

HomeStreet, Inc.
Form 10-Q
November 08, 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: September 30, 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 No

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 No

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 Accelerated Filer

Non-accelerated Filer Smaller Reporting Company

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

The number of outstanding shares of the registrant's common stock as of November 2, 2016 was 24,836,124.6.

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

PART I
ITEM 1.
FINANCIAL
STATEMENTS

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

(in thousands, except share data)	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents (including interest-earning instruments of \$8,580 and \$2,079)	\$ 55,998	\$32,684
Investment securities (includes \$949,075 and \$541,151 carried at fair value)	991,325	572,164
Loans held for sale (includes \$834,144 and \$632,273 carried at fair value)	893,513	650,163
Loans held for investment (net of allowance for loan losses of \$33,975 and \$29,278; includes \$20,547, and \$21,544 carried at fair value)	3,764,178	3,192,720
Mortgage servicing rights (includes \$149,910 and \$156,604 carried at fair value)	167,501	171,255
Other real estate owned	6,440	7,531
Federal Home Loan Bank stock, at cost	39,783	44,342
Premises and equipment, net	72,951	63,738
Goodwill	19,900	11,521
Other assets	215,012	148,377
Total assets	\$ 6,226,601	\$4,894,495
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	\$ 4,504,560	\$3,231,953
Federal Home Loan Bank advances	858,923	1,018,159
Accounts payable and other liabilities	151,968	117,251
Long-term debt	125,122	61,857
Total liabilities	5,640,573	4,429,220
Commitments and contingencies (Note 9)		
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, 24,833,008 shares and 22,076,534 shares	511	511
Additional paid-in capital	276,844	222,328
Retained earnings	300,742	244,885
Accumulated other comprehensive income (loss)	7,931	(2,449)
Total shareholders' equity	586,028	465,275
Total liabilities and shareholders' equity	\$ 6,226,601	\$4,894,495

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

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

(in thousands, except share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income:				
Loans	\$49,752	\$ 41,012	\$ 139,748	\$ 111,603
Investment securities	5,476	2,754	12,531	8,426
Other	102	224	396	647
	55,330	43,990	152,675	120,676
Interest expense:				
Deposits	5,362	3,069	13,380	8,656
Federal Home Loan Bank advances	1,605	958	4,486	2,476
Federal funds purchased and securities sold under agreements to repurchase	2	—	2	8
Long-term debt	1,440	278	2,574	815
Other	119	51	258	123
	8,528	4,356	20,700	12,078
Net interest income	46,802	39,634	131,975	108,598
Provision for credit losses	1,250	700	3,750	4,200
Net interest income after provision for credit losses	45,552	38,934	128,225	104,398
Noninterest income:				
Net gain on mortgage loan origination and sale activities	92,600	57,885	239,493	189,746
Mortgage servicing income	14,544	4,768	35,855	10,896
Income from WMS Series LLC	1,174	380	2,474	1,428
Depositor and other retail banking fees	1,744	1,701	4,991	4,239
Insurance agency commissions	441	477	1,205	1,183
Gain on sale of investment securities available for sale	48	1,002	145	1,002
Bargain purchase gain	—	796	—	7,345
Other	1,194	459	1,766	(11)
	111,745	67,468	285,929	215,828
Noninterest expense:				
Salaries and related costs	79,164	60,991	221,615	180,238
General and administrative	14,949	14,342	47,210	41,122
Amortization of core deposit intangibles	579	527	1,636	1,410
Legal	639	868	1,687	1,912
Consulting	1,390	166	4,239	6,544
Federal Deposit Insurance Corporation assessments	919	504	2,419	1,890
Occupancy	7,740	6,077	22,408	18,024
Information services	7,876	8,159	23,857	21,993
Net cost from operation and sale of other real estate owned	1,143	392	1,712	710
	114,399	92,026	326,783	273,843
Income before income taxes	42,898	14,376	87,371	46,383
Income tax expense	15,197	4,415	31,514	13,742
NET INCOME	\$27,701	\$ 9,961	\$55,857	\$32,641
Basic income per share	\$ 1.12	\$ 0.45	\$ 2.29	\$ 1.60

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Diluted income per share	\$1.11	\$ 0.45	\$2.27	\$1.58
Basic weighted average number of shares outstanding	24,811,169	22,035,317	24,398,683	20,407,386
Diluted weighted average number of shares outstanding	24,996,747	22,291,810	24,595,348	20,646,540

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

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$27,701	\$9,961	\$55,857	\$32,641
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on investment securities available for sale:				
Unrealized holding (loss) gain arising during the period, net of tax (benefit) expense of \$(962) and \$1,576 for the three months ended September 30, 2016 and 2015, and \$5,640 and \$430 for the nine months ended September 30, 2016 and 2015, respectively	(1,786)	2,926	10,474	798
Reclassification adjustment for net gains included in net income, net of tax expense of \$17 and \$351 for the three months ended September 30, 2016 and 2015, and \$51 and \$351 for the nine months ended September 30, 2016 and 2015, respectively	(31)	(651)	(94)	(651)
Other comprehensive (loss) income	(1,817)	2,275	10,380	147
Comprehensive income	\$25,884	\$12,236	\$66,237	\$32,788

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

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

(in thousands, except share data)	Number of shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2015	14,856,611	\$ 511	\$ 96,615	\$ 203,566	\$ 1,546	\$ 302,238
Net income	—	—	—	32,641	—	32,641
Share-based compensation expense	—	—	986	—	—	986
Common stock issued	7,205,091	—	124,446	—	—	124,446
Other comprehensive income	—	—	—	—	147	147
Balance, September 30, 2015	22,061,702	\$ 511	\$ 222,047	\$ 236,207	\$ 1,693	\$ 460,458
Balance, January 1, 2016	22,076,534	\$ 511	\$ 222,328	\$ 244,885	\$ (2,449)	\$ 465,275
Net income	—	—	—	55,857	—	55,857
Share-based compensation expense	—	—	1,278	—	—	1,278
Common stock issued	2,756,474	—	53,238	—	—	53,238
Other comprehensive income	—	—	—	—	10,380	10,380
Balance, September 30, 2016	24,833,008	\$ 511	\$ 276,844	\$ 300,742	\$ 7,931	\$ 586,028

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

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

(in thousands)	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$55,857	\$ 32,641
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation, amortization and accretion	12,789	10,700
Provision for credit losses	3,750	4,200
Net fair value adjustment and gain on sale of loans held for sale	(220,944)	(3,797)
Fair value adjustment of loans held for investment	(863)	1,797
Origination of mortgage servicing rights	(59,487)	(58,158)
Change in fair value of mortgage servicing rights	61,294	34,949
Net gain on sale of investment securities	(145)	(1,002)
Net gain on sale of loans originated as held for investment	(1,181)	—
Net fair value adjustment, gain on sale and provision for losses on other real estate owned	1,653	290
Loss on disposal of fixed assets	186	89
Net deferred income tax expense	116	11,491
Share-based compensation expense	1,478	783
Bargain purchase gain	—	(7,345)
Origination of loans held for sale	(6,582,189)	(5,599,978)
Proceeds from sale of loans originated as held for sale	6,571,684	5,349,444
Changes in operating assets and liabilities:		
Increase in other assets	(55,845)	(32,025)
Increase in accounts payable and other liabilities	30,569	22,550
Net cash used in operating activities	(181,278)	(233,371)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(468,900)	(177,535)
Proceeds from sale of investment securities	21,107	28,080
Principal repayments and maturities of investment securities	61,018	25,835
Proceeds from sale of other real estate owned	4,310	4,953
Proceeds from sale of loans originated as held for investment	80,956	—
Proceeds from sale of mortgage servicing rights	—	3,825
Mortgage servicing rights purchased from others	—	(9)
Capital expenditures related to other real estate owned	(270)	—
Origination of loans held for investment and principal repayments, net	(497,222)	(260,404)
Proceeds from sale of property and equipment	1,148	—
Purchase of property and equipment	(17,932)	(16,961)
Net cash acquired from acquisitions	24,248	112,196
Net cash used in investing activities	(791,537)	(280,020)

(in thousands)	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits, net	\$1,097,970	\$212,710
Proceeds from Federal Home Loan Bank advances	11,323,660	7,332,200
Repayment of Federal Home Loan Bank advances	(11,497,160)	(6,969,700)
Proceeds from federal funds purchased and securities sold under agreements to repurchase	52,304	73,004
Repayment of federal funds purchased and securities sold under agreements to repurchase	(52,304)	(123,004)
Proceeds from Federal Home Loan Bank stock repurchase	197,876	90,565
Purchase of Federal Home Loan Bank stock	(192,086)	(95,783)
Proceeds from debt issuance, net	63,205	—
Proceeds from stock issuance, net	2,664	177
Excess tax benefit related to the exercise of stock options	—	23
Net cash provided by financing activities	996,129	520,192
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,314	6,801
CASH AND CASH EQUIVALENTS:		
Beginning of year	32,684	30,502
End of period	\$55,998	\$37,303
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest paid	\$19,067	\$12,021
Federal and state income taxes paid, net	14,318	16,533
Non-cash activities:		
Loans held for investment foreclosed and transferred to other real estate owned	1,661	4,095
Loans transferred from held for investment to held for sale	101,938	32,421
Loans transferred from held for sale to held for investment	10,262	25,668
(Reduction in) Ginnie Mae loans recognized with the right to repurchase, net	(33)	3,345
Simplicity acquisition:		
Assets acquired, excluding cash acquired	—	738,279
Liabilities assumed	—	718,916
Bargain purchase gain	—	7,345
Common stock issued	—	124,214
Orange County Business Bank acquisition:		
Assets acquired, excluding cash acquired	165,786	—
Liabilities assumed	141,267	—
Goodwill	8,360	—
Common stock issued	\$50,373	\$—

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

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

HomeStreet, Inc. and its wholly owned subsidiaries (the “Company”) is a diversified financial services company serving customers primarily in the western United States, including Hawaii. The Company is principally engaged in 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, HS Properties, Inc. 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 8, Mortgage Banking Operations), valuation of certain loans held for investment (Note 4, Loans and Credit Quality), valuation of investment securities (Note 3, Investment Securities), and valuation of derivatives (Note 7, 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 of the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The results of operations in the interim financial statements do not necessarily indicate the results that may be expected for the full year. The interim financial information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission (“2015 Annual Report on Form 10-K”).

Recent Accounting Developments

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

On June 16, 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326). The amendments in this ASU were issued to provide financial statement users with more decision-useful information about the current expected credit losses (CECL) on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in

leases and other commitments to extend credit held by a reporting entity at each reporting date. The amendments to this ASU require that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in this ASU eliminate the probable initial recognition in current GAAP and reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets. For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination ("PCD assets") that are measured at amortized cost, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Subsequent changes in the allowance for credit losses on PCD assets are recognized through the statement of income as a credit loss expense.

Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security.

The amendments to this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The amendments in this ASU should be applied on a modified-retrospective transition approach that would require a cumulative-effect adjustment to the opening retained earnings in the statement of financial condition as of the date of adoption. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. The Company is currently evaluating the impact of this ASU and the Company expects this ASU to have a material impact on the Company's consolidated financial statements.

On March 30, 2016, the FASB issued 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 was permitted upon issuance of the ASU. The Company determined to early adopt the provisions of ASU 2016-09 during the second quarter of 2016 and determined the new standard did not have a material impact on the Company's Consolidated Financial Statements.

On February 25 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in this ASU require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. This ASU simplifies the accounting for sale and leaseback transactions. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application was permitted upon issuance of the ASU. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. 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.

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 were effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The Company adopted this guidance during the first quarter of 2016 and applied it 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 became effective for the Company for the interim and annual periods beginning after December 15, 2015, and early adoption was permitted for

financial statements that had 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 Company adopted this guidance during the first quarter of 2016 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 became effective for the Company for the interim and annual periods beginning after December 15, 2015; early adoption was permitted. The Company could 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 first quarter of 2016 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 variable interest entity ("VIE") primary beneficiary determination. This guidance was effective for interim and annual reporting periods beginning after December 15, 2015. The Company adopted this guidance during the first quarter of 2016 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.

NOTE 2—BUSINESS COMBINATIONS:

Recent Acquisition Activity

On August 12, 2016, the Company completed its acquisition of certain assets and liabilities, including two branches in Lake Oswego, Oregon from The Bank of Oswego. This acquisition increases HomeStreet's network of branches in the Portland, Oregon metropolitan area to a total of five retail deposit branches.

On February 1, 2016, the Company completed its acquisition of Orange County Business Bank ("OCBB") located in Irvine, California through the merger of OCBB with and into HomeStreet Bank with HomeStreet Bank as the surviving subsidiary. The purchase price of this acquisition was \$55.9 million. OCBB shareholders as of the effective time received merger consideration equal to 0.5206 shares of HomeStreet common stock, and \$1.1641 in cash upon the surrender of their OCBB shares, which resulted in the issuance of 2,459,408 shares of HomeStreet common stock. The provisional application of the acquisition method of accounting resulted in goodwill of \$8.3 million. The primary objective for this acquisition is to grow our Commercial and Consumer Banking segment. Along with one de novo branch opened in California during the quarter, adding Orange County Business Bank's branch brings HomeStreet's Southern California retail deposit branch network to eleven 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.

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 acquisition and integration costs.

The following table provides a breakout of acquisition-related expense for the nine months ended September 30, 2015:

(in thousands)	Nine Months Ended September 30, 2015
Noninterest expense	
Salaries and related costs	\$ 7,669
General and administrative	1,256
Legal	530
Consulting	5,539
Occupancy	335
Information services	481
Total noninterest expense	\$ 15,810

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.

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net interest income	\$46,802	\$ 39,603	\$131,975	\$ 113,190
Provision for credit losses	1,250	700	3,750	4,200
Total noninterest income	111,745	66,676	285,929	209,239
Total noninterest expense	114,399	91,557	326,783	266,243
Net income	\$27,701	\$ 9,756	\$55,857	\$ 35,355
Basic income per share	\$1.12	\$ 0.44	\$2.29	\$ 1.60
Diluted income per share	\$1.11	\$ 0.44	\$2.27	\$ 1.59
Basic weighted average number of shares outstanding	24,811,162	22,035,317	24,398,683	22,034,201
Diluted weighted average number of shares outstanding	24,996,742	22,291,810	24,595,348	22,207,764

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.

