,284	$57,593	$9,691	17 %
General and administrative	15,522	12,825	2,697	21
Amortization of core deposit intangibles	532	336	196	58
Legal	443	467	(24)	(5)
Consulting	1,672	5,565	(3,893)	(70)
Federal Deposit Insurance Corporation assessments	716	525	191	36
Occupancy	7,155	5,840	1,315	23
Information services	7,534	6,120	1,414	23
Net cost of operation and sale of other real estate owned	495	211	284	135
Total noninterest expense	$101,353	$89,482	$11,871	13 %

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

(in thousands)	Three Months Ended March 31, 2016	2015
Noninterest expense		
Salaries and related costs	$3,483	$5,931
General and administrative	337	749
Legal	76	284
Consulting	833	4,988
Occupancy	79	163
Information services	390	50
Total noninterest expense	$5,198	$12,165

The increase in noninterest expense in the first quarter of 2016 compared to the first quarter of 2015 was primarily due to increased salaries and related costs, general and administrative costs, occupancy and information services costs, primarily a result of the growth in personnel in connection with our continued expansion of our commercial and consumer and mortgage banking businesses, both organically and through merger-related activities.

Income Tax Expense

For the first quarter of 2016, income tax provision was $3.2 million with an effective tax rate of 33.6% (inclusive of discrete items), compared to a provision of $1.8 million for the fourth quarter of 2015, and $3.3 million for the first quarter of 2015.

Our effective income tax rate for the first quarter of 2016 differs from the Federal statutory tax rate of 35% primarily due to the impact of state income taxes, tax-exempt interest income, and low-income housing tax credit investments.

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Review of Financial Condition – Comparison of March 31, 2016 to December 31, 2015

Total assets were $5.42 billion at March 31, 2016 and $4.89 billion at December 31, 2015. Through the OCBB merger, we added $188.5 million of acquired assets and $8.8 million of goodwill to the balance sheet in the first quarter of 2016.

Cash and cash equivalents were $46.4 million at March 31, 2016 compared to $32.7 million at December 31, 2015, an increase of $13.7 million, or 41.8%.

Investment securities were $687.1 million at March 31, 2016 compared to $572.2 million at December 31, 2015, an increase of $114.9 million, or 20.1%, primarily resulting from the execution of our strategic growth and diversification.

We primarily hold investment securities for liquidity purposes, while also creating a relatively stable source of interest income. We designated substantially all securities as available for sale. We held securities having a carrying value of $33.3 million at March 31, 2016, which were designated as held to maturity.

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

	At March 31, 2016		At December 31, 2015	
(in thousands)	Fair Value	Percent	Fair Value	Percent
Investment securities available for sale:				
Mortgage-backed securities:				
Residential	$82,395	13 %	$68,101	13 %
Commercial	24,630	4	17,851	3
Municipal bonds	228,924	35	171,869	32
Collateralized mortgage obligations:				
Residential	112,176	17	84,497	16
Commercial	83,822	13	79,133	15
Corporate debt securities	80,852	12	78,736	15
U.S. Treasury securities	41,026	6	40,964	7
Total investment securities available for sale	$653,825	100 %	$541,151	100 %

Loans held for sale were $696.7 million at March 31, 2016 compared to $650.2 million at December 31, 2015, an increase of $46.5 million, or 7.2%. Loans held for sale include single family and multifamily residential loans, typically sold within 30 days of closing the loan. The increase in the loans held for sale balance was primarily due to an increase in single family loans held for sale during the first quarter of 2016.

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

	At March 31, 2016		At December 31, 2015	
(in thousands)	Amount	Percent	Amount	Percent
Consumer loans:				
Single family [1]	$1,231,707	34.6 %	$1,203,180	37.3 %
Home equity and other	275,405	7.8	256,373	8.0
	1,507,112	42.4	1,459,553	45.3
Commercial loans:				
Commercial real estate [2]	661,932	18.6	600,703	18.6
Multifamily	543,887	15.3	426,557	13.2
Construction/ land development	629,820	17.7	583,160	18.1
Commercial business	213,084	6.0	154,262	4.8
	2,048,723	57.6	1,764,682	54.7
	3,555,835	100.0%	3,224,235	100.0%
Net deferred loan fees and costs	(979)		(2,237)	
	3,554,856		3,221,998	
Allowance for loan losses	(31,305)		(29,278)	
	$3,523,551		$3,192,720	

(1) Includes $18.3 million and $21.5 million at March 31, 2016 and December 31, 2015, respectively, of loans at where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

(2) March 31, 2016 and December 31, 2015 balances comprised of $181.4 million and $154.9 million of owner-occupied loans, respectively, and $480.5 million and $445.8 million of non-owner-occupied loans, respectively.

Loans held for investment, net increased $330.8 million, or 10.4%, from December 31, 2015. Our single family loan portfolio increased $28.5 million from December 31, 2015. Our multifamily loan portfolio increased $117.3 million from December 31, 2015, primarily as a result of the growth of our commercial portfolio, both organically and through acquisitions. Our construction loans, including commercial construction and residential construction, increased $46.7 million from December 31, 2015, primarily from new originations in our commercial real estate and residential construction lending business.

Mortgage servicing rights were $148.9 million at March 31, 2016 compared to $171.3 million at December 31, 2015, a decrease of $22.4 million, or 13.1%, as a result of changes in model assumptions, including prepayment speed assumptions.

Federal Home Loan Bank stock was $40.5 million at March 31, 2016 compared to $44.3 million at December 31, 2015, a decrease of $3.8 million, or 8.6%. FHLB stock is carried at par value and can only be purchased or redeemed at par value in transactions between the FHLB and its member institutions. Both cash and stock dividends received on FHLB stock are reported in earnings.

Other assets were $179.2 million at March 31, 2016, compared to $148.4 million at December 31, 2015, an increase of $30.8 million, or 20.8%, primarily attributable to overall company growth and an increase in derivative assets.

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Deposit balances by dollar amount and as a percentage of our total deposits were as follows for the periods indicated:

(in thousands)	At March 31, 2016		At December 31, 2015	
	Amount	Percent	Amount	Percent
Noninterest-bearing accounts - checking and savings	$452,267	11.8 %	$370,523	11.5 %
Interest-bearing transaction and savings deposits:				
NOW accounts	495,467	13.0	408,477	12.6
Statement savings accounts due on demand	300,952	7.9	292,092	9.0
Money market accounts due on demand	1,244,064	32.5	1,155,464	35.8
Total interest-bearing transaction and savings deposits	2,040,483	53.4	1,856,033	57.4
Total transaction and savings deposits	2,492,750	65.2	2,226,556	68.9
Certificates of deposit	901,559	23.6	732,892	22.7
Noninterest-bearing accounts - other	428,718	11.2	272,505	8.4
Total deposits	$3,823,027	100.0%	$3,231,953	100.0%

Deposits at March 31, 2016 increased $591.1 million, or 18.3%, from December 31, 2015. The $156.2 million, or 57.3%, increase in noninterest bearing deposits is primarily related to insurance and property tax escrow deposits and loan payoff funds received that have not yet been remitted to investors stemming from elevated refinance activity during the quarter. During the quarter, transaction and savings deposits increased by $266.2 million, or 12%, reflecting the growth and expansion of our branch banking network. The $168.7 million, or 23.0%, increase in certificates of deposit since December 31, 2015 was primarily due to a $103.3 million, or 85.8%, increase in brokered deposits. During the first quarter of 2016, we added $126.5 million of deposits from the OCBB merger.

The aggregate amount of time deposits in denominations of $100 thousand or more at March 31, 2016 and December 31, 2015 was $376.0 million and $290.1 million, respectively. The aggregate amount of time deposits in denominations of more than $250 thousand at March 31, 2016 and December 31, 2015 was $76.5 million and $81.7 million, respectively. There were $223.6 million and $120.3 million of brokered deposits at March 31, 2016 and December 31, 2015, respectively.

Federal Home Loan Bank advances were $883.6 million at March 31, 2016 compared to $1.02 billion at December 31, 2015. We use these borrowings to primarily fund our mortgage banking and securities investment activities. We effectively used short term funding to lower the cost of funds and manage the sensitivity of our net portfolio value and net interest income which mitigated the impact of changes in interest rates.

Shareholders’ Equity

Shareholders' equity was $529.1 million at March 31, 2016 compared to $465.3 million at December 31, 2015. This increase included additional paid in capital from issuance of common stock of $50.4 million mostly related to the issuance of HomeStreet common stock to OCBB shareholders, net income of $6.4 million and other comprehensive income of $6.6 million recognized during the three months ended March 31, 2016. Other comprehensive income represents unrealized gains and losses in the valuation of our investment securities portfolio at March 31, 2016.

