HomeStreet, Inc.
Form 10-Q
August 08, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: June 30, 2013
Commission file number: 001-35424

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
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	x	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 x
The number of outstanding shares of the registrant's common stock as of July 31, 2013 was 14,419,124.

PART I – FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

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

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

(in thousands, except share data)	June 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents (includes interest-bearing instruments of $7,568 and $12,414)	$21,645	$25,285
Investment securities available for sale	538,164	416,329
Loans held for sale (includes $459,981 and $607,578 carried at fair value)	471,191	620,799
Loans held for investment (net of allowance for loan losses of $27,655 and $27,561)	1,416,439	1,308,974
Mortgage servicing rights (includes $128,146 and $87,396 carried at fair value)	137,385	95,493
Other real estate owned	11,949	23,941
Federal Home Loan Bank stock, at cost	35,708	36,367
Premises and equipment, net	18,362	15,232
Accounts receivable and other assets	125,281	88,810
Total assets	$2,776,124	$2,631,230
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits	$1,963,123	$1,976,835
Federal Home Loan Bank advances	409,490	259,090
Accounts payable and other liabilities	73,333	69,686
Long-term debt	61,857	61,857
Total liabilities	2,507,803	2,367,468
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, 14,406,676 shares and 14,382,638 shares	511	511
Additional paid-in capital	91,054	90,189
Retained earnings	185,300	163,872
Accumulated other comprehensive income (loss)	(8,544)	9,190
Total shareholders' equity	268,321	263,762
Total liabilities and shareholders' equity	$2,776,124	$2,631,230

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except share data)	2013	2012	2013	2012
Interest income:				
Loans	$17,446	$17,351	$35,495	$33,832
Investment securities available for sale	2,998	2,449	5,657	4,688
Other	24	56	54	192
	20,468	19,856	41,206	38,712
Interest expense:				
Deposits	2,367	4,198	5,856	9,077
Federal Home Loan Bank advances	387	535	680	1,209
Securities sold under agreements to repurchase	11	50	11	50
Long-term debt	283	271	1,999	736
Other	5	3	10	9
	3,053	5,057	8,556	11,081
Net interest income	17,415	14,799	32,650	27,631
Provision for credit losses	400	2,000	2,400	2,000
Net interest income after provision for credit losses	17,015	12,799	30,250	25,631
Noninterest income:				
Net gain on mortgage loan origination and sale activities	52,424	46,799	106,379	76,347
Mortgage servicing income	2,183	7,091	5,255	14,964
Income from Windermere Mortgage Services Series LLC	993	1,394	1,613	2,560
Loss on debt extinguishment	—	(939)	—	(939)
Depositor and other retail banking fees	761	771	1,482	1,506
Insurance commissions	190	177	370	359
Gain on sale of investment securities available for sale (includes unrealized gains reclassified from accumulated other comprehensive income of $238 and $911 for the three months ended June 30, 2013 and 2012, and $190 and $952 for the six months ended June 30, 2013 and 2012, respectively)	238	911	190	952
Other	767	646	1,210	1,249
	57,556	56,850	116,499	96,998
Noninterest expense:				
Salaries and related costs	38,579	28,224	73,641	49,575
General and administrative	10,270	6,832	21,200	12,156
Legal	599	724	1,210	1,159
Consulting	763	322	1,459	677
Federal Deposit Insurance Corporation assessments	143	717	710	1,957
Occupancy	3,381	2,092	6,183	3,881
Information services	3,574	1,994	6,570	3,717
Other real estate owned expense and other adjustments	(597)	6,049	1,538	8,569
	56,712	46,954	112,511	81,691
Income before income taxes	17,859	22,695	34,238	40,938
	5,791	4,017	11,230	2,301

Income tax expense (includes reclassification adjustments of $83 and $333 for the three months ended June 30, 2013 and 2012, and $66 and $333 for the six months ended June 30, 2013 and 2012, respectively)				
NET INCOME	$12,068	$18,678	$23,008	$38,637
Basic income per share	$0.84	$1.31	$1.60	$3.15
Diluted income per share	$0.82	$1.26	$1.56	$3.03
Basic weighted average number of shares outstanding	14,376,580	14,252,120	14,368,135	12,272,342
Diluted weighted average number of shares outstanding	14,785,481	14,824,064	14,794,805	12,772,198