(in thousands)	At September 30, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	\$151,521	\$ 993	\$(278)	\$152,236
Commercial	26,898	333	(23)	27,208
Municipal bonds	348,181	7,582	(419)	355,344
Collateralized mortgage obligations:				
Residential	182,631	906	(704)	182,833
Commercial	118,589	1,775	(105)	120,259
Corporate debt securities	83,026	2,511	(346)	85,191
U.S. Treasury securities	26,003	1	—	26,004

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\$936,849 \$ 14,101 \$(1,875) \$949,075

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At December 31, 2015				
(in thousands)	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 September 30, 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 September 30, 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.

At September 30, 2016						
(in thousands)	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
	Mortgage-backed securities:					
Residential	\$(66)	\$28,439	\$(212)	\$10,282	\$(278)	\$38,721
Commercial	(23)	3,041	—	—	(23)	3,041
Municipal bonds	(420)	64,081	—	—	(420)	64,081
Collateralized mortgage obligations:						
Residential	(340)	77,897	(364)	9,666	(704)	87,563
Commercial	(44)	11,125	(61)	6,059	(105)	17,184
Corporate debt securities	(30)	1,615	(315)	11,163	(345)	12,778
U.S. Treasury securities	—	1,000	—	—	—	1,000
	\$(923)	\$187,198	\$(952)	\$37,170	\$(1,875)	\$224,368

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(in thousands)	At December 31, 2015					
	Less than 12 months		12 months or more		Total	
	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 September 30, 2016 and December 31, 2015. In addition, as of September 30, 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.

(dollars in thousands)	At September 30, 2016									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
Mortgage-backed securities:										
Residential	\$—	— %	\$2	0.31 %	\$4,065	1.71 %	\$148,169	1.86 %	\$152,236	1.86 %
Commercial	—	—	22,349	2.14	4,859	2.39	—	—	27,208	2.18
Municipal bonds	1,712	3.95	17,030	2.97	46,779	3.04	289,823	3.78	355,344	3.65
Collateralized mortgage obligations:										
Residential	—	—	—	—	2,291	1.32	180,542	1.84	182,833	1.84
Commercial	—	—	22,472	2.00	53,350	2.49	44,437	1.97	120,259	2.21

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Corporate debt securities	—	—	19,567	2.97	33,473	3.71	32,151	3.98	85,191	3.64
U.S. Treasury securities	26,004	0.37	—	—	—	—	—	—	26,004	0.37
Total available for sale	\$27,716	0.59 %	\$81,420	2.47 %	\$144,817	2.91 %	\$695,122	2.75 %	\$949,075	2.69 %

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(dollars in thousands)	At December 31, 2015										
	Within one year		After one year through five years		After five years through ten years		After ten years		Total		Weighted Average Yield
	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.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Proceeds	\$9,641	\$28,080	\$21,108	\$28,080
Gross gains	48	1,002	145	1,002
Gross losses	\$—	\$—	\$—	\$—

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

(in thousands)	At September 30, 2016
Federal Home Loan Bank to secure borrowings	\$ 92,313
Washington and California State to secure public deposits	30,877
Securities pledged to secure derivatives in a liability position	25,003
Other securities pledged	9,193
Total securities pledged as collateral	\$ 157,386

The Company assesses the creditworthiness of the counterparties that hold the pledged collateral and has determined that these arrangements have little risk. There were no securities pledged under repurchase agreements at September 30, 2016 and December 31, 2015.

Tax-exempt interest income on securities available for sale totaling \$1.8 million and \$968 thousand for the three months ended September 30, 2016 and 2015, respectively, and \$4.3 million and \$2.6 million for the nine months ended September 30, 2016 and 2015, respectively, was recorded in the Company's consolidated statements of operations.

NOTE 4—LOANS AND CREDIT QUALITY:

For a detailed discussion of loans and credit quality, including accounting policies and the methodology used to estimate the allowance for credit losses, see Note 1, Summary of Significant Accounting Policies, and Note 5, Loans and Credit Quality, within our 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 September 30, 2016	At December 31, 2015
Consumer loans		
Single family ⁽¹⁾	\$ 1,186,476	\$ 1,203,180
Home equity and other	338,155	256,373
	1,524,631	1,459,553
Commercial loans		
Commercial real estate	810,346	600,703
Multifamily	562,272	426,557
Construction/land development	661,813	583,160
Commercial business	237,117	154,262
	2,271,548	1,764,682
	3,796,179	3,224,235
Net deferred loan fees and costs	1,974	(2,237)
	3,798,153	3,221,998
Allowance for loan losses	(33,975)	(29,278)
	\$ 3,764,178	\$ 3,192,720

Includes \$20.5 million and \$21.5 million at September 30, 2016 and December 31, 2015, respectively, of loans (1) 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 \$1.59 billion and \$1.73 billion at September 30, 2016 and December 31, 2015, respectively, were pledged to secure borrowings from the FHLB as part of our liquidity management strategy. Additionally, loans totaling \$674.4 million and \$572.0 million at September 30, 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.

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 September 30, 2016, we had concentrations representing 10% or more of the total portfolio by state and property type for the loan classes of single family and commercial real estate within the state of Washington, which represented 14.5% and 14.6% 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 11.6% of the total portfolio. 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%, 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 September 30, 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		Nine Months	
	Ended September		Ended September	
(in thousands)	30,	30,	30,	2015
	2016	2015	2016	2015
Allowance for credit losses (roll-forward):				
Beginning balance	\$34,001	\$26,448	\$30,659	\$22,524
Provision for credit losses	1,250	700	3,750	4,200
Recoveries and (charge-offs), net	(18)	739	824	1,163
Ending balance	\$35,233	\$27,887	\$35,233	\$27,887
Components:				
Allowance for loan losses	\$33,975	\$26,922	\$33,975	\$26,922
Allowance for unfunded commitments	1,258	965	1,258	965
Allowance for credit losses	\$35,233	\$27,887	\$35,233	\$27,887

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

(in thousands)	Three Months Ended September 30, 2016				
	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	\$8,294	\$ (42)	\$ 1	\$ 995	\$9,248
Home equity and other	5,400	(356)	192	512	5,748
	13,694	(398)	193	1,507	14,996
Commercial loans					
Commercial real estate	6,045	—	—	80	6,125
Multifamily	2,048	—	—	49	2,097
Construction/land development	9,369	—	176	(524)	9,021
Commercial business	2,845	—	11	138	2,994
	20,307	—	187	(257)	20,237
Total allowance for credit losses	\$34,001	\$ (398)	\$ 380	\$ 1,250	\$35,233

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

(in thousands)	Nine Months Ended September 30, 2016				
	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	\$8,942	\$ (74)	\$ 87	\$ 293	\$9,248
Home equity and other	4,620	(654)	530	1,252	5,748
	13,562	(728)	617	1,545	14,996
Commercial loans					
Commercial real estate	4,847	—	—	1,278	6,125
Multifamily	1,194	—	—	903	2,097
Construction/land development	9,271	(42)	959	(1,167)	9,021
Commercial business	1,785	(26)	44	1,191	2,994

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	17,097	(68)	1,003	2,205	20,237
Total allowance for credit losses	\$30,659	\$ (796)	\$ 1,620	\$ 3,750	\$35,233

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Nine Months Ended September 30, 2015

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

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

(in thousands)	At September 30, 2016					
	Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total
Consumer loans						
Single family	\$8,223	\$ 1,025	\$9,248	\$1,079,132	\$ 86,797	\$1,165,929
Home equity and other	5,696	52	5,748	336,809	1,346	338,155
	13,919	1,077	14,996	1,415,941	88,143	1,504,084
Commercial loans						
Commercial real estate	6,124	1	6,125	806,600	3,746	810,346
Multifamily	2,097	—	2,097	561,651	621	562,272
Construction/land development	9,021	—	9,021	659,480	2,333	661,813
Commercial business	2,767	227	2,994	231,650	5,467	237,117
	20,009	228	20,237	2,259,381	12,167	2,271,548
Total loans evaluated for impairment	33,928	1,305	35,233	3,675,322	100,310	3,775,632
Loans held for investment carried at fair value						20,547 ⁽¹⁾
Total loans held for investment	\$33,928	\$ 1,305	\$35,233	\$3,675,322	\$ 100,310	\$3,796,179

(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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(in thousands)	At December 31, 2015			Loans:		Total
	Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	collectively evaluated for impairment	Loans: individually evaluated for impairment	
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.

Impaired Loans

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

(in thousands)	At September 30, 2016		
	Recorded investment ⁽¹⁾	Unpaid principal balance ⁽²⁾	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	\$82,898	\$85,153	\$ —
Home equity and other	790	822	—
	83,688	85,975	—
Commercial loans			
Commercial real estate	2,217	2,758	—
Multifamily	621	745	—
Construction/land development	2,333	3,259	—
Commercial business	1,094	1,977	—
	6,265	8,739	—
	\$89,953	\$94,714	\$ —
With an allowance recorded:			
Consumer loans			
Single family	\$3,899	\$3,990	\$ 1,025
Home equity and other	556	555	52
	4,455	4,545	1,077
Commercial loans			
Commercial real estate	1,529	1,529	1
Commercial business	4,373	4,445	227
	5,902	5,974	228
	\$10,357	\$10,519	\$ 1,305
Total:			
Consumer loans			
Single family ⁽³⁾	\$86,797	\$89,143	\$ 1,025
Home equity and other	1,346	1,377	52
	88,143	90,520	1,077
Commercial loans			
Commercial real estate	3,746	4,287	1
Multifamily	621	745	—
Construction/land development	2,333	3,259	—
Commercial business	5,467	6,422	227
	12,167	14,713	228
Total impaired loans	\$100,310	\$105,233	\$ 1,305

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

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

(3) Includes \$77.5 million in single family performing TDRs.

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(in thousands)	At December 31, 2015		
	Recorded investment	Unpaid principal balance (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.

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Consumer loans				
Single family	\$85,138	\$78,432	\$83,271	\$78,358
Home equity and other	1,371	1,872	1,479	2,184
	86,509	80,304	84,750	80,542
Commercial loans				
Commercial real estate	3,431	15,797	3,439	20,328
Multifamily	621	4,590	1,877	4,022
Construction/land development	2,333	4,466	3,023	4,968
Commercial business	4,068	5,883	3,902	4,691
	10,453	30,736	12,241	34,009
	\$96,962	\$111,040	\$96,991	\$114,551

Credit Quality Indicators

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

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

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

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

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

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

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

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

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

The borrower may be experiencing declining operating trends, strained cash flows or less-than anticipated performance. Cash flow should still be adequate to cover debt service, and the negative trends should be identified as being of a short-term or temporary nature.

The borrower may have experienced a minor, unexpected covenant violation.

Companies who may be experiencing tight working capital or have a cash cushion deficiency.

A loan may also be a watch if financial information is late, there is a documentation deficiency, the borrower has experienced unexpected management turnover, or if they face industry issues that, when combined with performance factors create uncertainty in their future ability to perform.

Delinquent payments, increasing and material overdraft activity, request for bulge and/or out-of-formula advances may be an indicator of inadequate working capital and may suggest a lower rating.

Failure of the intended repayment source to materialize as expected, or renewal of a loan (other than cash/marketable security secured or lines of credit) without reduction are possible indicators of a watch or worse risk rating.

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

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

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

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

This rating may be assigned when a loan officer is unable to supervise the credit properly, an inadequate loan agreement, an inability to control collateral, failure to obtain proper documentation, or any other deviation from prudent lending practices.

Unlike a substandard credit, there should be a reasonable expectation that these temporary issues will be corrected within the normal course of business, rather than liquidation of assets, and in a reasonable period of time.

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

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

possibility.

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

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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 90-179 days past due from the required payment date at month-end.

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

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

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

(in thousands)	At September 30, 2016				
	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	\$ 1,152,096 ⁽¹⁾	\$ 4,073	\$ 15,307	\$ 15,000	\$ 1,186,476
Home equity and other	335,966	304	320	1,565	338,155
	1,488,062	4,377	15,627	16,565	1,524,631
Commercial loans					
Commercial real estate	744,279	55,490	4,098	6,479	810,346
Multifamily	542,091	19,206	862	113	562,272
Construction/land development	640,379	15,771	4,181	1,482	661,813
Commercial business	179,532	43,819	4,298	9,468	237,117
	2,106,281	134,286	13,439	17,542	2,271,548
	\$ 3,594,343	\$ 138,663	\$ 29,066	\$ 34,107	\$ 3,796,179

⁽¹⁾ Includes \$20.5 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.

(in thousands)	At December 31, 2015				
	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 September 30, 2016 and December 31, 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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The following tables present performing and nonperforming loan balances by loan portfolio segment and loan class.

(in thousands)	At September 30, 2016		
	Accrual	Nonaccrual	Total
Consumer loans			
Single family	\$ 1,172,199 ⁽¹⁾	\$ 14,277	\$ 1,186,476
Home equity and other	336,592	1,563	338,155
	1,508,791	15,840	1,524,631
Commercial loans			
Commercial real estate	806,615	3,731	810,346
Multifamily	562,159	113	562,272
Construction/land development	660,437	1,376	661,813
Commercial business	232,256	4,861	237,117
	2,261,467	10,081	2,271,548
	\$ 3,770,258	\$ 25,921	\$ 3,796,179

(in thousands)	At December 31, 2015		
	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

Includes \$20.5 million and \$21.5 million of loans at September 30, 2016 and December 31, 2015, where a fair (1) 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 September 30, 2016			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs	
Consumer loans					
Single family					
	Interest rate reduction	11	\$ 2,492	\$	—
	Payment restructure	12	2,773	—	
Home equity and other					
	Interest rate reduction	1	100	—	
Total consumer					
	Interest rate reduction	12	2,592	—	
	Payment restructure	12	2,773	—	
		24	5,365	—	
Total loans					
	Interest rate reduction	12	2,592	—	
	Payment restructure	12	2,773	—	
		24	\$ 5,365	\$	—

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

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Nine Months Ended September 30, 2016

(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	29	\$ 5,881	\$ —
	Payment restructure	46	9,691	—
Home equity and other				
	Interest rate reduction	2	113	—
Total consumer				
	Interest rate reduction	31	5,994	—
	Payment restructure	46	9,691	—
		77	15,685	—
Total loans				
	Interest rate reduction	31	5,994	—
	Payment restructure	46	9,691	—
		77	\$ 15,685	\$ —

Nine Months Ended September 30, 2015

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

The following tables present loans that were modified as TDRs within the previous 12 months and subsequently re-defaulted during the three and nine months ended September 30, 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.