Shareholders’ equity, on a per share basis, was $21.55 per share at March 31, 2016, compared to $21.08 per share at December 31, 2015.

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Return on Equity and Assets

The following table presents certain information regarding our returns on average equity and average total assets.

	At or For the Three Months Ended March 31,	
	2016	2015
Return on assets [1]	0.51 %	1.08 %
Return on equity [2]	5.02 %	11.14 %
Equity to assets ratio [3]	10.15 %	9.70 %

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

Business Segments

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

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

Commercial and Consumer Banking Segment

Commercial and Consumer Banking provides diversified financial products and services to our commercial and consumer customers through bank branches and through ATMs, online, mobile and telephone banking. These products and services include deposit products; residential, consumer, business and agricultural portfolio loans; non-deposit investment products; insurance products and cash management services. We originate construction loans, bridge loans and permanent loans for our portfolio primarily on single family residences, and on office, retail, industrial and multifamily property types. We originate multifamily real estate loans through our Fannie Mae DUS business, whereby loans are sold to or securitized by Fannie Mae, while the Company generally retains the servicing rights. During the first quarter of 2016, we expanded into Texas with the opening of a commercial real estate lending office. During the first quarter of 2015, we launched HomeStreet commercial capital as a division of HomeStreet Bank, an Orange County, California-based commercial real estate lending group originating permanent loans primarily up to $10 million in size, a portion of which we intend to pool and sell into the secondary market. We also added a team specializing in U.S. Small Business Administration ("SBA") lending also located in Orange County, California. At March 31, 2016, our retail deposit branch network consists of 48 branches in the Pacific Northwest, California and Hawaii. At March 31, 2016 and December 31, 2015, our transaction and savings deposits totaled $2.49 billion and $2.23 billion, respectively, and our loan portfolio totaled $3.52 billion and $3.19 billion, respectively. This segment is also responsible for the management of our investment securities portfolio.

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Commercial and Consumer Banking segment results are detailed below.

(in thousands)	Three Months Ended March 31, 2016	2015	Dollar Change	Percent Change
Net interest income	$35,646	$25,107	$10,539	42 %
Provision for credit losses	1,400	3,000	(1,600)	(53)
Noninterest income	4,643	10,081	(5,438)	(54)
Noninterest expense	36,630	35,666	964	3
Income before income tax expense	2,259	(3,478)	5,737	(165)
Income tax expense	717	(3,464)	4,181	(121)
Net income	$1,542	$(14)	$1,556	NM
Total assets	$4,513,000	$3,553,789	$959,211	27 %
Efficiency ratio [1]	90.92 %	101.36 %		
Full-time equivalent employees (ending)	903	768		
Net gain on mortgage loan origination and sale activities:				
Multifamily	$1,529	$939	$590	63 %
Other	279	204	75	37
	$1,808	$1,143	$665	58 %
Production volumes:				
Multifamily mortgage originations	$39,094	$24,428	$14,666	60 %
Multifamily mortgage loans sold	$47,970	$26,173	$21,797	83 %

NM = not meaningful

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

Commercial and Consumer Banking net income increased for the three months ended March 31, 2016 primarily due to increased net interest income resulting from higher average balances of interest-earning assets, partially offset by increased noninterest expense primarily resulting from the continued expansion of this segment.

The segment recorded a provision for credit losses of $1.4 million in the first quarter of 2016 compared to a $3.0 million provision for credit losses in the first quarter of 2015.

Included in noninterest income for the first quarter of 2015 was a bargain purchase gain of $6.6 million from the merger with Simplicity.

Noninterest expense increased primarily due to the continued growth of our commercial real estate and commercial business lending units and the expansion of our retail deposit banking network. During the first quarter of 2015, we added seven retail deposit branches in Southern California through our merger with Simplicity, and increased our commercial lending capabilities in California by launching HomeStreet commercial capital, a commercial real estate lending group, and adding a team specializing in U.S. SBA lending. Over the past 12 months, we also added 8 retail deposit branches, six de novo and two from acquisitions, and increased the segment's headcount by 17.6%. Included in noninterest expense for the first quarter of 2016 was $5.2 million of merger-related costs. In the first quarter of 2015, such merger-related expenses related to the Simplicity merger were $12.2 million.

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

(in thousands)	Three Months Ended March 31, 2016	2015	Dollar Change	Percent Change
Servicing income, net:				
Servicing fees and other	$1,441	$886	$555	63 %
Amortization of multifamily MSRs	(637)	(454)	(183)	40
Commercial mortgage servicing income	$804	$432	$372	86 %

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

(in thousands)	At March 31, 2016	At December 31, 2015
Multifamily	$946,191	$924,367
Other	62,566	79,513
Total commercial loans serviced for others	$1,008,757	$1,003,880

Mortgage Banking Segment

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

Mortgage Banking segment results are detailed below.

(in thousands)	Three Months Ended March 31, 2016	2015	Dollar Change	Percent Change
Net interest income	$5,045	$5,627	$(582)	(10)%
Noninterest income	67,065	65,292	1,773	3
Noninterest expense	64,723	53,816	10,907	20
Income before income tax expense	7,387	17,103	(9,716)	(57)
Income tax expense	2,522	6,785	(4,263)	(63)
Net income	$4,865	$10,318	$(5,453)	(53)%
Total assets	$904,252	$1,050,614	$(146,362)	(14)%
Efficiency ratio [1]	89.76 %	75.88 %		

Full-time equivalent employees (ending)	1,361	1,061		
Production volumes for sale to the secondary market:				
Single family mortgage closed loan volume [2][3]	$1,573,148	$1,606,893	$(33,745)	(2)%
Single family mortgage interest rate lock commitments[2]	$1,803,703	$1,901,238	$(97,535)	(5)%
Single family mortgage loans sold[2]	$1,471,583	$1,316,959	$154,624	12 %

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

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

(3) Represents single family mortgage production volume designated for sale to the secondary market during each respective period.

The decrease in Mortgage Banking net income for the first quarter of 2016 compared to the first quarter of 2015 was primarily due to higher noninterest expense resulting from the continued growth and expansion of our mortgage banking segment and increased costs resulting from new regulatory and disclosure requirements for the mortgage industry.

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

(in thousands)	Three Months Ended March 31, 2016	2015	Dollar Change	Percent Change
Single family: [1]				
Servicing value and secondary market gains[2]	$54,127	$56,289	$(2,162)	(4)%
Loan origination and funding fees	5,328	4,455	873	20
Total mortgage banking net gain on mortgage loan origination and sale activities[1]	$59,455	$60,744	$(1,289)	(2)%

(1) Excludes inter-segment activities.

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

The decrease in net gain on mortgage loan origination and sale activities for the first quarter of 2016 compared to the first quarter of 2015 is primarily the result of a 5.1% decrease in interest rate lock commitments, partially offset by higher loan origination and funding fees.

Mortgage Banking servicing income consisted of the following.

(in thousands)	Three Months Ended March 31, 2016	2015	Dollar Change	Percent Change
Servicing income, net:				
Servicing fees and other	$11,089	$8,177	$2,912	36%
Changes in fair value of MSRs due to modeled amortization [1]	(7,257)	(9,235)	1,978	(21)
	3,832	(1,058)	4,890	(462)
Risk management:				
Changes in fair value of MSRs due to changes in model inputs and/or assumptions [2]	(28,214)	(7,311)	(20,903)	286
Net gain from derivatives economically hedging MSRs	31,707	12,234	19,473	159
	3,493	4,923	(1,430)	(29)
Mortgage Banking servicing income	$7,325	$3,865	$3,460	90%

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

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

The increase in Mortgage Banking servicing income for the first quarter of 2016 compared to the first quarter of 2015 was primarily attributable to higher servicing income, partially offset by lower risk management results. The decrease in risk management results was primarily attributable to gains from model assumption adjustments in the first quarter of 2015 to better align modeled borrower prepayment behavior with observed borrower prepayment behavior. There was no model assumption adjustment in first quarter of 2016.

Single family mortgage servicing fees collected in the first quarter of 2016 increased primarily due to higher average balances in our loans serviced for others portfolio.

Single family loans serviced for others consisted of the following.