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

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

(in thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net income	$12,068	$18,678	$23,008	$38,637
Other comprehensive income (loss), net of tax:				
Unrealized (loss) gain on securities:				
Unrealized holding (loss) gain arising during the period (net of tax (benefit) expense of $(7,737) and $1,571 for the three months ended June 30, 2013 and 2012 and $(9,483) and $1,237 for the six months ended June 30, 2013 and 2012, respectively)	(14,367)	3,492	(17,610)	2,582
Reclassification adjustment included in net income (net of tax expense of $83 and $333 for the three months ended June 30, 2013 and 2012, and $66 and $333 for the six months ended June 30, 2013 and 2012, respectively)	(155)	(578)	(124)	(619)
Other comprehensive income (loss)	(14,522)	2,914	(17,734)	1,963
Comprehensive income (loss)	$(2,454)	$21,592	$5,274	$40,600

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

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

(in thousands, except share data)	Number of shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2012	5,403,498	$511	$31	$81,746	$ 4,119	$86,407
Net income	—	—	—	38,637	—	38,637
Share-based compensation	—	—	2,216	—	—	2,216
Common stock issued	8,921,716	—	86,390	—	—	86,390
Other comprehensive income	—	—	—	—	1,963	1,963
Balance, June 30, 2012	14,325,214	$511	$88,637	$120,383	$ 6,082	$215,613
Balance, January 1, 2013	14,382,638	$511	$90,189	$163,872	$ 9,190	$263,762
Net income	—	—	—	23,008	—	23,008
Dividends declared	—	—	—	(1,580)	—	(1,580)
Share-based compensation	—	—	783	—	—	783
Common stock issued	24,038	—	82	—	—	82
Other comprehensive loss	—	—	—	—	(17,734)	(17,734)
Balance, June 30, 2013	14,406,676	$511	$91,054	$185,300	$ (8,544)	$268,321

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

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

(in thousands)	Six Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$23,008	$38,637
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization/accretion of discount/premium on loans held for investment, net of additions	190	(554)
Amortization/accretion of discount/premium on investment securities	3,505	2,576
Amortization of intangibles	16	52
Amortization of mortgage servicing rights	913	953
Provision for credit losses	2,400	2,000
Provision for losses on other real estate owned	339	8,332
Depreciation on premises and equipment	2,021	1,121
Fair value adjustment of loans held for sale	32,661	(14,129)
Fair value adjustment of foreclosed loans transferred to other real estate owned	(218)	(490)
Origination of mortgage servicing rights	(36,168)	(18,817)
Change in fair value of mortgage servicing rights	(6,628)	16,964
Net gain on sale of investment securities	(190)	(952)
Net gain on sale of other real estate owned	(400)	(237)
Net deferred income tax expense (benefit)	10,883	(13,222)
Share-based compensation expense	624	2,216
Origination of loans held for sale	(2,899,308)	(1,835,017)
Proceeds from sale of loans held for sale	3,016,255	1,584,367
Cash used by changes in operating assets and liabilities:		
Increase in accounts receivable and other assets	(33,328)	(49,644)
(Decrease) increase in accounts payable and other liabilities	(1,457)	28,948
Net cash provided by (used in) operating activities	115,118	(246,896)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(221,106)	(223,483)
Proceeds from sale of investment securities	50,594	119,539
Principal repayments and maturities of investment securities	18,079	19,290
Proceeds from sale of other real estate owned	14,697	18,919
Mortgage servicing rights purchased from others	(10)	(59)
Capital expenditures related to other real estate owned	(22)	(63)
Origination of loans held for investment and principal repayments, net	(113,428)	38,883
Property and equipment purchased	(5,151)	(4,778)
Net cash used in investing activities	(256,347)	(31,752)

(in thousands)	Six Months Ended June 30, 2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in deposits, net	$(13,711)	$(105,006)
Proceeds from Federal Home Loan Bank advances	3,264,946	525,521
Repayment of Federal Home Loan Bank advances	(3,114,546)	(517,850)
Proceeds from securities sold under agreements to repurchase	159,790	293,500
Repayment of securities sold under agreements to repurchase	(159,790)	(193,500)
Proceeds from Federal Home Loan Bank stock repurchase	659	—
Proceeds from stock issuance, net	82	87,744
Excess tax benefits related to the exercise of stock options	159	—
Net cash provided by financing activities	137,589	90,409
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,640)	(188,239)
CASH AND CASH EQUIVALENTS:		
Beginning of year	25,285	263,302
End of period	$21,645	$75,063
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$21,524	$11,081
Federal and state income taxes	6,714	3,450
Non-cash activities:		
Loans held for investment foreclosed and transferred to other real estate owned	6,225	27,807
Ginnie Mae loans recorded with the right to repurchase, net	$2,127	$2,516

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

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

NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

The Company’s accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP). Inter-company balances and transactions have been eliminated in consolidation. In preparing the consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses during the reporting periods and related disclosures. Although these estimates contemplate current conditions and how they are expected to change in the future, it is reasonably possible that actual conditions could be worse than anticipated in those estimates, which could materially affect the Company’s results of operations and financial condition. Management has made significant estimates in several areas, and actual results could differ materially from those estimates. Certain amounts in the financial statements from prior periods have been reclassified to conform to the current financial statement presentation.