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Three Months Ended
September 30,
2016 2015
Number Number
of of
loanRecorded loanRecorded
(dollars in thousands) relationships relationships
that that
re-defaulted re-defaulted

Consumer loans
Single family 7 \$ 1,173 3 \$ 552
Home equity and other — 1 68
7 \$ 1,173 4 \$ 620

Nine Months Ended
September 30,
2016 2015
Number Number
of of
loanRecorded loanRecorded
(dollars in thousands) relationships relationships
that that
re-defaulted re-defaulted

Consumer loans
Single family 16 \$ 3,811 10 \$ 2,270
Home equity and other 1 93 1 68
17 \$ 3,904 11 \$ 2,338

NOTE 5—DEPOSITS:

Deposit balances, including stated rates, were as follows.

(in thousands)	At September 30, 2016	At December 31, 2015
Noninterest-bearing accounts	\$ 1,088,508	\$ 643,028
NOW accounts, 0.00% to 1.00% at September 30, 2016 and December 31, 2015	501,370	408,477
Statement savings accounts, due on demand, 0.00% to 1.13% at September 30, 2016 and 0.00% to 1.00% at December 31, 2015	303,872	292,092
Money market accounts, due on demand, 0.00% to 1.50% at September 30, 2016 and 0.00% to 1.45% at December 31, 2015	1,513,547	1,155,464
Certificates of deposit, 0.05% to 3.80% at September 30, 2016 and 0.05% to 3.80% at December 31, 2015	1,097,263	732,892
	\$ 4,504,560	\$ 3,231,953

Interest expense on deposits was as follows.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
NOW accounts	\$484	\$495	\$1,465	\$1,283
Statement savings accounts	262	257	771	778
Money market accounts	2,084	1,272	5,057	3,655
Certificates of deposit	2,532	1,045	6,087	2,940
	\$5,362	\$3,069	\$13,380	\$8,656

The weighted-average interest rates on certificates of deposit were 0.96% at both September 30, 2016 and December 31, 2015, respectively.

Certificates of deposit outstanding mature as follows.

(in thousands)	At September 30, 2016
Within one year	\$ 742,312
One to two years	280,983
Two to three years	38,740
Three to four years	19,786
Four to five years	14,129
Thereafter	1,313
	\$ 1,097,263

The aggregate amount of time deposits in denominations of \$100 thousand or more at September 30, 2016 and December 31, 2015 was \$523.4 million and \$290.1 million, respectively. The aggregate amount of time deposits in denominations of more than \$250 thousand at September 30, 2016 and December 31, 2015 was \$78.1 million and \$81.7 million, respectively. There were \$243.6 million and \$120.3 million of brokered deposits at September 30, 2016 and December 31, 2015, respectively.

NOTE 6—LONG-TERM DEBT:

On May 26, 2016, the Company closed on a \$65.0 million in aggregate principal amount of its 6.50% Senior Notes due 2026 (the “Senior Notes”) at an offering price of 100% plus accrued interest.

The Company raised capital by issuing trust preferred securities during the period from 2005 through 2007 resulting in a debt balance of \$61.9 million that remains outstanding at September 30, 2016. In connection with the issuance of trust preferred securities, HomeStreet, Inc. issued to HomeStreet Statutory Trust Junior Subordinated Deferrable Interest Debentures. The sole assets of the HomeStreet Statutory Trust are the Subordinated Debt Securities I, II, III, and IV.

The Subordinated Debt Securities are as follows:

(in thousands)	HomeStreet Statutory			
	I	II	III	IV
Date issued	June 2005	September 2005	February 2006	March 2007
Amount	\$5,155	\$20,619	\$20,619	\$15,464
Interest rate	3 MO LIBOR + 1.70%	3 MO LIBOR + 1.50%	3 MO LIBOR + 1.37%	3 MO LIBOR + 1.68%
Maturity date	June 2035	December 2035	March 2036	June 2037
Call option ⁽¹⁾	5 years	5 years	5 years	5 years

(1) Call options are exercisable at par.

NOTE 7—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 September 30, 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 September 30, 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.

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

(in thousands)	At September 30, 2016		
	Notional amount	Fair value derivatives	
		Asset	Liability
Forward sale commitments	\$3,902,372	\$3,612	\$(11,681)
Interest rate swaptions	120,000	57	—
Interest rate lock and purchase loan commitments	1,334,615	45,403	(43)
Interest rate swaps	2,134,050	43,500	(13,667)
Total derivatives before netting	\$7,491,037	92,572	(25,391)
Netting adjustment/Cash collateral ⁽¹⁾		10,991	23,799
Carrying value on consolidated statements of financial condition		\$103,563	\$(1,592)

(in thousands)	At December 31, 2015		
	Notional amount	Fair value derivatives	
		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)

Includes cash collateral of \$34.8 million and \$14.4 million at September 30, 2016 and December 31, 2015

(1) 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 September 30, 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	\$92,572	\$ 10,991	\$103,563	\$ —	\$103,563
Derivative liabilities	\$(25,391)	\$ 23,799	\$(1,592)	\$ 2	\$(1,590)

At December 31, 2015					
(in thousands)	Gross fair value	Netting adjustments/ Cash collateral ⁽¹⁾	Carrying value	Securities not offset in consolidated balance sheet	Net amount

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(disclosure-only
netting)

Derivative assets	\$28,274	\$ 8,971	\$37,245	\$	—	\$37,245
Derivative liabilities	\$(5,511)	\$ 5,411	\$(100)	\$	5	\$(95)

Includes cash collateral of \$34.8 million and \$14.4 million at September 30, 2016 and December 31, 2015 (1) 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Recognized in noninterest income:				
Net gain (loss) on mortgage loan origination and sale activities ⁽¹⁾	\$(3,675)	\$(17,135)	\$(4,006)	\$5,116
Mortgage servicing income ⁽²⁾	3,162	22,017	57,110	17,030
Other ⁽³⁾	2,087	—	735	—
	\$1,574	\$4,882	\$53,839	\$22,146

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

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

(3) Comprised of interest rate swaps, interest rate swaptions and forward contracts used as an economic hedge of fair value option loans held for investment.

NOTE 8—MORTGAGE BANKING OPERATIONS:

Loans held for sale consisted of the following.

(in thousands)	At September 30, 2016	At December 31, 2015
Single family	\$ 834,144	\$ 632,273
Multifamily DUS [®] ⁽¹⁾	26,429	11,076
Other ⁽²⁾	32,940	6,814
Total loans held for sale	\$ 893,513	\$ 650,163

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

(2) Includes multifamily loans originated from sources other than DUS.

Loans sold consisted of the following.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Single family	\$2,489,415	\$1,965,223	\$6,134,390	\$5,176,569
Multifamily DUS	58,484	42,333	215,848	140,965
Other ⁽¹⁾	50,255	—	82,068	—
Total loans sold	\$2,598,154	\$2,007,556	\$6,432,306	\$5,317,534

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

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Single family:				
Servicing value and secondary market gains ⁽¹⁾	\$79,946	\$49,613	\$207,758	\$167,786
Loan origination and funding fees	8,931	6,362	21,614	16,452
Total single family	88,877	55,975	229,372	184,238
Multifamily DUS	2,695	1,488	7,879	4,741
Other ⁽²⁾	1,028	422	2,242	767
Total gain on mortgage loan origination and sale activities	\$92,600	\$57,885	\$239,493	\$189,746

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

(2) Includes multifamily loans originated from sources other than DUS.

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

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

(in thousands)	At September 30, 2016	At December 31, 2015
Single family		
U.S. government and agency	\$ 17,593,901	\$ 14,628,596
Other	605,139	719,215
	18,199,040	15,347,811
Commercial		
Multifamily DUS	1,055,181	924,367
Other	67,348	79,513
	1,122,529	1,003,880
Total loans serviced for others	\$ 19,321,569	\$ 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 9, Commitments, Guarantees and Contingencies, of this Form 10-Q.

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$3,379	\$2,480	\$2,922	\$1,956
Additions ⁽¹⁾	495	883	1,407	2,052
Realized losses ⁽²⁾	(251)	(128)	(706)	(773)
Balance, end of period	\$3,623	\$3,235	\$3,623	\$3,235

(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 \$5.3 million and \$9.6 million were recorded in other assets as of September 30, 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 both September 30, 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 \$29.0 million, with a corresponding amount recorded within accounts payable and other liabilities on the consolidated statements of financial condition. The recognition of previously sold loans does not impact the accounting for the previously recognized MSRs.

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Servicing income, net:				
Servicing fees and other	\$16,053	\$11,136	\$41,985	\$30,256
Changes in fair value of single family MSRs due to modeled amortization ⁽¹⁾	(8,925)	(8,478)	(23,940)	(26,725)
Amortization of multifamily MSRs	(661)	(511)	(1,946)	(1,441)
	6,467	2,147	16,099	2,090
Risk management, single family MSRs:				
Changes in fair value of MSRs due to changes in market inputs and/or model updates ⁽²⁾	4,915	(19,396)	(37,354)	(8,224)
Net gain from derivatives economically hedging MSR	3,162	22,017	57,110	17,030
	8,077	2,621	19,756	8,806
Mortgage servicing income	\$14,544	\$4,768	\$35,855	\$10,896

- (1) Represents changes due to collection/realization of expected cash flows and curtailments.
- (2) Principally reflects changes in market inputs, which include current market interest rates and prepayment model updates, both of which affect future prepayment speed and cash flow projections.

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

The fair value of MSR is determined based on the price that would be received to sell the MSR 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 MSR 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 MSR were as follows.

(rates per annum) ⁽¹⁾	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Constant prepayment rate ("CPR") ⁽²⁾	14.77%	14.96%	15.67%	14.71%
Discount rate ⁽³⁾	10.19%	10.34%	10.34%	10.31%

(1) Weighted average rates for sales during the period for sales of loans with similar characteristics.

(2) Represents the expected lifetime average.

(3) Discount rate is a rate based on market observations.

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

(dollars in thousands)	At September 30, 2016
Fair value of single family MSR	\$ 149,910
Expected weighted-average life (in years)	4.13
Constant prepayment rate ⁽¹⁾	20.36 %
Impact on 25 basis points adverse change	\$ (19,011)
Impact on 50 basis points adverse change	\$ (37,011)
Discount rate	10.40 %
Impact on fair value of 100 basis points increase	\$ (4,121)
Impact on fair value of 200 basis points increase	\$ (8,014)

(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 MSR 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 MSR 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.

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The changes in single family MSR's measured at fair value are as follows.

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Beginning balance	\$ 130,900	\$ 140,588	\$ 156,604	\$ 112,439
Additions and amortization:				
Originations	23,020	19,984	54,600	55,202
Purchases	—	3	—	9
Changes due to modeled amortization ⁽¹⁾	(8,925)	(8,478)	(23,940)	(26,725)
Net additions and amortization	14,095	11,509	30,660	28,486
Changes in fair value of MSR's due to changes in market inputs and/or model updates ⁽²⁾	4,915	(19,396)	(37,354)	(8,224)
Ending balance	\$ 149,910	\$ 132,701	\$ 149,910	\$ 132,701

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

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

MSR's 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 MSR's are amortized in proportion to, and over, the estimated period the net servicing income will be collected.

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

(in thousands)	Three Months		Nine Months	
	Ended September 30, 2016	2015	Ended September 30, 2016	2015
Beginning balance	\$ 16,366	\$ 12,649	\$ 14,651	\$ 10,885
Origination	1,886	1,241	4,886	3,935
Amortization	(661)	(511)	(1,946)	(1,441)
Ending balance	\$ 17,591	\$ 13,379	\$ 17,591	\$ 13,379

At September 30, 2016, the expected weighted-average life of the Company's multifamily MSR's was 10.05 years. Projected amortization expense for the gross carrying value of multifamily MSR's is estimated as follows.

(in thousands)	At September 30, 2016
Remainder of 2016	\$ 649
2017	2,494
2018	2,360
2019	2,252
2020	2,168
2021 and thereafter	7,668
Carrying value of multifamily MSR	\$ 17,591

NOTE 9—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 September 30, 2016 and December 31, 2015 was \$159.5 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 \$546.5 million and \$456.4 million at September 30, 2016 and December 31, 2015, respectively. Unused home equity and commercial banking funding lines totaled \$260.6 million and \$216.5 million at September 30, 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 \$1.3 million and \$1.4 million at September 30, 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 September 30, 2016 and December 31, 2015, the total unpaid principal balance of loans sold under this program was \$1.06 billion and \$924.4 million, respectively. The Company's reserve liability related to this arrangement totaled \$1.7 million and \$3.0 million at September 30, 2016 and December 31, 2015, respectively. There were no actual losses incurred under this arrangement during the three and nine months ended September 30, 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 the FHA or the guarantee with the VA. If loans are later found not to meet the requirements of the FHA or VA, through required internal quality control reviews or through agency audits, the Company may be required to indemnify the FHA or VA against losses. The loans remain in Ginnie Mae pools unless and until they are repurchased by the Company. In general, once an FHA or VA loan becomes 90 days past due, the Company repurchases the FHA or VA residential mortgage loan to minimize the cost of interest advances on the loan. If the loan is cured through borrower efforts or through loss mitigation activities, the loan may be resold into a Ginnie Mae pool. The Company's liability for mortgage loan repurchase losses incorporates probable losses associated with such indemnification.

The total unpaid principal balance of loans sold on a servicing-retained basis that were subject to the terms and conditions of these representations and warranties totaled \$18.27 billion and \$15.43 billion as of September 30, 2016 and December 31, 2015, respectively. At September 30, 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 \$3.6 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 September 30, 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 September 30, 2016.