(in thousands)	At March 31, 2016	At December 31, 2015
Single family		
U.S. government and agency	$15,302,363	$14,628,596
Other	678,569	719,215
Total single family loans serviced for others	$15,980,932	$15,347,811

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Mortgage Banking noninterest expense in the first quarter of 2016 decreased from the first quarter of 2015 primarily due to the continued expansion of offices in new markets and increases of our mortgage production and support staff along with related salary, insurance, and benefit costs as well as increased costs resulting from new regulatory and disclosure requirements for the mortgage industry. Since March 31, 2015, we have increased our lending footprint by adding eight home loan centers to bring our total home loan centers to 65.

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to financial instruments with off-balance sheet risk. These financial instruments (which include commitments to originate loans and commitments to purchase loans) include potential credit risk in excess of the amount recognized in the accompanying consolidated financial statements. These transactions are designed to (1) meet the financial needs of our customers, (2) manage our credit, market or liquidity risks, (3) diversify our funding sources and/or (4) optimize capital.

For more information on off-balance sheet arrangements, including derivative counterparty credit risk, see the Off-Balance Sheet Arrangements and Commitments, Guarantees and Contingencies discussions within Part II, Item 7 Management's Discussion and Analysis in our 2015 Annual Report on Form 10-K, as well as Note 13, Commitments, Guarantees and Contingencies in our 2015 Annual Report on Form 10-K and Note 8, Commitments, Guarantees and Contingencies in this Form 10-Q.

Enterprise Risk Management

All financial institutions manage and control a variety of business and financial risks that can significantly affect their financial performance. Among these risks are credit risk; market risk, which includes interest rate risk and price risk; liquidity risk; and operational risk. We are also subject to risks associated with compliance/legal, strategic and reputational matters.
For more information on how we manage these business, financial and other risks, see the Enterprise Risk Management discussion within Part II, Item 7 Management's Discussion and Analysis in our 2015 Annual Report on Form 10-K.
Credit Risk Management

The following discussion highlights developments since December 31, 2015 and should be read in conjunction with the Credit Risk Management discussion within Part II, Item 7 Management's Discussion and Analysis in our 2015 Annual Report on Form 10-K.

Asset Quality and Nonperforming Assets

Nonperforming assets ("NPAs") were $23.3 million, or 0.43% of total assets at March 31, 2016, compared to $24.7 million, or 0.50% of total assets at December 31, 2015. Nonaccrual loans of $16.0 million, or 0.45% of total loans at March 31, 2016, decreased $1.2 million, or 6.7%, from $17.2 million, or 0.53% of total loans at December 31, 2015. Net recoveries during the three months ended March 31, 2016 were $364 thousand compared with net recoveries of $104 thousand during the three months ended March 31, 2015.

At March 31, 2016, our loans held for investment portfolio, excluding the allowance for loan losses, was $3.52 billion, an increase of $330.8 million from December 31, 2015. During the first quarter of 2016, we added $125.8 million of loans to the portfolio from the OCBB merger. The allowance for loan losses was $31.3 million, or 0.88% of loans held for investment, compared to $29.3 million, or 0.91% of loans held for investment at December 31, 2015.

The Company recorded a provision for credit losses of $1.4 million for the three months ended March 31, 2016 compared to a provision for credit losses of $3.0 million for the three months ended March 31, 2015. Management considers the current level of the allowance for loan losses to be appropriate to cover estimated incurred losses inherent within our loans held for investment portfolio.

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

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The allowance for credit losses represents management’s estimate of the incurred credit losses inherent within our loan portfolio. For further discussion related to credit policies and estimates see "Critical Accounting Policies and Estimates — Allowance for Loan Losses" within Management's Discussion and Analysis in our 2015 Annual Report on Form 10-K.

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

(in thousands)	At March 31, 2016 Recorded Investment	Unpaid Principal Balance [2]	Related Allowance
Impaired loans:			
Loans with no related allowance recorded	$89,785	$93,439	$ —
Loans with an allowance recorded	3,433	3,655	561
Total	$93,218 [1]	$97,094	$ 561

(in thousands)	At December 31, 2015 Recorded Investment	Unpaid Principal Balance [2]	Related Allowance
Impaired loans:			
Loans with no related allowance recorded	$90,547	$94,058	$ —
Loans with an allowance recorded	3,126	3,293	567
Total	$93,673 [1]	$97,351	$ 567

(1) Includes $77.4 million and $74.7 million in single family performing troubled debt restructurings ("TDRs") at March 31, 2016 and 2015, respectively.

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

The Company had 275 impaired loans totaling $93.2 million at March 31, 2016 and 271 impaired loans totaling $93.7 million at December 31, 2015. Included in the total impaired loan amounts were 236 single family TDR loan relationships totaling $79.0 million at March 31, 2016 and 224 single family TDR relationships totaling $77.1 million at December 31, 2015. At March 31, 2016, there were 228 single family impaired relationships totaling $77.4 million that were performing per their current contractual terms. Additionally, the impaired loan balance included $32.9 million of loans insured by the FHA or guaranteed by the VA. The average recorded investment in these loans for the three months ended March 31, 2016 was $93.4 million, compared to $118.1 million for the three months ended March 31, 2015. Impaired loans of $3.4 million and $3.1 million had a valuation allowance of $561 thousand and $567 thousand at March 31, 2016 and December 31, 2015, respectively.

The allowance for credit losses represents management’s estimate of the incurred credit losses inherent within our loan portfolio. For further discussion related to credit policies and estimates see Critical Accounting Policies and Estimates — Allowance for Loan Losses within Part II, Item 7 Management's Discussion and Analysis in our 2015 Annual Report on Form

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

(in thousands)	At March 31, 2016 Amount	Percent of Allowance to Total Allowance	Loan Category as a % of Total Loans [1]	At December 31, 2015 Amount	Percent of Allowance to Total Allowance	Loan Category as a % of Total Loans [1]
Consumer loans						
Single family	$9,026	27.8 %	34.3 %	$8,942	29.2 %	36.9 %
Home equity and other	4,852	15.0	7.8	4,620	15.1	8.0
	13,878	42.8	42.1	13,562	44.3	44.9
Commercial loans						
Commercial real estate	5,175	16.0	18.7	4,847	15.8	18.8
Multifamily	1,832	5.7	15.4	1,194	3.9	13.3
Construction/land development	9,286	28.6	17.8	9,271	30.2	18.2
Commercial business	2,252	6.9	6.0	1,785	5.8	4.8
	18,545	57.2	57.9	17,097	55.7	55.1
Total allowance for credit losses	$32,423	100.0 %	100.0 %	$30,659	100.0 %	100.0 %

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

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

(in thousands)	At March 31, 2016 Accrual	Nonaccrual	Total
Consumer			
Single family [1]	$76,892	$ 1,642	$78,534
Home equity and other	1,252	177	1,429
	78,144	1,819	79,963
Commercial			
Commercial real estate	—	995	995
Multifamily	2,995	—	2,995
Construction/land development	1,876	707	2,583
Commercial business	1,580	165	1,745
	6,451	1,867	8,318
	$84,595	$ 3,686	$88,281

(1) Includes loan balances insured by the FHA or guaranteed by the VA of $32.9 million at March 31, 2016.

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(in thousands)	At December 31, 2015 Accrual	Nonaccrual	Total
Consumer			
Single family [1]	$74,685	$ 2,452	$77,137
Home equity and other	1,340	271	1,611
	76,025	2,723	78,748
Commercial			
Commercial real estate	—	1,023	1,023
Multifamily	3,014	—	3,014
Construction/land development	3,714	—	3,714
Commercial business	1,658	185	1,843
	8,386	1,208	9,594
	$84,411	$ 3,931	$88,342

(1) Includes loan balances insured by the FHA or guaranteed by the VA of $29.6 million at December 31, 2015.

The Company had 267 loan relationships classified as TDRs totaling $88.3 million at March 31, 2016 with no related unfunded commitments. The Company had 259 loan relationships classified as TDRs totaling $88.3 million at December 31, 2015 with no related unfunded commitments. TDR loans within the loans held for investment portfolio and the related reserves are included in the impaired loan tables above.