NOTE 10—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	Observable market prices of identical or similar securities are used where available.	
Investment securities available for sale	<p>If market prices are not readily available, value is based on discounted cash flows using the following significant inputs:</p> <ul style="list-style-type: none"> • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments <p>Observable market prices of identical or similar securities are used where available.</p>	Level 2 recurring fair value measurement
Investment securities held to maturity	<p>If market prices are not readily available, value is based on discounted cash flows using the following significant inputs:</p> <ul style="list-style-type: none"> • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments 	Carried at amortized cost. Estimated fair value classified as Level 2.
Loans held for sale	Fair value is based on observable market data, including:	
Single family loans, excluding loans transferred from held for investment	<ul style="list-style-type: none"> • Quoted market prices, where available • Dealer quotes for similar loans • Forward sale commitments <p>When not derived from observable market inputs, fair value is based on discounted cash flows, which considers the following inputs:</p> <ul style="list-style-type: none"> • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments 	Level 2 recurring fair value measurement Estimated fair value classified as Level 3.
Loans originated as held for investment and transferred to held for sale	<p>Fair value is based on discounted cash flows, which considers the following inputs:</p> <ul style="list-style-type: none"> • Current lending rates for new loans 	Carried at lower of amortized cost or fair value. Estimated fair value

- Expected prepayment speeds classified as Level 3.
- Estimated credit losses
- Market liquidity adjustments

Multifamily loans (DUS) and other

The sale price is set at the time the loan commitment is made, and as such subsequent changes in market conditions have a very limited effect, if any, on the value of these loans carried on the consolidated statements of financial condition, which are typically sold within 30 days of origination.

Carried at lower of amortized cost or fair value.

Estimated fair value classified as Level 2.

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Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Loans held for investment	Fair value is based on discounted cash flows, which considers the following inputs:	For the carrying value of loans see Note 1–Summary of Significant Accounting Policies of the 2015 Annual Report on Form 10-K.
Loans held for investment, excluding collateral dependent loans and loans transferred from held for sale	<ul style="list-style-type: none"> • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments <p>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:</p> <ul style="list-style-type: none"> • 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 	Estimated fair value classified as Level 3.
Loans held for investment, collateral dependent	<ul style="list-style-type: none"> • 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 <p>Fair value is based on discounted cash flows, which considers the following inputs:</p>	Carried at lower of amortized cost or fair value of collateral, less the estimated cost to sell.
Loans held for investment, collateral dependent	<ul style="list-style-type: none"> • 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 <p>Fair value is based on discounted cash flows, which considers the following inputs:</p>	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	<ul style="list-style-type: none"> • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments 	Level 3 recurring fair value measurement
Mortgage servicing rights	For information on how the Company measures the fair value of its single family MSR, including key economic assumptions and the sensitivity of fair value to changes in those assumptions, see Note 8, Mortgage Banking Operations.	Level 3 recurring fair value measurement
Single family MSR	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
Multifamily MSR and other		Estimated fair value classified as Level 3.
Derivatives		
Interest rate swaps		

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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: <ul style="list-style-type: none">• Forward interest rates• Interest rate volatilities The fair value considers several factors including: <ul style="list-style-type: none">• Fair value of the underlying loan based on quoted prices in the secondary market, when available.• Value of servicing• Fall-out factor	Level 2 recurring fair value measurement
Interest rate lock and purchase loan commitments		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		Carried at historical cost.
Demand deposits	Fair value is estimated as the amount payable on demand at the reporting date.	Estimated fair value classified as Level 2. Carried at historical cost.
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.	Estimated fair value classified as Level 2. Carried at historical cost.
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.	Estimated fair value classified as Level 2. Carried at historical cost.
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.	Estimated fair value classified as Level 2.

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

(in thousands)	Fair Value at September 30, 2016	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	\$152,236	\$ —	-\$152,236	\$—
Commercial	27,208	—	27,208	—
Municipal bonds	355,344	—	355,344	—
Collateralized mortgage obligations:				
Residential	182,833	—	182,833	—
Commercial	120,259	—	120,259	—
Corporate debt securities	85,191	—	85,191	—
U.S. Treasury securities	26,004	—	26,004	—
Single family mortgage servicing rights	149,910	—	—	149,910
Single family loans held for sale	834,144	—	789,844	44,300
Single family loans held for investment	20,547	—	—	20,547
Derivatives				
Forward sale commitments	3,612	—	3,612	—
Interest rate swaptions	57	—	57	—
Interest rate lock and purchase loan commitments	45,403	—	—	45,403
Interest rate swaps	43,500	—	43,500	—
Total assets	\$2,046,248	\$ —	-\$1,786,088	\$260,160
Liabilities:				
Derivatives				
Forward sale commitments	\$11,681	\$ —	-\$11,681	\$—
Interest rate lock and purchase loan commitments	43	—	—	43
Interest rate swaps	13,667	—	13,667	—
Total liabilities	\$25,391	\$ —	-\$25,348	\$43

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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 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 and nine months ended September 30, 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 MSR's during the three and nine months ended September 30, 2016 and 2015, see Note 8, Mortgage Banking Operations of this Form 10-Q.

The Company transferred certain loans from held for sale to held for investment. These loans were originated as held for sale loans where the Company had elected fair value option. The Company determined these loans to be level 3 recurring assets as the valuation technique included a significant unobservable input. The total amount of held for investment loans where fair value option election was made was \$20.5 million at September 30, 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 September 30, 2016					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for investment, fair value option	\$20,547	Income approach	Implied spread to benchmark interest rate curve	4.22%	6.33%	5.12%
(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 certain single family loans held for sale where fair value option was elected.

(dollars in thousands)	At September 30, 2016					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for sale, fair value option	\$44,300	Income approach	Implied spread to benchmark interest rate curve	3.82%	5.00%	4.70%
			Market price movement from comparable bond	0.00%	0.52%	0.47%
(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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Beginning balance, net	\$39,991	\$23,487	\$17,711	\$11,933
Total realized/unrealized gains	56,752	43,784	160,047	131,930
Settlements	(51,383)	(41,062)	(132,398)	(117,654)

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Ending balance, net	\$45,360	\$26,209	\$45,360	\$26,209
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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.

(dollars in thousands)	At September 30, 2016					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock and purchase loan commitments, net	\$45,360	Income approach	Fall-out factor	0.00%	61.84%	12.79%
			Value of servicing	0.55%	1.75%	0.96%
(dollars in thousands)	At December 31, 2015					
	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 and nine months ended September 30, 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 the three months ended September 30, 2016, the Company applied a stated value adjustment of 7.0%. During the nine months ended September 30, 2016, the Company applied a range of stated value adjustments of 7.0% to 63.4%, with a weighted average of 58.4%. During the three months ended September 30, 2015, the Company applied a range of stated value adjustments of 26.2% to 100.0%, with a weighted average of 35.2%. During the nine months ended September 30, 2015, the Company applied a range of stated value adjustments of 25.0% to 100.0%, with a weighted average of 36.3%. During the three and nine months ended September 30, 2016 the Company used a fair value of collateral technique to apply an adjustment to the appraisal value of certain OREO using a range of discount adjustments of 27.4% to 49.1%, with a weighted average rate of 32.1%. During the three and nine months ended September 30, 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 and nine months ended September 30, 2016 and 2015 and what we still held at the end of the respective reporting period.

(in thousands)	At or for the Three Months Ended September 30, 2016				Total Gains (Losses)
	Fair Value of Assets Held at September 30, 2016	Level 1	Level 2	Level 3	
Loans held for investment ⁽¹⁾	\$10,570	\$ —	—\$	—\$10,570	\$(750)
Other real estate owned ⁽²⁾	5,755	—	—	5,755	(1,160)
Total	\$16,325	\$ —	—\$	—\$16,325	\$(1,910)

(in thousands)	At or for the Three Months Ended September 30, 2015				Total Gains (Losses)
	Fair Value of Assets Held at September 30, 2015	Level 1	Level 2	Level 3	
Loans held for investment ⁽¹⁾	\$9,171	\$ —	—\$	—\$9,171	\$(375)
Other real estate owned ⁽²⁾	6,532	—	—	6,532	(399)
Total	\$15,703	\$ —	—\$	—\$15,703	\$(774)

(in thousands)	At or for the Nine Months Ended September 30, 2016				Total Gains (Losses)
	Fair Value of Assets Held at September 30, 2016	Level 1	Level 2	Level 3	
Loans held for investment ⁽¹⁾	\$10,570	\$ —	—\$	—\$10,570	\$(827)
Other real estate owned ⁽²⁾	5,755	—	—	5,755	(1,551)
Total	\$16,325	\$ —	—\$	—\$16,325	\$(2,378)

At or for the Nine Months Ended September 30, 2015

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(in thousands)	Fair Value of Assets Held at September 30, 2015	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment ⁽¹⁾	\$9,171	\$ —	—\$	—\$9,171	\$ (287)
Other real estate owned ⁽²⁾	6,532	—	—	6,532	(399)
Total	\$15,703	\$ —	—\$	—\$15,703	\$ (686)

(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 September 30, 2016				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$55,998	\$55,998	\$55,998	\$—	\$ —
Investment securities held to maturity	42,250	43,364	—	43,364	—
Loans held for investment	3,743,631	3,835,362	—	—	3,835,362
Loans held for sale – transferred from held for investment	26,514	26,514	—	—	26,514
Loans held for sale – multifamily and other	32,855	32,855	—	32,855	—
Mortgage servicing rights – multifamily	17,591	19,393	—	—	19,393
Federal Home Loan Bank stock	39,783	39,783	—	39,783	—
Liabilities:					
Deposits	\$4,504,560	\$4,488,239	\$—	\$4,488,239	\$ —
Federal Home Loan Bank advances	858,923	862,420	—	862,420	—
Long-term debt	125,122	125,859	—	125,859	—
At December 31, 2015					
(in thousands)	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 11—EARNINGS PER SHARE:

The following table summarizes the calculation of earnings per share.

(in thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$27,701	\$ 9,961	\$55,857	\$ 32,641
Weighted average shares:				
Basic weighted-average number of common shares outstanding	24,811,162	22,035,317	24,398,682	20,407,386
Dilutive effect of outstanding common stock equivalents ⁽¹⁾	185,578	256,493	196,665	239,154
Diluted weighted-average number of common stock outstanding	24,996,740	22,291,810	24,595,347	20,646,540
Earnings per share:				
Basic earnings per share	\$1.12	\$ 0.45	\$2.29	\$ 1.60
Diluted earnings per share	\$1.11	\$ 0.45	\$2.27	\$ 1.58

Excluded from the computation of diluted earnings per share (due to their antidilutive effect) for the three and nine months ended September 30, 2016 and 2015 were certain stock options and unvested restricted stock issued to key (1) 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 at September 30, 2016 and 2015, respectively.

NOTE 12–BUSINESS SEGMENTS:

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

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

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

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

Financial highlights by operating segment were as follows.

(in thousands)	Three Months Ended September 30, 2016		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income ⁽¹⁾	\$7,463	\$39,339	\$46,802
Provision for credit losses	—	1,250	1,250
Noninterest income	101,974	9,771	111,745
Noninterest expense	82,229	32,170	114,399
Income before income taxes	27,208	15,690	42,898
Income tax expense	9,640	5,557	15,197
Net income	\$17,568	\$10,133	\$27,701
Total assets	\$1,103,899	\$5,122,702	\$6,226,601

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Three Months Ended September 30,
2015

(in thousands)	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income ⁽¹⁾	\$8,125	\$31,509	\$39,634
Provision for credit losses	—	700	700
Noninterest income	60,584	6,884	67,468
Noninterest expense	63,916	28,110	92,026
Income before income taxes	4,793	9,583	14,376
Income tax expense	1,632	2,783	4,415
Net income	\$3,161	\$6,800	\$9,961
Total assets	\$1,089,832	\$3,885,821	\$4,975,653

Nine Months Ended September 30,
2016

(in thousands)	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income ⁽¹⁾	\$18,597	\$113,378	\$131,975
Provision for credit losses	—	3,750	3,750
Noninterest income	263,334	22,595	285,929
Noninterest expense	223,880	102,903	326,783
Income before income taxes	58,051	29,320	87,371
Income tax expense	20,948	10,566	31,514
Net income	\$37,103	\$18,754	\$55,857
Total assets	\$1,103,899	\$5,122,702	\$6,226,601

Nine Months Ended September 30,
2015

(in thousands)	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income ⁽¹⁾	\$21,337	\$87,261	\$108,598
Provision for credit losses	—	4,200	4,200
Noninterest income	195,239	20,589	215,828
Noninterest expense	180,787	93,056	273,843
Income before income taxes	35,789	10,594	46,383
Income tax expense	12,788	954	13,742
Net income	\$23,001	\$9,640	\$32,641
Total assets	\$1,089,832	\$3,885,821	\$4,975,653

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, (1) 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 13—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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Beginning balance	\$9,748	\$(582)	\$(2,449)	\$1,546
Other comprehensive income (loss) before reclassifications	(1,786)	2,926	10,474	798
Amounts reclassified from accumulated other comprehensive income (loss)	(31)	(651)	(94)	(651)
Net current-period other comprehensive income (loss)	(1,817)	2,275	10,380	147
Ending balance	\$7,931	\$1,693	\$7,931	\$1,693

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			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Gain on sale of investment securities available for sale	\$48	\$1,002	\$145	\$1,002
Income tax expense	17	351	51	351
Total, net of tax	\$31	\$651	\$94	\$651

NOTE 14—SUBSEQUENT EVENTS:

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

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

FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and Notes presented elsewhere in this report and in HomeStreet, Inc.'s 2015 Annual Report on Form 10-K.

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

- any projections of revenues, estimated operating expenses or other financial items;
- any statements of 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 about the expected or estimated performance of our loan portfolio
- any statements regarding pending or future mergers, acquisitions or other transactions; and
- any statement regarding future economic conditions or performance, and any statement of assumption underlying any of the foregoing.

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

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

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

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

incorporated into and does not constitute a part of this report.

Summary Financial Data

(dollars in thousands, except share data)	At or for the Three Months Ended				At or for the Nine Months Ended		
	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	Sept. 30, 2015	
Income statement data (for the period ended):							
Net interest income	\$46,802	\$44,482	\$40,691	\$39,740	\$39,634	\$131,975	\$108,598
Provision for credit losses	1,250	1,100	1,400	1,900	700	3,750	4,200
Noninterest income	111,745	102,476	71,708	65,409	67,468	285,929	215,828
Noninterest expense	114,399	111,031	101,353	92,725	92,026	326,783	273,843
Income before income taxes	42,898	34,827	9,646	10,524	14,376	87,371	46,383
Income tax expense	15,197	13,078	3,239	1,846	4,415	31,514	13,742
Net income	\$27,701	\$21,749	\$6,407	\$8,678	\$9,961	\$55,857	\$32,641
Basic income per share	\$1.12	\$0.88	\$0.27	\$0.39	\$0.45	\$2.29	\$1.60
Diluted income per share	\$1.11	\$0.87	\$0.27	\$0.39	\$0.45	\$2.27	\$1.58
Common shares outstanding	24,833,008	24,821,349	24,550,219	22,076,534	22,061,702	24,833,008	22,061,702
Weighted average number of shares outstanding:							
Basic	24,811,169	24,708,375	23,676,506	22,050,022	22,035,317	24,398,683	20,407,386
Diluted	24,996,747	24,911,919	23,877,376	22,297,183	22,291,810	24,595,348	20,646,540
Shareholders' equity per share	\$23.60	\$22.55	\$21.55	\$21.08	\$20.87	\$23.60	\$20.87
Financial position (at period end):							
Cash and cash equivalents	\$55,998	\$45,229	\$46,356	\$32,684	\$37,303	\$55,998	\$37,303
Investment securities	991,325	928,364	687,081	572,164	602,018	991,325	602,018
Loans held for sale	893,513	772,780	696,692	650,163	882,319	893,513	882,319
Loans held for investment, net	3,764,178	3,698,959	3,523,551	3,192,720	3,012,943	3,764,178	3,012,943
Mortgage servicing rights	167,501	147,266	148,851	171,255	146,080	167,501	146,080
Other real estate owned	6,440	10,698	7,273	7,531	8,273	6,440	8,273
Total assets	6,226,601	5,941,178	5,417,252	4,894,495	4,975,653	6,226,601	4,975,653
Deposits	4,504,560	4,239,155	3,823,027	3,231,953	3,307,693	4,504,560	3,307,693
Federal Home Loan Bank advances	858,923	878,987	883,574	1,018,159	1,025,745	858,923	1,025,745
Shareholders' equity	\$586,028	\$559,603	\$529,132	\$465,275	\$460,458	\$586,028	\$460,458
Financial position (averages):							
Investment securities	\$981,223	\$766,248	\$625,695	\$584,519	\$539,330	\$791,749	\$503,280
Loans held for investment	3,770,133	3,677,361	3,399,479	3,120,644	2,975,624	3,616,222	2,738,085
Total interest-earning assets	5,692,999	5,186,131	4,629,507	4,452,326	4,394,557	5,171,456	4,048,237
Total interest-bearing deposits	3,343,339	3,072,314	2,734,975	2,587,125	2,573,512	3,051,279	2,470,022
Federal Home Loan Bank advances	988,358	946,488	896,726	987,803	887,711	944,020	730,519
Federal funds purchased and securities sold under agreements to repurchase	2,242	—	—	100	—	753	15,204
Total interest-bearing liabilities	4,459,213	4,110,208	3,693,558	3,636,885	3,523,080	4,089,016	3,277,602
Shareholders' equity	\$588,335	\$548,080	\$510,883	\$470,635	\$460,489	\$549,242	\$429,071

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Summary Financial Data (continued)

(dollars in thousands, except share data)	At or for the Three Months Ended				At or for the Nine Months Ended			
	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015	
Financial performance:								
Return on average shareholders' equity ⁽¹⁾	18.83	% 15.87	% 5.02	% 7.38	% 8.65	% 13.56	% 10.14	%
Return on average assets	1.79	% 1.54	% 0.51	% 0.71	% 0.83	% 1.33	% 0.98	%
Net interest margin ⁽²⁾	3.34	% 3.48	% 3.55	% 3.61	% 3.67	% 3.46	% 3.63	%
Efficiency ratio ⁽³⁾	72.15	% 75.55	% 90.17	% 88.18	% 85.92	% 78.20	% 84.41	%
Asset quality:								
Allowance for credit losses	\$35,233	\$34,001	\$32,423	\$30,659	\$27,887	\$35,233	\$27,887	
Allowance for loan losses/total loans ⁽⁴⁾	0.89	% 0.88	% 0.88	% 0.91	% 0.89	% 0.89	% 0.89	%
Allowance for loan losses/nonaccrual loans	131.07	% 207.41	% 195.51	% 170.54	% 138.27	% 131.07	% 138.27	%
Total nonaccrual loans ⁽⁵⁾⁽⁶⁾	\$25,921	\$15,745	\$16,012	\$17,168	\$19,470	\$25,921	\$19,470	
Nonaccrual loans/total loans	0.68	% 0.42	% 0.45	% 0.53	% 0.64	% 0.68	% 0.64	%
Other real estate owned	\$6,440	\$10,698	\$7,273	\$7,531	\$8,273	\$6,440	\$8,273	
Total nonperforming assets ⁽⁶⁾	\$32,361	\$26,443	\$23,285	\$24,699	\$27,743	\$32,361	\$27,743	
Nonperforming assets/total assets	0.52	% 0.45	% 0.43	% 0.50	% 0.56	% 0.52	% 0.56	%
Net charge-offs (recoveries)	\$18	\$(478)	\$(364)	\$(872)	\$(739)	\$(824)	\$(1,163)	
Regulatory capital ratios for the Bank:								
Tier 1 leverage capital (to average assets)	9.91	% 10.28	% 10.17	% 9.46	% 9.69	% 9.91	% 9.69	%
Tier 1 common equity risk-based capital (to risk-weighted assets)	13.61	% 13.52	% 13.09	% 13.04	% 13.35	% 13.61	% 13.35	%
Tier 1 risk-based capital (to risk-weighted assets)	13.61	% 13.52	% 13.09	% 13.04	% 13.35	% 13.61	% 13.35	%
Total risk-based capital (to risk-weighted assets)	14.41	% 14.33	% 13.93	% 13.92	% 14.15	% 14.41	% 14.15	%
Regulatory capital ratios for the Company:								
Tier 1 leverage capital (to average assets)	9.52	% 9.88	% 10.50	% 9.95	% 10.00	% 9.52	% 10.00	%
Tier 1 common equity risk-based capital (to risk-weighted assets)	10.37	% 10.31	% 10.60	% 10.52	% 10.65	% 10.37	% 10.65	%
Tier 1 risk-based capital (to risk-weighted assets)	11.55	% 11.51	% 11.89	% 11.94	% 12.09	% 11.55	% 12.09	%
Total risk-based capital (to risk-weighted assets)	12.25	% 12.22	% 12.63	% 12.70	% 12.79	% 12.25	% 12.79	%

(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).

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Includes loans acquired with bank acquisitions. Excluding acquired loans, allowance for loan losses /total loans (4) was 1.05%, 1.03%, 1.07%, 1.10% and 1.11% at September 30, 2016, June 30, 2016, March 31, 2016, December 31, 2015 and September 30, 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.

Includes \$2.1 million, \$2.6 million, \$2.6 million, \$1.2 million and \$1.5 million of nonperforming loans guaranteed (6) by the SBA at September 30, 2016, June 30, 2016, March 31, 2016, December 31, 2015 and September 30, 2015, respectively.

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(in thousands)	At or for the Three Months Ended					At or for the Nine Months Ended	
	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
SUPPLEMENTAL DATA:							
Loans serviced for others							
Single family	\$18,199,040	\$17,073,520	\$15,980,932	\$15,347,811	\$14,271,187	\$18,199,040	\$14,271,187
Multifamily DUS	1,055,181	1,023,505	946,191	924,367	866,880	1,055,181	866,880
Other	67,348	62,466	62,566	79,513	86,567	67,348	86,567
Total loans serviced for others	\$19,321,569	\$18,159,491	\$16,989,689	\$16,351,691	\$15,224,634	\$19,321,569	\$15,224,634
Loan production volumes:							
Mortgage Banking segment:							
Single family mortgage closed loans ⁽¹⁾⁽²⁾							
Single family mortgage interest rate lock commitments ⁽²⁾	2,689,640	2,361,691	1,803,703	1,340,148	1,806,767	6,855,034	5,590,960
Single family mortgage loans sold ⁽²⁾	2,489,415	2,173,392	1,471,583	1,830,768	1,965,223	6,134,390	5,176,569
Commercial and Consumer Banking segment:							
Loan originations							
Multifamily DUS ^{® (3)}	\$45,497	\$146,535	\$39,094	\$53,279	\$47,342	231,126	151,559
Other ⁽⁴⁾	2,913	5,528	—	—	—	8,441	—
Loans sold							
Multifamily DUS ^{® (3)}	58,484	109,394	47,970	63,779	42,333	215,848	140,965
Other ⁽⁴⁾	\$50,255	\$31,813	\$—	\$—	\$—	\$82,068	\$—

(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.

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

(4) Includes multifamily loans originated from sources other than DUS.

Management's Overview of Third 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 bank 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, Inc., doing business as HomeStreet Insurance Agency, also provides insurance products and services for consumers and businesses.

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. We also offer single family home loans through the Bank's partial ownership in an affiliated business arrangement with WMS Series LLC, whose home loan businesses are known as Penrith Home Loans (some of which were formerly known as Windermere Mortgage Services).

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

Since our initial public offering in February 2012, we have been pursuing a strategy of growth, seeking geographic expansion, an increase in our market share in our existing markets, and an expansion of our product and service offerings. We have invested resources in growing our operations organically, including hiring loan officers to reach more consumers in more markets and expanding the product offerings for our retail and commercial banking clients, while simultaneously pursuing strategic acquisitions targeted to meet our goals, such as expanding into Southern California and strengthening our commercial banking experience and operations. As of September 30, 2016, we had grown to a total of 51 retail branches and 80 stand-alone lending centers, including 10 commercial lending centers. We are continuing to expand into markets that are relatively new to us, including a pending acquisition of two branches from Boston Private Bank & Trust ("Boston Private") in Southern California which is expected to close in the fourth quarter of 2016, bringing the total number of branches in Southern California to thirteen. We have also increased stand-alone lending centers in both our existing retail deposit markets as well as Northern California; Salt Lake City, Utah; Phoenix, Arizona; Boise, Idaho; Denver, Colorado; and Dallas, Texas.

As part of our operational growth in commercial lending, in 2015 we launched a new division of the Bank called HomeStreet Commercial Capital, which originates permanent commercial real estate loans primarily up to \$10 million in size, a portion of which we intend to sell into the secondary market. At the same time, we added another team specializing in U.S. Small Business Administration ("SBA") lending. Both of these groups are located in Orange County, California.

Our acquisitions in 2016 have included Orange County Business Bank ("OCBB"), which we merged into HomeStreet Bank in the first quarter of 2016, and two retail bank branches and all related deposits and loans from The Bank of Oswego in Lake Oswego, Oregon ("TBOO") in the third quarter, which expanded our presence in the Portland, Oregon metropolitan area. Our previously announced pending acquisition of two retail bank branches and certain related deposits in Southern California from Boston Private is expected to close in November 2016, subject to closing conditions and other external factors that may impact the timing and success of closing.

In part to fund our continued strategic growth, on May 20, 2016, we completed the issuance of \$65 million, 6.5% senior notes, due in 2026. A majority of the net proceeds of \$63.5 million will be used to support our growth and will be contributed over time to the Bank as capital; however, we have invested the net proceeds of the offering initially in our securities portfolio pending future loan growth.

At September 30, 2016, we had total assets of \$6.23 billion, net loans held for investment of \$3.76 billion, deposits of \$4.50 billion and shareholders' equity of \$586.0 million. Through the OCBB acquisition, we added \$188.5 million of assets, \$125.8 million of loans, \$126.5 million of deposits and \$8.3 million of goodwill. Additionally, through the TBOO acquisition, we added \$41.6 million in assets, \$40.3 million in loans and \$48.1 million in deposits.

¹ DUS® is a registered trademark of Fannie Mae 62

Results of Operations

Results for the third 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. In the same period, we have added six home loan centers, four commercial lending centers and eight retail deposit branches to bring our total home loan centers to 70, our total commercial lending centers to ten and our total retail deposit branches to 51. We also relocated our insurance business in Spokane, Washington to a stand-alone insurance office.

For the three months ended September 30, 2016, net income was \$27.7 million, an increase of \$17.7 million or 178.1% from \$10.0 million for the three months ended September 30, 2015. For the nine months ended September 30, 2016, net income was \$55.9 million, an increase of \$23.2 million, or 71%, from \$32.6 million for the nine months ended September 30, 2015. Included in net income for the three and nine months ended September 30, 2016 were acquisition-related expenses, net of tax, of \$333 thousand and \$4.4 million, respectively. Included in net income for the three and nine months ended September 30, 2015 were acquisition-related expenses, net of tax, of \$284 thousand and \$10.3 million, respectively, partially offset by a bargain purchase gain of \$796 thousand and \$7.3 million for the three and nine months ended September 30, 2015, respectively.

Consolidated Financial Performance

(in thousands, except per share data and ratios)	At or for the Three Months Ended September 30,		Percent Change	At or for the Nine Months Ended September 30,		Percent Change	
	2016	2015		2016	2015		
Selected statement of operations data							
Total net revenue ⁽¹⁾	\$158,547	\$107,102	48 %	\$417,904	\$324,426	29 %	
Total noninterest expense	114,399	92,026	24 %	326,783	273,843	19 %	
Provision for credit losses	1,250	700	79 %	3,750	4,200	(11) %	
Income tax expense	15,197	4,415	244 %	31,514	13,742	129 %	
Net income	\$27,701	\$9,961	178 %	\$55,857	\$32,641	71 %	
Financial performance							
Diluted income per share	\$1.11	\$0.45		\$2.27	\$1.58		
Return on average common shareholders' equity	18.83	% 8.65	%	13.56	% 10.14	%	
Return on average assets	1.79	% 0.83	%	1.33	% 0.98	%	
Net interest margin	3.34	% 3.67	%	3.46	% 3.63	%	

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

Commercial and Consumer Banking Segment Results

Commercial and Consumer Banking segment net income for the three and nine months ended September 30, 2016 was \$10.1 million and \$18.8 million, respectively, compared to \$6.8 million and \$9.6 million for the three and nine months ended September 30, 2015, respectively. The increase was primarily due to higher net interest income from higher average balances of interest-earning assets, partially offset by higher noninterest expense, which were the combined result of merger and acquisition activities and organic growth. Included in net income for the three and nine months ended September 30, 2016 were acquisition-related expenses, net of tax, of \$333 thousand and \$4.4 million, respectively. For the three and nine months ended September 30, 2015, net income included acquisition-related expenses, net of tax, of \$284 thousand and \$10.3 million, respectively. For the three and nine months ended

September 30, 2015, acquisition-related expenses were partially offset by a bargain purchase gain of \$796 thousand and \$7.3 million, respectively.