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

(in thousands)	At March 31, 2016 30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	90 Days or More Past Due and Accruing	Total Past Due Loans	Other Real Estate Owned
Consumer loans						
Single family	$10,624	$ 4,173	$ 8,923	$ 32,487	[1] $56,207	$ 435
Home equity and other	1,017	71	1,503	2	2,593	—
	11,641	4,244	10,426	32,489	58,800	435
Commercial loans						
Commercial real estate	2,433	—	3,120	—	5,553	4,070
Multifamily	—	—	113	—	113	—
Construction/land development	—	—	1,004	—	1,004	2,768
Commercial business	2,001	—	1,349	17	3,367	—
	4,434	—	5,586	17	10,037	6,838
Total	$16,075	$ 4,244	$ 16,012	$ 32,506	$68,837	$ 7,273

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

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(in thousands)	At December 31, 2015					
	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	90 Days or More Past Due and Accruing	Total Past Due Loans	Other Real Estate Owned
Consumer loans						
Single family	$7,098	$ 3,537	$ 12,119	$ 36,595	(1) $59,349	$ 301
Home equity and other	1,095	398	1,576	—	3,069	—
	8,193	3,935	13,695	36,595	62,418	301
Commercial loans						
Commercial real estate	233	—	2,341	—	2,574	4,071
Multifamily	—	—	119	—	119	—
Construction/land development	77	—	339	—	416	3,159
Commercial business	—	—	675	17	692	—
	310	—	3,474	17	3,801	7,230
Total	$8,503	$ 3,935	$ 17,169	$ 36,612	$66,219	$ 7,531

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

Loan Underwriting Standards

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

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

Additional considerations for commercial permanent loans secured by real estate:

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

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

multifamily residential properties attain debt coverage ratios of 1.15 or better. However, underwriting standards can be influenced by competition and other factors. We endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.

Additional considerations for commercial construction loans secured by real estate:

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

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

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

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

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

Liquidity and Capital Resources

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

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

HomeStreet, Inc.

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

HomeStreet Capital

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

HomeStreet Bank

The Bank’s primary short-term sources of funds include deposits, advances from the FHLB, repayments and prepayments of loans, proceeds from the sale of loans and investment securities and interest from our loans and investment securities. We have also raised short-term funds through the sale of securities under agreements to repurchase and federal funds purchased. While scheduled principal repayments on loans are a relatively predictable source of funds, deposit inflows and outflows and loan prepayments are greatly influenced by interest rates, economic conditions and competition. The Bank uses the primary liquidity ratio as a measure of liquidity. The primary liquidity ratio is defined as net cash, short-term investments and other marketable assets as a percent of net deposits and

short-term borrowings. At March 31, 2016, our primary liquidity ratio was 26.8% compared to 25.4% at December 31, 2015.

At March 31, 2016 and December 31, 2015, the Bank had available borrowing capacity of $423.0 million and $320.4 million, respectively, from the FHLB, and $370.0 million and $382.1 million, respectively, from the Federal Reserve Bank of San Francisco.

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Cash Flows

For the three months ended March 31, 2016, cash and cash equivalents increased $13.7 million compared to an increase of $26.4 million for the three months ended March 31, 2015. The following discussion highlights the major activities and transactions that affected our cash flows during these periods.

Cash flows from operating activities

The Company's operating assets and liabilities are used to support our lending activities, including the origination and sale of mortgage loans. For three months ended March 31, 2016, net cash of $45.9 million was used in operating activities, as our net income was less than the net amount of cash used to fund loans held for sale production and proceeds from the sale of loans. We believe that cash flows from operations, available cash balances and our ability to generate cash through short-term debt are sufficient to fund our operating liquidity needs. For the three months ended March 31, 2015, net cash of $216.0 million was used in operating activities, as our net income was less than the net amount of cash used to fund loans held for sale production and proceeds from the sale of loans held for sale.

Cash flows from investing activities

The Company's investing activities primarily include available-for-sale securities and loans originated as held for investment. For three months ended March 31, 2016, net cash of $261.5 million was used in investing activities, primarily due to $207.8 million of cash used for the origination of portfolio loans and principal repayments and $94.2 million for the purchase of investment securities, partially offset by $17.5 million of net cash received from the OCBB acquisition. For the three months ended March 31, 2015, net cash of $24.8 million was provided by investing activities, mostly due to $112.2 million of net cash acquired from the Simplicity merger, partially offset by cash used for origination of portfolio loans and principal repayments.

Cash flows from financing activities

The Company's financing activities are primarily related to customer deposits and net proceeds from the FHLB. For three months ended March 31, 2016, net cash of $321.1 million was provided by financing activities, primarily due to a $465.1 million organic growth in deposits and net proceeds of $149.0 million of FHLB advances. For the three months ended March 31, 2015, net cash of $217.6 million was provided by financing activities, primarily resulting from a $247.6 million growth in deposits.

Capital Management

In July 2013, federal banking regulators (including the FDIC and the FRB) adopted new capital rules (as used in this section, the “Rules”). The Rules apply to both depository institutions (such as the Bank) and their holding companies (such as the Company). The Rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as “Basel III”) as well as requirements contemplated by the Dodd-Frank Act. The Rules apply to both the Company and the Bank beginning in 2015.

The Rules recognize three components, or tiers, of capital: common equity Tier 1 capital, additional Tier 1 capital and Tier 2 capital. Common equity Tier 1 capital generally consists of retained earnings and common stock instruments (subject to certain adjustments), as well as accumulated other comprehensive income (“AOCI”); however, both the Company and the Bank exercised a one-time irrevocable option to exclude certain components of AOCI in 2015. Additional Tier 1 capital generally includes non-cumulative preferred stock and related surplus subject to certain adjustments and limitations. Tier 2 capital generally includes certain capital instruments (such as subordinated debt)

and portions of the amounts of the allowance for loan and lease losses, subject to certain requirements and deductions. The term “Tier 1 capital” means common equity Tier 1 capital plus additional Tier 1 capital, and the term “total capital” means Tier 1 capital plus Tier 2 capital.

The Rules generally measure an institution’s capital using four capital measures or ratios. The common equity Tier 1 capital ratio is the ratio of the institution’s common equity Tier 1 capital to its total risk-weighted assets. The Tier 1 capital ratio is the ratio of the institution’s total capital to its total risk-weighted assets. The total capital ratio is the ratio of the institution’s total capital to its total risk-weighted assets. The leverage ratio is the ratio of the institution’s Tier 1 capital to its average total consolidated assets. To determine risk-weighted assets, assets of an institution are generally placed into a risk category and given a percentage weight based on the relative risk of that category. The percentage weights range from 0% to 1,250%. An asset’s risk-weighted value will generally be its percentage weight multiplied by the asset’s value as determined under generally accepted accounting principles. In addition, certain off-balance-sheet items are converted to balance-sheet credit equivalent

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amounts, and each amount is then assigned to one of the risk categories. An institution's federal regulator may require the institution to hold more capital than would otherwise be required under the Rules if the regulator determines that the institution's capital requirements under the Rules are not commensurate with the institution's credit, market, operational or other risks.

Both the Company and the Bank are required to have a common equity Tier 1 capital ratio of 4.5%, a Tier 1 leverage ratio of 4.0%, a Tier 1 risk-based ratio of 6.0% and a total risk-based ratio of 8.0%. In addition to the preceding requirements, all financial institutions subject to the Rules, including both the Company and the Bank, are required to establish a "conservation buffer" of common equity Tier 1 capital of at least 2.5% above the required common equity Tier 1 capital ratio, the Tier 1 risk-based ratio and the total risk-based ratio. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to executive officers.

The Rules set forth the manner in which certain capital elements are determined, including but not limited to, requiring certain deductions related to mortgage servicing rights and deferred tax assets. When the federal banking regulators initially proposed new capital rules in 2012, the rules would have phased out trust preferred securities as a component of Tier 1 capital. As finally adopted, however, the Rules permit holding companies with less than $15 billion in total assets as of December 31, 2009 (which includes the Company) to continue to include trust preferred securities issued prior to May 19, 2010 in Tier 1 capital, generally up to 25% of other Tier 1 capital.

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

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

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

Both the Company and the Bank were generally required to begin compliance with the Rules on January 1, 2015. The conservation buffer is being phased in beginning in 2016 and will take full effect on January 1, 2019. Certain calculations under the Rules will also have phase-in periods. We believe that the current capital levels of the Company and the Bank are in compliance with the standards under the Rules including the conservation buffer.

At March 31, 2016, the Bank's capital ratios continued to meet the regulatory capital category of "well capitalized" as defined by the FDIC's prompt corrective action rules.