Commercial and Consumer Banking segment net interest income was \$39.3 million for the third quarter of 2016, an increase of \$7.8 million, or 24.9%, from \$31.5 million for the third quarter of 2015. For the nine months ended September 30, 2016, segment net interest income was \$113.4 million, an increase of \$26.1 million, or 29.9%, from \$87.3 million for the nine months ended September 30, 2015. These increases reflect higher average balances of loans held for investment as a result of organic growth and acquisitions.

For the three and nine months ended September 30, 2016, the Company recorded \$1.3 million and \$3.8 million, respectively, of provision for credit losses compared to \$700 thousand and \$4.2 million for the three and nine months ended September 30, 2015, respectively. Net recoveries were \$824 thousand in the first nine months of 2016 compared to net recoveries of \$1.2 million in the first nine months of 2015. Overall, the allowance for loan losses (which excludes the allowance for unfunded commitments) was 0.89% of loans held for investment at both September 30, 2016 and September 30, 2015. Excluding loans acquired through business combinations, the allowance for loan losses was 1.05% of loans held for investment at September 30, 2016 compared to 1.11% at September 30, 2015. Nonperforming assets were \$32.4 million, or 0.52% of total assets at September 30, 2016, compared to \$27.7 million, or 0.56% of total assets at September 30, 2015.

Commercial and Consumer Banking segment noninterest expense was \$32.2 million for the third quarter of 2016, an increase of \$4.1 million, or 14.4%, from \$28.1 million for the third quarter of 2015. For the nine months ended September 30, 2016, segment noninterest expense was \$102.9 million, an increase of \$9.8 million, or 10.6%, from \$93.1 million for the nine months ended September 30, 2015. The increase in noninterest expense was primarily due to the 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 nine retail deposit branches, five de novo and four from acquisitions, and increased the segment's headcount by 17.5%. During the same period, the commercial and consumer banking segment further expanded its commercial lending business with the opening of four new stand-alone commercial lending centers.

Mortgage Banking Segment Results

Mortgage Banking segment net income for the three and nine months ended September 30, 2016 and 2015 was \$17.6 million and \$37.1 million, respectively, compared to \$3.2 million and \$23.0 million for the three and nine months ended September 30, 2015, respectively. The increase in net income is primarily due to higher gain on single family mortgage loan origination and sale activities resulting from higher interest rate lock commitments, partially offset by higher noninterest expense resulting from continued growth and expansion of our mortgage banking segment and increased costs resulting from new regulatory disclosure requirements for the mortgage industry.

Mortgage Banking noninterest income for the three and nine months ended September 30, 2016 was \$102.0 million and \$263.3 million, respectively, compared to \$60.6 million and \$195.2 million for the three and nine months ended September 30, 2015, respectively, primarily due to higher gain on single family mortgage loan origination and sale activities and higher mortgage servicing income.

Mortgage Banking noninterest expense for the three and nine months ended September 30, 2016 was \$82.2 million and \$223.9 million, respectively, compared to \$63.9 million and \$180.8 million for the three and nine months ended September 30, 2015, respectively, primarily due to increased commissions, salary, insurance, and benefit costs on higher closed loan volume, the continued expansion of offices in new markets, and increased costs resulting from new regulatory disclosure requirements for the mortgage industry. We added six home loan centers and increased the segment's headcount by 14.7% during the past twelve months.

Regulatory Matters

The Company's Tier 1 leverage and total risk-based capital ratios at September 30, 2016 were 9.52% and 12.25%, respectively. 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 September 30, 2016 were 9.91% and 14.41%, respectively. The Company's Tier 1 leverage and total risk-based capital ratios at December 31, 2015 were 9.95% and 12.70%, respectively.

At December 31, 2015, the Bank's Tier 1 leverage and total risk-based capital ratios were 9.46% and 13.92%.

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:

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• 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.

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.

(in thousands)	Three Months Ended September 30,							
	2016		2015					
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost		
Assets:								
Interest-earning assets: ⁽¹⁾								
Cash and cash equivalents	\$39,069	\$104	1.06 %	\$27,725	\$13	0.18 %		
Investment securities	981,223	6,363	2.59 %	539,330	3,453	2.54 %		
Loans held for sale	902,574	8,201	3.63 %	851,878	8,394	3.91 %		
Loans held for investment	3,770,133	41,580	4.38 %	2,975,624	32,727	4.36 %		
Total interest-earning assets	5,692,999	56,248	3.93 %	4,394,557	44,587	4.03 %		
Noninterest-earning assets ⁽²⁾	490,242			423,048				
Total assets	\$6,183,241			\$4,817,605				
Liabilities and shareholders' equity:								
Deposits:								
Interest-bearing demand accounts	\$458,660	\$484	0.42 %	\$404,874	\$495	0.49 %		
Savings accounts	300,831	261	0.35 %	299,135	258	0.34 %		
Money market accounts	1,443,111	2,064	0.57 %	1,126,119	1,268	0.45 %		
Certificate accounts	1,140,737	2,669	0.93 %	743,384	1,101	0.59 %		
Total interest-bearing deposits	3,343,339	5,478	0.65 %	2,573,512	3,122	0.48 %		
Federal Home Loan Bank advances	988,358	1,605	0.65 %	887,711	958	0.43 %		
Federal funds purchased and securities sold under agreements to repurchase	2,242	5	0.85 %	—	—	— %		
Long-term debt	125,274	1,440	4.57 %	61,857	278	1.78 %		
Total interest-bearing liabilities	4,459,213	8,528	0.76 %	3,523,080	4,358	0.49 %		
Noninterest-bearing liabilities	1,135,693			834,036				
Total liabilities	5,594,906			4,357,116				
Shareholders' equity	588,335			460,489				
Total liabilities and shareholders' equity	\$6,183,241			\$4,817,605				
Net interest income ⁽³⁾		\$47,720			\$40,229			
Net interest spread			3.17 %			3.54 %		
Impact of noninterest-bearing sources			0.17 %			0.13 %		
Net interest margin			3.34 %			3.67 %		

(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.

Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of
 (3) \$918 thousand and \$595 thousand for the three months ended September 30, 2016 and 2015, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

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(in thousands)	Nine Months Ended September 30,						
	2016			2015			
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	
Assets:							
Interest-earning assets: ⁽¹⁾							
Cash and cash equivalents	\$38,893	\$175	0.60 %	\$37,719	\$55	0.19 %	
Investment securities	791,749	14,805	2.48 %	503,280	10,355	2.74 %	
Loans held for sale	724,592	20,252	3.75 %	769,153	22,010	3.81 %	
Loans held for investment	3,616,222	119,586	4.39 %	2,738,085	89,786	4.37 %	
Total interest-earning assets	5,171,456	154,818	3.99 %	4,048,237	122,206	4.02 %	
Noninterest-earning assets ⁽²⁾	448,172			389,691			
Total assets	\$5,619,628			\$4,437,928			
Liabilities and shareholders' equity:							
Deposits:							
Interest-bearing demand accounts	\$444,782	\$1,465	0.44 %	\$283,523	\$1,004	0.46 %	
Savings accounts	299,763	777	0.35 %	281,212	800	0.39 %	
Money market accounts	1,308,760	5,021	0.51 %	1,113,001	3,643	0.44 %	
Certificate accounts	997,974	6,374	0.84 %	792,285	3,313	0.56 %	
Total interest-bearing deposits	3,051,279	13,637	0.59 %	2,470,021	8,760	0.47 %	
Federal Home Loan Bank advances	944,020	4,486	0.63 %	730,519	2,477	0.46 %	
Federal funds purchased and securities sold under agreements to repurchase	753	5	0.28 %	15,204	28	0.16 %	
Long-term debt	92,964	2,573	3.40 %	61,857	814	1.76 %	
Total interest-bearing liabilities	4,089,016	20,701	0.67 %	3,277,601	12,079	0.49 %	
Noninterest-bearing liabilities	981,370			731,256			
Total liabilities	5,070,386			4,008,857			
Shareholders' equity	549,242			429,071			
Total liabilities and shareholders' equity	\$5,619,628			\$4,437,928			
Net interest income ⁽³⁾		\$134,117			\$110,127		
Net interest spread			3.32 %			3.53 %	
Impact of noninterest-bearing sources			0.14 %			0.10 %	
Net interest margin			3.46 %			3.63 %	

(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 \$2.1 million and \$1.5 million for the nine months ended September 30, 2016 and 2015, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

Interest on Nonaccrual Loans

Interest income does not include interest earned on loans that have been placed on nonaccrual status. 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 \$541 thousand and \$488 thousand for the three months ended September 30, 2016 and 2015, respectively and \$1.7 million and \$1.8 million for the nine months ended September 30, 2016 and 2015, respectively.

Net Income

For the three months ended September 30, 2016, net income was \$27.7 million, an increase of \$17.7 million or 178.1% from \$10.0 million for the three months ended September 30, 2015. For the nine months ended September 30, 2016, net income was \$55.9 million, an increase of \$23.2 million, or 71%, from \$32.6 million for the nine months ended September 30, 2015. Included in net income for the three and nine months ended September 30, 2016 were acquisition-related expenses, net of tax, of \$333 thousand and \$4.4 million, respectively. Included in net income for the three and nine months ended September 30, 2015 were acquisition-related expenses, net of tax, of \$284 thousand and \$10.3 million, respectively, partially offset by a bargain purchase gain of \$796 thousand and \$7.3 million for the three and nine months ended September 30, 2015, respectively.

Net Interest Income

Our profitability depends significantly on net interest income, which is the difference between income earned on our interest-earning assets, primarily loans and investment securities, and interest paid on interest-bearing liabilities. Our interest-bearing liabilities consist primarily of deposits and borrowed funds, including our outstanding senior 6.5% notes due 2026, 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 third quarter of 2016 increased \$7.5 million, or 18.6%, from the third quarter of 2015. For the nine months ended September 30, 2016, net interest income was \$134.1 million, an increase of \$24.0 million, or 21.8%, from \$110.1 million for the nine months ended September 30, 2015. The net interest margin for the third quarter of 2016 decreased to 3.34% from 3.67% for the third quarter of 2015. For the nine months ended September 30, 2016, the net interest margin decreased to 3.46% from 3.63% for the nine months ended September 30, 2015. These decreases were due primarily to asset mix shifts reflecting growth in lower yielding investment securities and loans held for sale and to higher cost of funds primarily related to our long-term debt issuance in 2016, certificates of deposit and FHLB borrowings.

Total average interest-earning assets increased 29.5% and 27.7% from the three and nine months ended September 30, 2015, respectively, primarily as a result of growth in average loans held for investment, both organically and through acquisition activities. Additionally, our average balance of investment securities grew from prior periods as part of the strategic growth of the Company.

Total interest income on a tax equivalent basis in the third quarter of 2016 increased \$11.7 million, or 26.2%, from \$44.6 million in the third quarter of 2015. For the nine months ended September 30, 2016, interest income increased \$32.6 million, or 26.7%, from \$122.2 million for the nine months ended September 30, 2015. These increases were primarily the result of higher average balances of loans held for investment.

Total interest expense in the third quarter of 2016 increased \$4.2 million, or 95.7% from \$4.4 million in the third quarter of 2015. For the nine months ended September 30, 2016, interest expense increased \$8.6 million, or 71.4%, from \$12.1 million for the nine months ended September 30, 2015. These increases were primarily the result of higher average balances of interest-bearing deposits, FHLB advances and interest in our \$65.0 million in senior debt issued in May 2016.

Provision for Credit Losses

We recorded a provision for credit losses of \$1.3 million for third quarter of 2016 compared to a provision of \$700 thousand for the third quarter of 2015, an increase of 85.7% . For the nine months ended September 30, 2016, provision for credit losses was \$3.8 million compared to a provision of \$4.2 million during the same period in 2015, a decrease of 9.5%.

Nonaccrual loans were \$25.9 million at September 30, 2016, an increase of \$8.8 million, or 51.0%, from \$17.2 million at December 31, 2015. Nonaccrual loans as a percentage of total loans increased to 0.68% at September 30, 2016 from 0.53% at December 31, 2015.

Net charge-offs were \$18 thousand in the third quarter of 2016 compared to net recoveries of \$739 thousand in the third quarter of 2015. For the nine months ended September 30, 2016, net recoveries were \$824 thousand compared to net recoveries of \$1.2 million during the same period in 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.

Noninterest Income

Noninterest income consisted of the following.

(in thousands)	Three Months Ended September 30,		Dollar Change	Percent Change	Nine Months Ended September 30,		Dollar Change	Percent Change
	2016	2015			2016	2015		
Noninterest income								
Gain on mortgage loan origination and sale activities ⁽¹⁾	\$92,600	\$57,885	\$34,715	60 %	\$239,493	\$189,746	\$49,747	26 %
Mortgage servicing income	14,544	4,768	9,776	205	35,855	10,896	24,959	229
Income from WMS Series LLC	1,174	380	794	209	2,474	1,428	1,046	73
Depositor and other retail banking fees	1,744	1,701	43	3	4,991	4,239	752	18
Insurance agency commissions	441	477	(36)	(8)	1,205	1,183	22	2
Gain on sale of investment securities available for sale	48	1,002	(954)	(95)	145	1,002	(857)	(86)
Bargain purchase gain	—	796	(796)	NM	—	7,345	(7,345)	NM
Other	1,194	459	735	160	1,766	(11)	1,777	NM
Total noninterest income	\$111,745	\$67,468	\$44,277	66 %	\$285,929	\$215,828	\$70,101	32 %

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 increase in noninterest income in the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 was primarily the result of higher gain on mortgage loan origination and sale activities and higher mortgage servicing income.