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

	At March 31, 2016					
HomeStreet Bank	Actual		For Minimum Capital Adequacy Purposes		To Be Categorized As "Well Capitalized" Under Prompt Corrective Action Provisions	
(in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage capital (to average assets)	$503,288	10.17%	$197,948	4.0%	$ 247,435	5.0 %
Common equity risk-based capital (to risk-weighted assets)	503,288	13.09%	173,079	4.5%	250,003	6.5 %
Tier 1 risk-based capital (to risk-weighted assets)	503,288	13.09%	230,772	6.0%	307,696	8.0 %
Total risk-based capital (to risk-weighted assets)	$535,711	13.93%	$307,696	8.0%	$ 384,620	10.0 %

	At March 31, 2016					
HomeStreet, Inc.	Actual		For Minimum Capital Adequacy Purposes		To Be Categorized As "Well Capitalized" Under Prompt Corrective Action Provisions	
(in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage capital (to average assets)	$521,219	10.50%	$198,572	4.0%	$ 248,215	5.0 %
Common equity risk-based capital (to risk-weighted assets)	464,486	10.60%	197,247	4.5%	284,913	6.5 %
Tier 1 risk-based capital (to risk-weighted assets)	521,219	11.89%	262,996	6.0%	350,662	8.0 %
Total risk-based capital (to risk-weighted assets)	$553,642	12.63%	$350,662	8.0%	$ 438,327	10.0 %

	At December 31, 2015					
HomeStreet Bank	Actual		For Minimum Capital Adequacy Purposes		To Be Categorized As "Well Capitalized" Under Prompt Corrective Action Provisions	
(in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage capital (to average assets)	$455,101	9.46 %	$192,428	4.0%	$ 240,536	5.0 %
Common equity risk-based capital (to risk-weighted assets)	455,101	13.04%	157,074	4.5%	226,885	6.5 %
Tier 1 risk-based capital (to risk-weighted assets)	455,101	13.04%	209,432	6.0%	279,243	8.0 %
Total risk-based capital (to risk-weighted assets)	$485,761	13.92%	$279,243	8.0%	$ 349,054	10.0 %

	At December 31, 2015					
HomeStreet, Inc.	Actual		For Minimum Capital Adequacy Purposes		To Be Categorized As "Well Capitalized" Under Prompt Corrective Action Provisions	
(in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage capital (to average assets)	$480,038	9.95 %	$193,025	4.0%	$ 241,281	5.0 %
Common equity risk-based capital (to risk-weighted assets)	423,005	10.52%	180,912	4.5%	261,317	6.5 %

Tier 1 risk-based capital (to risk-weighted assets)	480,038	11.94%	241,216	6.0%	321,621	8.0 %
Total risk-based capital (to risk-weighted assets)	$510,697	12.70%	$321,621	8.0%	$ 402,026	10.0 %

Accounting Developments

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

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ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Management

The following discussion highlights developments since December 31, 2015 and should be read in conjunction with the Market Risk Management discussion within Part II, Item 7A Quantitative and Qualitative Disclosures About Market Risk in our 2015 Annual Report on Form 10-K. Since December 31, 2015, there have been no material changes in the types of risk management instruments we use or in our hedging strategies.

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

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

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

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

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

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

We estimate the sensitivity of our net interest income to changes in market interest rates using an interest rate simulation model that includes assumptions related to the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments for multiple interest rate change scenarios. Interest rate sensitivity depends on certain repricing characteristics in our interest-earnings assets and interest-bearing liabilities, including the maturity

structure of assets and liabilities and their repricing characteristics during the periods of changes in market interest rates. Effective interest rate risk management seeks to ensure both assets and liabilities respond to changes in interest rates within an acceptable timeframe, minimizing the impact of interest rate changes on net interest income and capital. Interest rate sensitivity is measured as the difference between the volume of assets and liabilities, at a point in time, that are subject to repricing at various time horizons, known as interest rate sensitivity gaps.

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The following table presents sensitivity gaps for these different intervals.

	March 31, 2016							
(dollars in thousands)	3 Mos. or Less	More Than 3 Mos. to 6 Mos.	More Than 6 Mos. to 12 Mos.	More Than 12 Mos. to 3 Yrs.	More Than 3 Yrs. to 5 Yrs.	More Than 5 Yrs.	Non-Rate-Sensitive	T
Interest-earning assets:								
Cash & cash equivalents	$46,356	$—	$—	$—	$—	$—	$—	$
FHLB Stock	—	—	—	—	—	40,548	—	4
Investment securities[1]	64,802	41,226	56,166	110,269	68,665	345,953	—	6
Mortgage loans held for sale	689,099	18	37	157	1,573	5,808	—	6
Loans held for investment[1]	976,366	250,873	428,347	953,248	455,357	459,360	—	3
Total interest-earning assets	1,776,623	292,117	484,550	1,063,674	525,595	851,669	—	4
Non-interest-earning assets	—	—	—	—	—	—	423,024	4
Total assets	$1,776,623	$292,117	$484,550	$1,063,674	$525,595	$851,669	$423,024	$
Interest-bearing liabilities:								
NOW accounts[2]	$495,467	$—	$—	$—	$—	$—	$—	$
Statement savings accounts[2]	300,952	—	—	—	—	—	—	3
Money market accounts[2]	1,244,064	—	—	—	—	—	—	1
Certificates of deposit	195,674	153,282	281,907	228,789	41,907	—	—	9
FHLB advances	—	—	—	—	—	—	—	-
Long-term debt[3]	61,857	—	—	—	—	—	—	6
Total interest-bearing liabilities	3,091,998	173,282	291,907	272,789	51,907	5,590	—	3
Non-interest bearing liabilities	—	—	—	—	—	—	1,000,647	1
Equity	—	—	—	—	—	—	529,132	5
Total liabilities and shareholders' equity	$3,091,998	$173,282	$291,907	$272,789	$51,907	$5,590	$1,529,779	$
Interest sensitivity gap	(1,315,375)	118,835	192,643	790,885	473,688	846,079		
Cumulative interest sensitivity gap	$(1,315,375)	$(1,196,540)	$(1,003,897)	$(213,012)	$260,676	$1,106,755		

Cumulative interest sensitivity gap as a percentage of total assets	(24	)%	(22	)%	(19	)%	(4	)%	5	%	20	%
Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities	57	%	63	%	72	%	94	%	107	%	128	%

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

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

The estimated impact on our net interest income over a time horizon of one year and the change in net portfolio value as of March 31, 2016 and December 31, 2015 are provided in the table below. For the scenarios shown, the interest rate simulation assumes an instantaneous and sustained shift in market interest rates and no change in the composition or size of the balance sheet.

	March 31, 2016		December 31, 2015	
Change in Interest Rates (basis points)	Percentage Change			
	Net Interest Income [1]	Net Portfolio Value [2]	Net Interest Income [1]	Net Portfolio Value [2]
+200	(0.5)%	(0.3)%	(5.1)%	(10.0)%
+100	(0.6)	1.8	(2.6)	(2.4)
-100	(1.1)	(10.1)	0.1	(8.3)
-200	(3.6)%	(29.3)%	(4.4)%	(19.4)%

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

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

At March 31, 2016, we believe our net interest income sensitivity did not exhibit a strong bias to either an increase in interest rates or a decline in interest rates. Since December 31, 2015, the interest rate sensitivity of the Company’s assets has decreased while the interest rate sensitivity of its liabilities has increased. The changes in sensitivity reflect the impact of both higher market interest rates and changes to overall balance sheet composition. It is expected that, as interest rates change, net interest income will be negatively correlated with rate movements in the short-term, i.e. an increase (decrease) in interest rates would result in a decrease (increase) in net interest income. Some of the assumptions made in the simulation model may not materialize and unanticipated events and circumstances will occur. Modeling results in extreme interest rate decline scenarios may encounter negative rate assumptions which may cause the results to be inherently unreliable. In addition, the simulation model does not take into account any future actions that we could undertake to mitigate an adverse impact due to changes in interest rates from those expected, in the actual level of market interest rates or competitive influences on our deposits.

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ITEM 4 CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, with the participation of our management and under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2016.

Internal Control Over Financial Reporting

As required by Rule 13a-15(d), our management, including our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

There were no changes to our internal control over financial reporting that occurred during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

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

ITEM 1A RISK FACTORS

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

Risks Related to Our Operations

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

Since our initial public offering (“IPO”) in February 2012, we have pursued a strategy of targeted and opportunistic growth which has included four whole-bank acquisitions - Fortune Bank and Yakima National Bank in November 2013, Simplicity Bancorp and its subsidiary, Simplicity Bank, in March 2015, and Orange County Business Bank in February 2016 - along with three branch acquisitions in 2014 and 2015. These acquisitions represent both significant

operational growth and a substantial geographic expansion of our commercial and consumer banking operations. Simultaneously with this growth of our banking operations through acquisition, we have also grown our mortgage origination operations opportunistically but quickly, opening new offices in Northern and Southern California starting in 2013, and further expanding our mortgage origination operations into Arizona beginning in the fourth quarter of 2014 and Central California in the second quarter of 2015, while also continuing to grow those operations in the Pacific Northwest. We also started expanding our commercial lending activities, opening new offices in Salt Lake City, Utah in 2015 and Dallas, Texas in the first quarter of 2016 and adding production personnel in Southern California focused on residential construction during 2014 and early 2015 and a team focused on SBA loans in 2015.