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

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

(in thousands)	Three Months Ended September 30,		Dollar Change	Percent Change	Nine Months Ended September 30,		Dollar Change	Percent Change
	2016	2015			2016	2015		
Single family held for sale:								
Servicing value and secondary market gains ⁽¹⁾	\$79,946	\$49,613	\$30,333	61 %	\$207,758	\$167,786	\$39,972	24 %
Loan origination and funding fees	8,931	6,362	2,569	40	21,614	16,452	5,162	31
Total single family held for sale	88,877	55,975	32,902	59	229,372	184,238	45,134	24
Multifamily DUS	2,695	1,488	1,207	81	7,879	4,741	3,138	66
Other ⁽²⁾	1,028	422	606	144	2,242	767	1,475	192
Gain on mortgage loan origination and sale activities	\$92,600	\$57,885	\$34,715	60 %	\$239,493	\$189,746	\$49,747	26 %

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

(2)Includes multifamily loans from sources other than DUS.

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

(in thousands)	Three Months Ended September 30,		Dollar Change	Percent Change	Nine Months Ended September 30,		Dollar Change	Percent Change
	2016	2015			2016	2015		
Single family mortgage closed loan volume ⁽¹⁾	\$2,647,943	\$1,934,151	\$713,792	37 %	\$6,482,690	\$5,563,700	\$918,990	17 %
Single family mortgage interest rate lock commitments ⁽¹⁾	\$2,689,640	\$1,806,767	\$882,873	49 %	\$6,855,034	\$5,590,960	\$1,264,074	23 %

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

The increase in gain on mortgage loan origination and sale activities in the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 reflected higher single family mortgage interest rate lock commitments. We continue to expand our mortgage lending network with new lending offices and growing production personnel by 13.7% at September 30, 2016 compared to September 30, 2015.

The Company records a liability for estimated mortgage repurchase losses, which has the effect of reducing 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 gain on mortgage loan origination and sale activities. For further information on the Company's mortgage repurchase liability, see Note 9, Commitments, Guarantees and Contingencies, to the financial statements in this Form 10-Q.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015

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Effect of changes to the mortgage repurchase liability recorded in gain on mortgage loan origination and sale activities:

New loan sales ⁽¹⁾	\$ (1,066)	\$ (883)	\$ (2,520)	\$ (2,052)
Other changes in estimated repurchase losses ⁽²⁾	571	—	1,113	—
	\$ (495)	\$ (883)	\$ (1,407)	\$ (2,052)

(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 September 30,		Dollar Change	Percent Change	Nine Months Ended September 30,		Dollar Change	Percent Change
	2016	2015			2016	2015		
Servicing income, net:								
Servicing fees and other	\$ 16,053	\$ 11,136	\$ 4,917	44 %	\$ 41,985	\$ 30,256	\$ 11,729	39 %
Changes in fair value of MSR due to modeled amortization ⁽¹⁾	(8,925)	(8,478)	(447)	5	(23,940)	(26,725)	2,785	(10)
Amortization of multifamily MSRs	(661)	(511)	(150)	29	(1,946)	(1,441)	(505)	35
	6,467	2,147	4,320	201	16,099	2,090	14,009	670
Risk management:								
Changes in fair value of MSR due to changes in market inputs and/or model updates ⁽²⁾	4,915	(19,396)	24,311	(125)	(37,354)	(8,224)	(29,130)	354
Net gain (loss) from derivatives economically hedging MSRs	3,162	22,017	(18,855)	(86)	57,110	17,030	40,080	235
	8,077	2,621	5,456	208	19,756	8,806	10,950	124
Mortgage servicing income	\$ 14,544	\$ 4,768	\$ 9,776	205 %	\$ 35,855	\$ 10,896	\$ 24,959	229 %

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

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

The increase in mortgage servicing income for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was primarily attributable to higher servicing income and improved risk management results. The higher servicing income was primarily attributable to higher servicing fees on higher average balance of loans serviced for others. The increase in risk management results was primarily attributable to an improved hedge performance.

The increase in mortgage servicing income for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily attributable to higher servicing income and improved risk management results. The higher servicing income was primarily attributed to higher servicing fees on higher average balances of loans serviced for others and lower modeled amortization. The improved risk management result was primarily due to improves hedge performance and the impact of certain prepayment model refinements. By comparison, there was no material adjustments to the prepayment model in the nine months ended September 30, 2015.

MSR risk management results represent changes in the fair value of single family MSRs due to changes in model inputs and assumptions net of the gain/(loss) from derivatives economically hedging MSRs. The fair value of MSRs is sensitive to changes in interest rates, primarily due to the effect on prepayment speeds. MSRs typically decrease in value when interest rates decline because declining interest rates tend to increase mortgage prepayment speeds and therefore reduce the expected life of the net servicing cash flows of the MSR asset. Certain other changes in MSR fair value relate to factors other than interest rate changes and are generally not within the scope of the Company's MSR economic hedging strategy. These factors may include but are not limited to the impact of changes to the housing price index, prepayment model assumption adjustments, 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 three and nine months ended September 30, 2016 increased compared to the three and nine months ended September 30, 2015 primarily as a result of higher average balances of loans serviced for others during the year. Our loans serviced for others portfolio was \$19.32 billion at September 30, 2016 compared to \$15.22 billion at September 30, 2015.

Income from WMS Series LLC increased in the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 primarily due to an increase in interest rate lock commitments. For the third quarter of 2016, interest rate lock commitments of \$210.7 million increased 35.9% from \$155.1 million for the same period in 2015. For the first nine months of 2016, interest rate lock commitments of \$526.2 million increased 12.4% from \$468.2 million for the same period in 2015.

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Depositor and other retail banking fees for the three and nine months ended September 30, 2016 increased from the three and nine months ended September 30, 2015 primarily due to an increase in the number of transaction accounts as we grew our retail deposit branch network both organically and through acquisition activities. The following table presents the composition of depositor and other retail banking fees for the periods indicated.

(in thousands)	Three Months Ended September 30, 2016				September 30, 2015				Nine Months Ended September 30, 2016				September 30, 2015			
	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent		
Fees:																
Monthly maintenance and deposit-related fees	\$ 763		\$ 721		\$ 42	6 %	\$ 2,135		\$ 1,931		\$ 204	11 %				
Debit Card/ATM fees	960		954		6	1	2,796		2,242		554	25				
Other fees	21		26		(5)	(19)	60		66		(6)	(9)				
Total depositor and other retail banking fees	\$ 1,744		\$ 1,701		\$ 43	3 %	\$ 4,991		\$ 4,239		\$ 752	18 %				

Noninterest Expense

Noninterest expense consisted of the following.

(in thousands)	Three Months Ended September 30, 2016				September 30, 2015				Nine Months Ended September 30, 2016				September 30, 2015			
	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent		
Noninterest expense																
Salaries and related costs	\$ 79,164		\$ 60,991		\$ 18,173	30 %	\$ 221,615		\$ 180,238		\$ 41,377	23 %				
General and administrative	14,949		14,342		607	4	47,210		41,122		6,088	15				
Amortization of core deposit intangibles	579		527		52	10	1,636		1,410		226	16				
Legal	639		868		(229)	(26)	1,687		1,912		(225)	(12)				
Consulting	1,390		166		1,224	737	4,239		6,544		(2,305)	(35)				
Federal Deposit Insurance Corporation assessments	919		504		415	82	2,419		1,890		529	28				
Occupancy	7,740		6,077		1,663	27	22,408		18,024		4,384	24				
Information services	7,876		8,159		(283)	(3)	23,857		21,993		1,864	8				
Net cost of operation and sale of other real estate owned	1,143		392		751	192	1,712		710		1,002	141				
Total noninterest expense	\$ 114,399		\$ 92,026		\$ 22,373	24 %	\$ 326,783		\$ 273,843		\$ 52,940	19 %				

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

(in thousands)	Three Months Ended September 30, 2016		September 30, 2015	
	2016	2015	2016	2015
Noninterest expense				
Salaries and related costs	\$ 6	\$(7)	\$ 4,128	\$ 7,669

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General and administrative	35	7	500	1,256
Legal	63	179	110	530
Consulting	280	(212)	1,296	5,539
Occupancy	7	(48)	132	335
Information services	121	518	569	481
Total noninterest expense	\$512	\$437	\$6,735	\$15,810

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The increase in noninterest expense in the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 was primarily due to increased commissions on higher closed loan volume, 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 expansion of our commercial and consumer and mortgage banking businesses, both organically and through acquisition-related activities.

Income Tax Expense

For the third quarter of 2016, income tax expense was \$15.2 million with an effective tax rate of 35.4% (including discrete items), compared to an expense of \$4.4 million for the third quarter of 2015. For the first nine months of 2016, income tax expense was \$31.5 million with an effective tax rate of 36.1% (including discrete items), compared to an expense of \$13.7 million for the first nine months of 2015.

Our effective income tax rate for the third 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.

Review of Financial Condition – Comparison of September 30, 2016 to December 31, 2015

Total assets were \$6.23 billion at September 30, 2016 and \$4.89 billion at December 31, 2015, an increase of \$1.33 billion, or 27.2%. The OCBB merger added \$188.5 million of acquired assets and \$8.3 million of goodwill to our balance sheet in the first quarter of 2016. Additionally, through the acquisition of two branches from TBOO, we added \$41.6 million of assets acquired to the balance sheet in the third quarter of 2016.

Cash and cash equivalents were \$56.0 million at September 30, 2016 compared to \$32.7 million at December 31, 2015, an increase of \$23.3 million, or 71.3%.

Investment securities were \$991.3 million at September 30, 2016 compared to \$572.2 million at December 31, 2015, an increase of \$419.2 million, or 73.3%, primarily resulting from the investment of the net proceeds of the May 2016 issuance of senior notes in our securities portfolio pending future loan growth.

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 characterized securities having a carrying value of \$42.3 million at September 30, 2016 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.

(in thousands)	At September 30, 2016		At December 31, 2015	
	Fair Value	Percent	Fair Value	Percent
Investment securities available for sale:				
Mortgage-backed securities:				
Residential	\$152,236	16 %	\$68,101	13 %
Commercial	27,208	3	17,851	3
Municipal bonds	355,344	37	171,869	32
Collateralized mortgage obligations:				
Residential	182,833	19	84,497	16
Commercial	120,259	13	79,133	15
Corporate debt securities	85,191	9	78,736	14
U.S. Treasury securities	26,004	3	40,964	7

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Total investment securities available for sale \$949,075 100 % \$541,151 100 %

Loans held for sale were \$893.5 million at September 30, 2016 compared to \$650.2 million at December 31, 2015, an increase of \$243.4 million, or 37.4%. 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 increased mortgage production levels.

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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.

(in thousands)	At September 30, 2016		At December 31, 2015	
	Amount	Percent	Amount	Percent
Consumer loans:				
Single family ⁽¹⁾	\$1,186,476	31.3 %	\$1,203,180	37.3 %
Home equity and other	338,155	8.9	256,373	8.0
	1,524,631	40.3	1,459,553	45.3
Commercial loans:				
Commercial real estate ⁽²⁾	810,346	21.3	600,703	18.6
Multifamily	562,272	14.8	426,557	13.2
Construction/ land development	661,813	17.4	583,160	18.1
Commercial business	237,117	6.2	154,262	4.8
	2,271,548	59.7	1,764,682	54.7
	3,796,179	100.0%	3,224,235	100.0%
Net deferred loan fees and costs	1,974		(2,237)	
	3,798,153		3,221,998	
Allowance for loan losses	(33,975)		(29,278)	
	\$3,764,178		\$3,192,720	

Includes \$20.5 million and \$21.5 million at September 30, 2016 and December 31, 2015, respectively, of loans (1) 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.

September 30, 2016 and December 31, 2015 balances comprised of \$278.3 million and \$154.9 million of (2) owner-occupied loans, respectively, and \$532.0 million and \$445.8 million of non-owner-occupied loans, respectively.

Loans held for investment, net increased \$571.5 million, or 17.9%, from December 31, 2015. Our commercial real estate loan portfolio increased \$209.6 million, or 34.9%, from December 31, 2015. Our multifamily loan portfolio increased \$135.7 million, or 31.8%, during the same period, primarily as a result of the growth of our commercial and consumer banking segment, both organically and through acquisitions. Our construction loans, including commercial construction and residential construction, increased \$78.7 million from December 31, 2015, primarily from new originations in our commercial real estate and residential construction lending business.

Mortgage servicing rights were \$167.5 million at September 30, 2016 compared to \$171.3 million at December 31, 2015, a decrease of \$3.8 million, or 2.2%, primarily due to the higher projected prepayment speeds due to the decline of market interest rates, partially offset by the higher average loan balance serviced for others and model assumption adjustments.

Federal Home Loan Bank stock was \$39.8 million at September 30, 2016 compared to \$44.3 million at December 31, 2015, a decrease of \$4.6 million, or 10.3%. 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 \$215.0 million at September 30, 2016, compared to \$148.4 million at December 31, 2015, an increase of \$66.6 million, or 44.9%, 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 September 30, 2016		At December 31, 2015	
	Amount	Percent	Amount	Percent
Noninterest-bearing accounts - checking and savings	\$499,106	11.1 %	\$370,523	11.5 %
Interest-bearing transaction and savings deposits:				
NOW accounts	501,370	11.1	408,477	12.6
Statement savings accounts due on demand	303,872	6.7	292,092	9.0
Money market accounts due on demand	1,513,547	33.6	1,155,464	35.8
Total interest-bearing transaction and savings deposits	2,318,789	51.5	1,856,033	57.4
Total transaction and savings deposits	2,817,895	62.5	2,226,556	68.9
Certificates of deposit	1,097,263	24.4	732,892	22.7
Noninterest-bearing accounts - other	589,402	13.1	272,505	8.4
Total deposits	\$4,504,560	100.0 %	\$3,231,953	100.0 %

Deposits at September 30, 2016 increased \$1.27 billion, or 39.4%, from December 31, 2015. During the first nine months of 2016, transaction and savings deposits increased by \$591.3 million, or 26.6%, reflecting the growth and expansion of our branch banking network. The \$364.4 million, or 49.7%, increase in certificates of deposit since December 31, 2015 was due in part to a \$123.3 million increase in brokered deposits. Additionally, in 2016, we added \$126.5 million of deposits from the OCBB merger and \$48.1 million from the TBOO acquisition. The \$316.9 million, or 116.3%, increase in deposits in other noninterest-bearing accounts 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. At September 30, 2016, brokered deposits represented 5.41% of total deposits, as compared to 3.72% of total deposits at December 31, 2015.