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During this time, we have grown substantially in terms of total assets, total deposits, total loans and employees. We plan to continue both strategic and opportunistic growth, which can present substantial demands on management personnel, line employees, and other aspects of our operations, especially if growth occurs rapidly. We may face difficulties in managing that growth, and we may experience a variety of adverse consequences, including:

- Loss of or damage to key customer relationships;
- Distraction of management from ordinary course operations;
- Costs incurred in the process of vetting potential acquisition candidates which we may not recoup;
- Loss of key employees or significant numbers of employees;
- The potential of litigation from prior employers relating to the portability of their employees;
- Costs associated with opening new offices and systems expansion to accommodate our growth in employees;
- Increased costs related to hiring, training and providing initial compensation to new employees, which may not be recouped if those employees do not remain with us long enough to be profitable;
- Challenges in complying with legal and regulatory requirements in new jurisdictions;
- Inadequacies in our computer systems, accounting policies and procedures, and management personnel (some of which may be difficult to detect until other problems become manifest);
- Challenges integrating different systems, practices, and customer relationships;
- An inability to attract and retain personnel whose experience and (in certain circumstances) business relationships promote the achievement of our strategic goals; and
- Increasing volatility in our operating results as we progress through these initiatives.

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

In February 2016, we acquired Orange County Business Bank by merger, representing our fourth whole-bank acquisition in three years, and began the process of integrating the operations of that bank into the operations of HomeStreet. We have also acquired three stand-alone branches in the same time period, including the acquisition of a branch in Dayton, Washington in December 2015. There are certain risks related to the integration of operations of acquired banks and branches, which we may continue to encounter if we acquire other banks or branches in the near future as part of our strategy to grow our business and our market share.

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

- Diversion of management's attention from normal daily operations of the business;
- Difficulties in integrating the operations, technologies, and personnel of the acquired companies;
- Difficulties in implementing, upgrading and maintaining our internal controls over financial reporting and our disclosure controls and procedures;
- Inability to maintain the key business relationships and the reputations of acquired businesses;
- Entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;
- Potential responsibility for the liabilities of acquired businesses;
- Inability to maintain our internal standards, procedures and policies at the acquired companies or businesses; and
- Potential loss of key employees of the acquired companies.

Difficulties in pursuing or integrating any new acquisitions may increase our costs and adversely impact our financial condition and results of operations. Further, even if we successfully address these factors and are successful in closing

acquisitions and integrating our systems with the acquired systems, we may nonetheless experience customer losses, or we may fail to grow the acquired businesses as we intend.

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

A substantial portion of our loans are secured by real property. Our real estate secured lending is generally sensitive to national, regional and local economic conditions, making loss levels difficult to predict. Declines in real estate sales and prices, significant increases in interest rates, and a degeneration in prevailing economic conditions may result in higher than expected loan delinquencies, foreclosures, problem loans, OREO, net charge-offs and provisions for credit and OREO losses. Although real estate prices are stable in the markets in which we operate, if market values decline, the collateral for our loans may provide less security and our ability to recover the principal, interest and costs due on defaulted loans by selling the underlying

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real estate will be diminished, leaving us more likely to suffer additional losses on defaulted loans. Such declines may have a greater effect on our earnings and capital than on the earnings and capital of financial institutions whose loan portfolios are more geographically diversified.

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

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

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

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

As part of our ongoing monitoring of internal control from time to time we have discovered deficiencies in our internal controls that have required remediation. These deficiencies have included “material weaknesses,” defined as a deficiency or combination of deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. We also have discovered “significant deficiencies,” defined as a control deficiency or combination of control deficiencies, that adversely affect a company’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of a company’s annual or interim financial statements that is more than inconsequential will not be prevented or detected.

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

If our internal controls over financial reporting are subject to additional defects we have not identified, we may be unable to maintain adequate control over our assets, or we may experience material errors in recording our assets, liabilities and results of operations. Repeated or continuing deficiencies may cause investors to question the reliability of our internal controls or our financial statements, and may result in an erosion of confidence in our management or result in penalties or other potential enforcement action by the Securities and Exchange Commission.

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

Our business depends on the creditworthiness of our customers. As with most financial institutions, we maintain an allowance for loan losses to provide for defaults and nonperformance, which represents management's best estimate of probable incurred losses inherent in the loan portfolio. Management's estimate is the result of our continuing evaluation of specific credit risks and loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, industry concentrations and other factors that may indicate future loan losses. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and judgment and requires us to make estimates of current credit risks and future trends, all of which may undergo material changes. Generally, our nonperforming loans and OREO reflect operating difficulties of individual borrowers and weaknesses in the economies of the markets we serve. This

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allowance may not be adequate to cover actual losses, and future provisions for losses could materially and adversely affect our financial condition, results of operations and cash flows.

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

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

A portion of our assets are carried on the balance sheet at fair value, including investment securities available for sale, mortgage servicing rights related to single family loans and single family loans held for sale. Generally, for assets that are reported at fair value, we use quoted market prices or internal valuation models that utilize observable market data inputs to estimate their fair value. In certain cases, observable market prices and data may not be readily available or their availability may be diminished due to market conditions. We use financial models to value certain of these assets. These models are complex and use asset-specific collateral data and market inputs for interest rates. Although we have processes and procedures in place governing internal valuation models and their testing and calibration, such assumptions are complex as we must make judgments about the effect of matters that are inherently uncertain. Different assumptions could result in significant changes in valuation, which in turn could affect earnings or result in significant changes in the dollar amount of assets reported on the balance sheet.

Volatility in the mortgage market, changes in interest rates, operational costs and other factors beyond our control may adversely impact our ability to remain profitable.

We have sustained significant losses in the past. We cannot guarantee that we will remain profitable or be able to maintain the level of profit we are currently experiencing. Many factors determine whether or not we will be profitable, and our ability to remain profitable is threatened by a myriad of issues, including:

- Increases in interest rates may limit our ability to make loans, decrease our net interest income and noninterest income, reduce demand for loans, increase the cost of deposits and otherwise negatively impact our financial situation;
- Volatility in mortgage markets, which is driven by factors outside of our control such as interest rate changes, housing inventory and general economic conditions, may negatively impact our ability to originate loans and change the fair value of our existing loans and servicing rights;
- Changes in regulations may negatively impact the Company or the Bank and may limit our ability to offer certain products or services or may increase our costs of compliance;
- Increased costs from growth through acquisition could exceed the income growth anticipated from these opportunities, especially in the short term as these acquisitions are integrated into our business;
- Increased costs for controls over data confidentiality, integrity, and availability due to growth or to strengthen the security profile of our computer systems and computer networks;
- Changes in government-sponsored enterprises and their ability to insure or to buy our loans in the secondary market may result in significant changes in our ability to recognize income on sale of our loans to third parties;
- Competition in the mortgage market industry may drive down the interest rates we are able to offer on our mortgages, which will negatively impact our net interest income;

- Changes in the cost structures and fees of government-sponsored enterprises to whom we sell many of these loans may compress our margins and reduce our net income and profitability; and
- Our hedging strategies to offset risks related to interest rate changes may not prove to be successful and may result in unanticipated losses for the Company.

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

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

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

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

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

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

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

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

guaranteed loans, if the DOJ were to find potential violations by the Bank, we could be subject to material monetary penalties and/or losses, and may even be subject to lawsuits alleging systemic violations which could result in treble damages.

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

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

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

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

Our real estate lending also exposes us to environmental liabilities.

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

Risks Related to our Market

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

Interest rates may be affected by many factors beyond our control, including general and economic conditions and the monetary and fiscal policies of various governmental and regulatory authorities. For example, increases in interest rates in early 2014 reduced our mortgage revenues in large part by drastically reducing the market for refinancings, which negatively impacted our noninterest income and, to a lesser extent, our net interest income, as well as demand for our residential loan products and the revenue realized on the sale of loans in the first half of 2014. Market volatility in interest rates can be difficult to predict, however, as anticipated changes in interest rates generally impact the mortgage rate market. For example, in the fourth quarter of 2015, as the market anticipated a change in interest rates by the Federal Reserve, mortgage interest rates increased. However, once the actual interest rate change was announced, mortgage rates began to come back down somewhat in response to the flattening of the yield curve. Our earnings are also dependent on the difference between the interest earned on loans and investments and the interest

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

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

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

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

Housing affordability is directly affected by the level of mortgage interest rates. The housing market recovery has been aided by a protracted period of historically low mortgage interest rates that has made it easier for consumers to qualify for a mortgage and purchase a home. Mortgage rates rose somewhat in the fourth quarter of 2015 in anticipation of a general interest rate increase that was implemented by the Federal Reserve in December 2015. While mortgage rates have slightly declined again following the actual rate increase from the Federal Reserve, should mortgage rates substantially increase over current levels, it would become more difficult for many consumers to qualify for mortgage credit. This could have a dampening effect on home sales and on home values.

In addition, while some parts of the country, including the Pacific Northwest, have seen a resurgence of the housing market in recent months, those recent improvements may not continue, and a return to a recessionary economy could result in financial stress on our borrowers that may result in volatility in home prices, increased foreclosures and significant write-downs of asset values, all of which would adversely affect our financial condition and results of operations. Constraints on the number of houses available for sale in some markets may also adversely impact our ability to originate mortgages and, as a consequence, our results of operations.

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

We generate revenue from the interest and fees we charge on the loans and other products and services we sell, and a substantial amount of our revenue and earnings comes from the net interest and noninterest income that we earn from our mortgage banking and commercial lending businesses. Our operations have been, and will continue to be, materially affected by the state of the U.S. economy, particularly unemployment levels and home prices. Although the U.S. economy has continued to improve from the recessionary levels of 2008 and early 2009, economic growth has at times been slow and uneven and there is no guarantee that it will continue at the current pace or at all.

A prolonged period of slow growth in the U.S. economy, or any deterioration in general economic conditions and/or the financial markets resulting from these factors, or any other events or factors that may disrupt or dampen the economic recovery, could materially adversely affect our financial results and condition. If economic conditions do not continue to improve or if the economy worsens and unemployment rises, which also would likely result in a decrease in consumer and business confidence and spending, the demand for our credit products, including our mortgages, may fall, reducing our net interest and noninterest income and our earnings.

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

- Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, resulting in increased delinquencies and default rates on loans and other credit facilities;
- The models we use to assess the creditworthiness of our customers may prove less reliable than we had anticipated in predicting future behaviors which may impair our ability to make good underwriting decisions;

- If our forecasts of economic conditions and other economic predictions are not accurate, we may face challenges in accurately estimating the ability of our borrowers to repay their loans;
- Changes in U.S. tax policy may limit our ability to pursue growth and return profits to shareholders; and
- Future political developments and fiscal policy decisions may create uncertainty in the marketplace.

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

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

A substantial portion of our consolidated net revenues (net interest income plus noninterest income) are derived from originating and selling residential mortgages. Residential mortgage lending in general has experienced substantial volatility in recent periods. An increase in interest rates in the second quarter of 2013 resulted in a significant adverse impact on our business and financial results due primarily to a related decrease in volume of loan originations, especially refinancings. The Federal Reserve increased interest rates in December 2015 and may continue to raise rates in 2016. An increase in interest rates may materially and adversely affect our future loan origination volume, margins, and the value of the collateral securing our outstanding loans, may increase rates of borrower default, and may otherwise adversely affect our business.

We may incur losses due to changes in prepayment rates.

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

Regulatory-Related Risks

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

Our operations are subject to extensive regulation by federal, state and local governmental authorities, including the FDIC, the Washington Department of Financial Institutions and the Federal Reserve, and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules and regulations to which we are subject are evolving and change frequently. In addition, financial institutions continue to be affected by changing conditions in the real estate and financial markets, along with an arduous and changing regulatory climate in which regulations passed in response to conditions and events during the economic downturn continue to be implemented. Changes to those laws, rules and regulations are also sometimes retroactively applied. For instance, the Dodd-Frank Act significantly changed the laws as they apply to financial institutions and revised and expanded the rulemaking, supervisory and enforcement authority of federal banking regulators. Some of these changes were effective immediately, others are still being phased in gradually, and some still require additional regulatory rulemaking. As a result, a few of the regulations called for by the Dodd-Frank Act have not yet been completed or are not yet in effect, so not all of the precise contours of that law and its effects on us can be fully understood. Expanding regulatory requirements, including the provisions of the Dodd-Frank Act and the subsequent exercise by regulators of their revised and expanded powers thereunder, could materially and negatively impact the profitability of our business, the value of assets we hold or the collateral available for our loans, require changes to business practices or force us to discontinue businesses and

expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk.

Regulatory scrutiny of the industry could further increase, leading to stricter regulation of our industry that could lead to a higher cost of compliance, limit our ability to pursue business opportunities and increase our exposure to the judicial system and the plaintiff's bar. Examination findings by the regulatory agencies may also result in adverse consequences to the Company or the Bank. We have, in the past, been subject to specific regulatory orders that constrained our business and required us to take measures that investors may have deemed undesirable, and we may again in the future be subject to such orders if banking regulators were to determine that our operations require such restrictions. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the authority to restrict our operations, adversely reclassify our assets, determine the level of deposit premiums assessed and require us to increase our allowance for loan losses.

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

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

Additional prompt corrective action rules implemented in 2015 also apply to the Bank, including higher and new ratio requirements for the Bank to be considered well-capitalized. The new rules also modify the manner for determining when certain capital elements are included in the ratio calculations. For more on these regulatory requirements and how they apply to the Company and the Bank, see "Regulation and Supervision of HomeStreet Bank - Capital and Prompt Corrective Action Requirements - Capital Requirements." The application of more stringent capital requirements could, among other things, result in lower returns on invested capital and result in regulatory actions if we were to be unable to comply with such requirements. In addition, if we need to raise additional equity capital in order to meet these more stringent requirements, our shareholders may be diluted.

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

Federal, state and local laws have been adopted that are intended to eliminate certain practices considered "predatory" or "unfair and deceptive". These laws prohibit practices such as steering borrowers away from more affordable products, failing to disclose key features, limitations, or costs related to products and services, selling unnecessary insurance to borrowers, repeatedly refinancing loans, imposing excessive fees for overdrafts, and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans or engage in deceptive practices, but these laws and regulations create the potential for liability with respect to our lending, servicing, loan investment, deposit taking and other financial activities. As a company with a significant mortgage banking operation, we also, inherently, have a significant amount of risk of noncompliance with fair lending laws and regulations. These laws and regulations are complex and require vigilance to ensure that policies and practices do not create disparate impact on our customers or that our employees do not engage in overt discriminatory practices. Noncompliance can result in significant regulatory actions including, but not limited to, sanctions, fines or referrals to the Department of Justice. As we offer products and services to customers in additional states, we may become subject to additional state and local laws designed to protect consumers. The additional laws and regulations may increase our cost of doing business, and ultimately may prevent us from making certain loans, offering certain products, and may cause us to reduce the average percentage rate or the points and fees on loans and other products and services that we do provide.

A change in federal monetary policy could adversely impact our mortgage banking revenues.

The Federal Reserve is responsible for regulating the supply of money in the United States, and as a result its monetary policies strongly influence our costs of funds for lending and investing as well as the rate of return we are able to earn on those loans and investments, both of which impact our net interest income and net interest margin. The Federal Reserve Board's interest rate policies can also materially affect the value of financial instruments we hold, including debt securities and mortgage servicing rights, or MSRs. These monetary policies can also negatively impact our borrowers, which in turn may increase the risk that they will be unable to pay their loans according to the terms or be unable to pay their loans at all. We have no control over the monetary policies of the Federal Reserve Board and cannot predict when changes are expected or what the magnitude of such changes may be.

For example, as a result of the Federal Reserve Board's concerns regarding continued slow economic growth, the Federal Reserve Board, in 2008 implemented its standing monetary policy known as “quantitative easing,” a program involving the purchase of mortgage backed securities and United States Treasury securities, the volume of which was aligned with specific economic targets or measures intended to bolster the U.S. economy. Although the Federal Reserve Board has ended quantitative

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easing, it still holds the securities purchased during the program and, if economic conditions worsened, could revive that program.

Because a substantial portion of our revenues and our net income historically have been, and in the foreseeable future are expected to be, derived from gain on the origination and sale of mortgage loans and on the continuing servicing of those loans, the Federal Reserve Board's monetary policies may have had the effect of supporting higher revenues than might otherwise be available. If the rebound in employment and real wages is not adequate to offset the termination of the program, or if the Federal Reserve begins selling off the securities it has accumulated, we may see a reduction in mortgage originations throughout the United States, and may see a corresponding rise in interest rates, which could reduce our mortgage origination revenues and in turn have a material adverse impact upon our business.