The aggregate amount of time deposits in denominations of \$100 thousand or more at September 30, 2016 and December 31, 2015 was \$523.4 million and \$290.1 million, respectively. The aggregate amount of time deposits in denominations of more than \$250 thousand at September 30, 2016 and December 31, 2015 was \$78.1 million and \$81.7 million, respectively. There were \$243.6 million and \$120.3 million of brokered deposits at September 30, 2016 and December 31, 2015, respectively.

Federal Home Loan Bank advances were \$858.9 million at September 30, 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 \$586.0 million at September 30, 2016 compared to \$465.3 million at December 31, 2015. This increase included additional paid in capital from issuance of common stock of \$53.2 million mostly related to the issuance of HomeStreet common stock to OCBB shareholders, net income of \$55.9 million and other comprehensive income of \$10.4 million recognized during the nine months ended September 30, 2016. Other comprehensive income represents unrealized gains and losses in the valuation of our investment securities portfolio at September 30, 2016.

Shareholders' equity, on a per share basis, was \$23.60 per share at September 30, 2016, compared to \$21.08 per share at December 31, 2015.

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 September 30, 2016		At or For the Nine Months Ended September 30, 2015	
Return on assets ⁽¹⁾	1.79 %	0.83 %	1.33 %	0.98 %
Return on equity ⁽²⁾	18.83 %	8.65 %	13.56 %	10.14 %
Equity to assets ratio ⁽³⁾	9.51 %	9.56 %	9.77 %	9.67 %

(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 September 30, 2016, our retail deposit branch network consists of 51 branches in the Pacific Northwest, California and Hawaii. At September 30, 2016 and December 31, 2015, our transaction and savings deposits totaled \$2.82 billion and \$2.23 billion, respectively, and our loan portfolio totaled \$3.76 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		Dollar Change	Percent Change	Nine Months Ended		Dollar Change	Percent Change
	September 30, 2016	September 30, 2015			September 30, 2016	September 30, 2015		
Net interest income	\$39,339	\$31,509	\$7,830	25 %	\$113,378	\$87,261	\$26,117	30 %
Provision for credit losses	1,250	700	550	79	3,750	4,200	(450)	(11)
Noninterest income	9,771	6,884	2,887	42	22,595	20,589	2,006	10
Noninterest expense	32,170	28,110	4,060	14	102,903	93,056	9,847	11
Income before income tax expense	15,690	9,583	6,107	64	29,320	10,594	18,726	177
Income tax expense	5,557	2,783	2,774	100	10,566	954	9,612	1,008
Net income	\$10,133	\$6,800	\$3,333	49 %	\$18,754	\$9,640	\$9,114	95 %
Total assets	\$5,122,702	\$3,885,821	\$1,236,881	32 %	\$5,122,702	\$3,885,821	\$1,236,881	32 %
Efficiency ratio ⁽¹⁾	65.51 %	73.22 %			75.68 %	86.28 %		
Full-time equivalent employees (ending)	948	807			948	807		
Net gain on loan origination and sale activities:								
Multifamily DUS	\$2,695	\$1,488	\$1,207	81 %	\$7,879	\$4,741	3,138	66 %
Other ⁽²⁾	1,028	422	606	144	2,242	767	1,475	192 %
	\$3,723	\$1,910	\$1,813	95 %	\$10,121	\$5,508	4,613	84 %

Production volumes for sale to the secondary market:

Loan originations								
Multifamily DUS	\$45,497	\$47,342	\$(1,845)	(4)%	\$231,126	\$151,559	\$79,567	52 %
Other ⁽²⁾	2,913	—	2,913	NM	8,441	—	\$8,441	NM
Loans sold								
Multifamily DUS	\$58,484	\$42,333	\$16,151	38 %	\$215,848	\$140,965	\$74,883	53 %
Other ⁽²⁾	\$50,255	\$—	\$50,255	NM	\$82,068	\$—	82,068	NM

NM = not meaningful

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

(2) Includes multifamily loans from sources other than DUS.

Commercial and Consumer Banking net income increased for the three and nine months ended September 30, 2016 primarily due to increased net interest income resulting from higher average balances of interest-earning assets and higher commercial net gain on loan origination and sale activities, partially offset by increased noninterest expense primarily resulting from the expansion of this segment.

The segment recorded a provision for credit losses of \$1.3 million and \$3.8 million, respectively, for the three and nine months ended September 30, 2016 compared to provision of \$700 thousand and \$4.2 million, respectively, for the three and nine months ended September 30, 2015.

Resulting from the growth of this segment, noninterest income increased for the three and nine months ended September 30, 2016 due to increases in net gain on loan origination and sale activities, mortgage servicing income and depositor and other retail banking fees. Included in noninterest income for the nine months ended September 30, 2015 was a bargain purchase gain of \$7.3 million from the merger with Simplicity.

Noninterest expense increased primarily due to the 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 added nine retail deposit branches, five de novo and four from acquisitions, and increased the segment's headcount by 17.5%. Included in noninterest expense for the three and nine months ended September 30, 2016 was \$512 thousand and \$6.7 million, respectively, of acquisition-related costs. For the three and nine months ended September 30, 2015, such acquisition-related expenses related to the Simplicity merger were \$437 thousand and \$15.8 million, respectively.

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

(in thousands)	Three Months		Dollar Change	Percent Change	Nine Months		Dollar Change	Percent Change
	Ended September 30, 2016	Ended September 30, 2015			Ended September 30, 2016	Ended September 30, 2015		
Servicing income, net:								
Servicing fees and other	\$3,425	\$1,181	\$2,244	190 %	\$6,737	\$3,202	\$3,535	110 %
Amortization of multifamily MSR	(661)	(511)	(150)	29	(1,946)	(1,441)	(505)	35
Commercial mortgage servicing income	\$2,764	\$670	\$2,094	313 %	\$4,791	\$1,761	\$3,030	172 %

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

(in thousands)	At September 30, 2016	At December 31, 2015
Multifamily DUS	\$1,055,181	\$924,367
Other	67,348	79,513
Total commercial loans serviced for others	\$1,122,529	\$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.

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Mortgage Banking segment results are detailed below.

(in thousands)	Three Months Ended September 30,		Dollar Change	Percent Change	Nine Months Ended September 30,		Dollar Change	Percent Change
	2016	2015			2016	2015		
Net interest income	\$7,463	\$8,125	\$(662)	(8)%	\$18,597	\$21,337	\$(2,740)	(13)%
Noninterest income	101,974	60,584	41,390	68	263,334	195,239	68,095	35
Noninterest expense	82,229	63,916	18,313	29	223,880	180,787	43,093	24
Income before income tax expense	27,208	4,793	22,415	468	58,051	35,789	22,262	62
Income tax expense	9,640	1,632	8,008	491	20,948	12,788	8,160	64
Net income	\$17,568	\$3,161	\$14,407	456%	\$37,103	\$23,001	\$14,102	61%
Total assets	\$1,103,899	\$1,089,832	\$14,067	1%	\$1,103,899	1,089,832	\$14,067	1%
Efficiency ratio (1)	75.14%	93.02%			79.41%	83.48%		
Full-time equivalent employees (ending)	1,483	1,293			1,483	1,293		
Production volumes for sale to the secondary market:								
Single family mortgage closed loan volume (2)(3)	\$2,647,943	\$1,934,151	\$713,792	37%	\$6,482,690	\$5,563,700	\$918,990	17%
Single family mortgage interest rate lock commitments(2)	\$2,689,640	\$1,806,767	\$882,873	49%	6,855,034	5,590,960	\$1,264,074	23%
Single family mortgage loans sold(2)	\$2,489,415	\$1,965,223	\$524,192	27%	\$6,134,390	\$5,176,569	\$957,821	19%

(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 increase in Mortgage Banking net income for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 was primarily due to higher gain on single family mortgage loan origination and sale activities resulting from higher interest rate lock commitments, partially offset by higher noninterest expense resulting from continued growth and expansion of our mortgage banking segment and increased costs resulting from new regulatory disclosure requirements for the mortgage industry.

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

(in thousands)	Three Months Ended		Dollar Change	Percent Change	Nine Months Ended		Dollar Change	Percent Change
	September 30, 2016	September 30, 2015			September 30, 2016	September 30, 2015		
Single family: ⁽¹⁾								
Servicing value and secondary market gains ⁽²⁾	\$79,946	\$49,613	\$30,333	61 %	\$207,758	\$167,786	\$39,972	24 %
Loan origination and funding fees	8,931	6,362	2,569	40	21,614	16,452	5,162	31
Total mortgage banking gain on mortgage loan origination and sale activities ⁽¹⁾	\$88,877	\$55,975	\$32,902	59 %	\$229,372	\$184,238	\$45,134	24 %

(1) Excludes inter-segment activities.

Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single (2) 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 increase in gain on mortgage loan origination and sale activities for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 is primarily the result of a 48.9% and 22.6% increase in interest rate lock commitments, respectively.

Mortgage Banking servicing income consisted of the following.

(in thousands)	Three Months Ended		Dollar Change	Percent Change	Nine Months Ended		Dollar Change	Percent Change
	September 30, 2016	September 30, 2015			September 30, 2016	September 30, 2015		
Servicing income, net:								
Servicing fees and other	\$12,628	\$9,955	\$2,673	27 %	\$35,248	\$27,054	\$8,194	30 %
Changes in fair value of MSR's due to modeled amortization ⁽¹⁾	(8,925)	(8,478)	(447)	5	(23,940)	(26,725)	2,785	(10)
	3,703	1,477	2,226	151	11,308	329	10,979	3,337
Risk management:								
Changes in fair value of MSR's due to changes in market inputs and/or model updates ⁽²⁾	4,915	(19,396)	24,311	(125)	(37,354)	(8,224)	(29,130)	354
Net gain from derivatives economically hedging MSR's	3,162	22,017	(18,855)	(86)	57,110	17,030	40,080	235
	8,077	2,621	5,456	208	19,756	8,806	10,950	124
Mortgage Banking servicing income	\$11,780	\$4,098	\$7,682	187 %	\$31,064	\$9,135	\$21,929	240 %

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

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

The increase in Mortgage Banking servicing income for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was primarily attributable to higher servicing income and improved risk management results. The higher servicing income was primarily attributable to higher servicing fees on higher average balance of loans serviced for others. The increase in risk management results was primarily attributable to an improved hedge performance.

The increase in Mortgage Banking servicing income for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily attributable to higher servicing income and improved risk management results. The higher servicing income was primarily attributed to higher servicing fees on higher average balances of loans

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serviced for others and lower modeled amortization was primarily attributable to higher servicing income and improved risk management results. The higher servicing income was primarily attributed to higher servicing fees on higher average balances of loans serviced for others and lower modeled amortization. The improved risk management result was primarily due to improved hedge performance and the impact of certain prepayment model refinements. By comparison, there were no material adjustments to the prepayment model in nine months ended September 30, 2015. Single family mortgage servicing fees collected increased for the three and nine months ended September 30, 2016 compared to three and nine months ended September 30, 2015 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 September 30, 2016	At December 31, 2015
Single family		
U.S. government and agency	\$ 17,593,901	\$ 14,628,596
Other	605,139	719,215
Total single family loans serviced for others	\$ 18,199,040	\$ 15,347,811

Mortgage Banking noninterest expense for the three and nine months ended September 30, 2016 increased compared to the three and nine months ended September 30, 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 disclosure requirements for the mortgage industry. Since September 30, 2015, we have increased our lending footprint by adding six home loan centers to bring our total home loan centers to 70.

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 9, 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 \$32.4 million, or 0.52% of total assets at September 30, 2016, compared to \$24.7 million, or 0.50% of total assets at December 31, 2015. Nonaccrual loans of \$25.9 million, or 0.68% of total loans at September 30, 2016, increased \$8.8 million, or 51%, from \$17.2 million, or 0.53% of total loans at December 31, 2015. Net charge-offs for the three months ended September 30, 2016 were \$18 thousand compared to net recoveries of \$739 thousand for the three months ended September 30, 2015. Net recoveries during the nine months ended September 30, 2016 were \$824 thousand compared with net recoveries of \$1.2 million during the nine months ended September 30, 2015.

At September 30, 2016, our loans held for investment portfolio, net of the allowance for loan losses, was \$3.76 billion, an increase of \$571.5 million from December 31, 2015. In 2016, we added \$125.8 million of loans to the portfolio from the OCBB merger and \$40.3 million in loans from the acquisition of two branches from TBOO. The allowance for loan losses was \$34.0 million, or 0.89% 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 \$1.3 million for the third quarter of 2016 compared to a provision of \$700 thousand for the third quarter of 2015. For the nine months ended September 30, 2016, we recorded a provision for credit losses of \$3.8 million compared to a provision of \$4.2 million for the nine months ended September 30, 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.

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 September 30, 2016		
	Recorded Investment	Unpaid Principal Balance (2)	Related Allowance
Impaired loans:			
Loans with no related allowance recorded	\$89,953	\$94,714	\$ —
Loans with an allowance recorded	10,357	10,519	1,305
Total	\$100,310 ⁽¹⁾	\$105,233	\$ 1,305

(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

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 \$77.5 million and \$74.7 million in single family performing troubled debt restructurings ("TDRs") at September 30, 2016 and December 31, 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 298 impaired loans totaling \$100.3 million at September 30, 2016 and 271 impaired loans totaling \$93.7 million at December 31, 2015. Included in the total impaired loan amounts were 256 single family TDR loan relationships totaling \$81.2 million at September 30, 2016 and 224 single family TDR loan relationships totaling \$77.1 million at December 31, 2015. At September 30, 2016, there were 242 single family impaired loan relationships totaling \$77.5 million that were performing per their current contractual terms. Additionally, the impaired loan balance included \$37.1 million of loans insured by the FHA or guaranteed by the VA. The average recorded investment in these loans for the three and nine months ended September 30, 2016 was \$97.0 million and \$97.0 million, respectively, compared to \$111.0 million and \$114.6 million for the three and nine months ended September 30, 2015. Impaired loans of \$10.4 million and \$3.1 million had a valuation allowance of \$1.3 million and \$567 thousand at September 30, 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 10-K.

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

	At September 30, 2016	At December 31, 2015
(in thousands) Amount	Percent of Allowance to Total Allowance	Loan Category as a % of Total Loans ⁽¹⁾