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

In addition to expanded regulatory activity in recent years, future federal and state legislation, case law and regulations could also require us to revise our operations and change certain business practices, impose additional costs, reduce our revenue and earnings and otherwise adversely impact our business, financial condition and results of operations. For instance, legislation and judicial decisions made during the financial crisis could be interpreted to allow judges to modify the terms of residential mortgages in bankruptcy proceedings which could hinder our ability to foreclose promptly on defaulted mortgage loans or expand assignee liability for certain violations in the mortgage loan origination process, any or all of which could adversely affect our business or result in our being held responsible for violations in the mortgage loan origination process.

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

In addition, while these legislative and regulatory proposals and courts decisions generally have focused primarily, if not exclusively, on residential mortgage origination and servicing, other laws and regulations may be enacted that affect the manner in which we do business and the products and services that we provide, restrict our ability to grow through acquisition, restrict our ability to compete in our current business or expand into any new business, and impose additional fees, assessments or taxes on us or increase our regulatory oversight. We are unable to predict whether U.S. federal, state or local authorities, or other pertinent bodies, will enact legislation, laws, rules, regulations, handbooks, guidelines or similar provisions that will affect our business or require changes in our practices in the future, and any such changes could adversely affect our cost of doing business and profitability.

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

Our consumer business, including our mortgage, credit card, and other consumer lending and non-lending businesses, may be adversely affected by the policies enacted or regulations adopted by the Consumer Financial Protection Bureau (CFPB) which under the Dodd-Frank Act has broad rulemaking authority over consumer financial products and services. For example, in January 2014 new federal regulations promulgated by the CFPB took effect which impact how we originate and service residential mortgage loans. Those regulations, among other things, require

mortgage lenders to assess and document a borrower's ability to repay their mortgage loan. The regulations provide borrowers the ability to challenge foreclosures and sue for damages based on allegations that the lender failed to meet the standard for determining the borrower's ability to repay their loan. While the regulations include presumptions in favor of the lender based on certain loan underwriting criteria, it is uncertain how these presumptions will be construed and applied by courts in the event of litigation. The ultimate impact of these new regulations on the lender's enforcement of its loan documents in the event of a loan default, and the cost and expense of doing so, is uncertain, but may be significant. In addition, the secondary market demand for loans that do not fall within the presumptively safest category of a "qualified mortgage" as defined by the CFPB is uncertain. The 2014 regulations also require changes to certain loan servicing procedures and practices, which has resulted in increased foreclosure costs and longer foreclosure timelines in the event of loan default, and failure to comply with the new servicing rules may result in additional litigation and compliance risk.

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On October 3, 2015, the CFPB's Final Integrated Disclosure Rule, commonly known as TRID, became effective. Among other things, TRID requires lenders to combine the initial Good Faith Estimate and Initial Truth in Lending ("TIL") disclosures into a single new Loan Estimate disclosure and the HUD-1 and Final TIL disclosures into a single new Closing Disclosure. The definition of an application and timing requirements has changed, and a new Closing Disclosure waiting period has been added. These changes, along with other changes required by TRID, will require significant systems modifications, process and procedures changes and training. Failure to comply with these new requirements may result in regulatory penalties for disclosure violations under the Real Estate Settlement Procedures Act ("RESPA") and the Truth In Lending Act ("TILA"), and private right of action under TILA, and may impact our ability to sell or the price we receive for certain loans.

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

While the full impact of CFPB's activities on our business is still unknown, we anticipate that the rule change under the HMDA and other CFPB actions that may follow could increase our compliance costs and require changes in our business practices as a result of new regulations and requirements and could limit the products and services we are able to provide to customers.

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

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

We cannot be certain if or when Fannie Mae and Freddie Mac ultimately will be restructured or wound down, if or when additional reform of the housing finance market will be implemented or what the future role of the U.S. government will be in the mortgage market, and, accordingly, we will not be able to determine the impact that any such reform may have on us until a definitive reform plan is adopted. However, any restructuring or replacement of Fannie Mae and Freddie Mac that restricts the current loan purchase programs of those entities may have a material adverse effect on our business and results of operations. Moreover, we have recorded on our balance sheet an intangible asset (mortgage servicing rights, or MSRs) relating to our right to service single and multifamily loans sold to Fannie Mae and Freddie Mac. That MSR asset was valued at $148.9 million at March 31, 2016. Changes in the policies and operations of Fannie Mae and Freddie Mac or any replacement for or successor to those entities that adversely affect our single family residential loan and DUS mortgage servicing assets may require us to record

impairment charges to the value of these assets, and significant impairment charges could be material and adversely affect our business.

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

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

HomeStreet, Inc. is a separate legal entity from the Bank, and although we may receive some dividends from HomeStreet Capital Corporation, the primary source of our funds from which we service our debt, pay any dividends that we may declare to our shareholders and otherwise satisfy our obligations is dividends from the Bank. The availability of dividends from the Bank

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is limited by various statutes and regulations, as well as by our policy of retaining a significant portion of our earnings to support the Bank's operations. New capital rules impose more stringent capital requirements to maintain “well capitalized” status which may additionally impact the Bank’s ability to pay dividends to the Company. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Capital Management” as well as “Regulation and Supervision of HomeStreet Bank - Capital and Prompt Corrective Action Requirements” in Item 1 of this Form 10-K. If the Bank cannot pay dividends to us, we may be limited in our ability to service our debts, fund the Company's operations and acquisition plans and pay dividends to the Company's shareholders. While the Company has made special dividend distributions to its public shareholders in prior quarters, the Company has not adopted a dividend policy and the board of directors has determined that it was in the best interests of the shareholders not to declare a dividend to be paid for each of the last seven quarters. As such, our dividends are not regular and are subject to restriction due to cash flow limitations, capital requirements, capital needs of the business or other factors.

Risks Related to Information Systems and Security

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

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

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

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber-attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, financial losses, the inability of our customers to transact business with

us, violations of applicable privacy and other laws, regulatory fines, penalties or intervention, additional regulatory scrutiny, reputational damage, litigation, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially and adversely affect our results of operations or financial condition.

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

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

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

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

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

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

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

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

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

- Training and educating our employees and independent contractors regarding our obligations relating to confidential information;
- Monitoring changes in state or federal privacy and compliance requirements;
- Drafting and enforcing appropriate contractual provisions into any contract that raises proprietary and confidentiality issues;
- Maintaining secure storage facilities and protocols for tangible records;
- Physically and technologically securing access to electronic information; and
- Performing vulnerability scanning and penetration testing of our computer systems and computer networks to identify potential weaknesses and to develop mitigating controls.

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

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

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

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

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

Anti-Takeover Risk

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

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

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

In addition, as a Washington corporation, we are subject to Washington law which imposes restrictions on some transactions between a corporation and certain significant shareholders. These provisions, alone or together, could

have the effect of deterring or delaying changes in incumbent management, proxy contests or changes in control.

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ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 OTHER INFORMATION

Not applicable.

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ITEM 6 EXHIBITS
EXHIBIT INDEX

Exhibit Number	Description
10.1	Twenty-third Amendment to Office Lease.
10.2[(1)]	Master Agreement with Fannie Mae No. ML03344 effective April 1, 2016 and subsequent amendment effective May 1, 2016.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
32[(2)]	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.
101.INS[(3)(4)]	XBRL Instance Document
101.SCH [(3)]	XBRL Taxonomy Extension Schema Document
101.CAL [(3)]	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF [(3)]	XBRL Taxonomy Extension Label Linkbase Document
101.LAB [(3)]	XBRL Taxonomy Extension Presentation Linkbase Document
101.PRE [(3)]	XBRL Taxonomy Extension Definitions Linkbase Document

(1) This Master Agreement replaces the prior Master Agreement with Fannie Mae but does not materially change the terms of that prior agreement.

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

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

(4) Pursuant to Rule 405 of Regulation S-T, includes the following financial information included in the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, formatted in XBRL (eXtensible Business Reporting Language) interactive data files: (i) the Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015, (ii) the Consolidated Statements of Financial Condition as of March 31, 2016 and December 31, 2015, (iii) the Consolidated Statements of Shareholders’ Equity and Comprehensive Income for the

three months ended March 31, 2016 and 2015, (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015, and (v) the Notes to Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seattle, State of Washington, on May 5, 2016.

HomeStreet, Inc.

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

HomeStreet, Inc.

By: /s/ Melba A. Bartels
Melba A. Bartels
Senior Executive Vice President and
Chief Financial Officer