The information furnished in these unaudited interim financial statements reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The results of operations in the interim financial statements do not necessarily indicate the results that may be expected for the full year. The interim financial information should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission (“2012 Annual Report on Form 10-K”).

Shares outstanding and per share information presented in this Form 10-Q have been adjusted to reflect the 2-for-1 forward stock splits effective on November 5, 2012 and on March 6, 2012.

NOTE 2–SIGNIFICANT RISKS AND UNCERTAINTIES:

Regulatory Agreements

Homestreet, Inc. received notification from the Federal Reserve Bank of San Francisco that the Cease and Desist Order, dated May 18, 2009 issued by the Office of Thrift Supervision, had been terminated effective March 26, 2013.

On December 27, 2012, the Bank had been notified by the Federal Deposit Insurance Corporation (“FDIC”) and the Washington State Department of Financial Institutions (“WDFI”) that the Bank had taken appropriate corrective actions to address the memorandum of understanding ("MOU") in place since March 26, 2012, and consequently the Bank's MOU was terminated effective December 27, 2012. The Bank is no longer considered a “troubled institution” and is considered “well-capitalized” within the meaning of the FDIC's prompt corrective action rules.

NOTE 3–INVESTMENT SECURITIES AVAILABLE FOR SALE:

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

	At June 30, 2013			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	$124,240	$4	$(3,305)	$120,939
Commercial	13,564	328	—	13,892
Municipal bonds	152,151	1,061	(5,537)	147,675
Collateralized mortgage obligations:				
Residential	138,957	1,144	(2,558)	137,543
Commercial	18,014	13	(494)	17,533
Corporate debt securities	76,488	—	(5,515)	70,973
U.S. Treasury securities	29,600	10	(1)	29,609
	$553,014	$2,560	$(17,410)	$538,164

	At December 31, 2012			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	$62,847	$223	$(217)	$62,853
Commercial	13,720	660	—	14,380
Municipal bonds	123,695	5,574	(94)	129,175
Collateralized mortgage obligations:				
Residential	163,981	6,333	(115)	170,199
Commercial	8,983	60	—	9,043
U.S. Treasury securities	30,670	11	(2)	30,679
	$403,896	$12,861	$(428)	$416,329

Mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO") represent securities issued by government sponsored entities ("GSEs"). Each of the MBS and CMO securities in our investment portfolio are guaranteed by Fannie Mae, Ginnie Mae or Freddie Mac. Municipal bonds are comprised of general obligation bonds (i.e., backed by the general credit of the issuer) and revenue bonds (i.e., backed by revenues from the specific project being financed) issued by various municipal corporations. As of June 30, 2013 and December 31, 2012, substantially all securities held, including municipal bonds and corporate debt securities, were rated and considered investment grade according to their credit rating by Standard and Poor’s Rating Services (“S&P”) or Moody’s Investors Services (“Moody’s”).

Investment securities 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.

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(in thousands)	At June 30, 2013 Less than 12 months Gross unrealized losses		Fair value	12 months or more Gross unrealized losses	Fair value	Total Gross unrealized losses		Fair value
Mortgage-backed securities:								
Residential	$(3,305	)	$115,937	$—	$—	$(3,305	)	$115,937
Commercial	—		—	—	—	—		—
Municipal bonds	(5,537	)	96,061	—	—	(5,537	)	96,061
Collateralized mortgage obligations:								
Residential	(2,558	)	72,904	—	—	(2,558	)	72,904
Commercial	(494	)	11,698	—	—	(494	)	11,698
Corporate debt securities	(5,515	)	70,973	—	—	(5,515	)	70,973
U.S. Treasury securities	(1	)	1,000	—	—	(1	)	1,000
	$(17,410	)	$368,573	$—	$—	$(17,410	)	$368,573

(in thousands)	At December 31, 2012 Less than 12 months Gross unrealized losses		Fair value	12 months or more Gross unrealized losses		Fair value	Total Gross unrealized losses		Fair value
Mortgage-backed securities:									
Residential	$(217	)	$18,121	$—		$—	$(217	)	$18,121
Municipal bonds	(94	)	4,212	—		—	(94	)	4,212
Collateralized mortgage obligations:									
Residential	(115	)	13,883	—		—	(115	)	13,883
U.S. Treasury securities	—		—	(2	)	10,238	(2	)	10,238
	$(426	)	$36,216	$(2	)	$10,238	$(428	)	$46,454

The Company has evaluated securities 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 company- or industry-specific credit event. The Company anticipates full recovery of the amortized cost of these securities at maturity or sooner in the event of a more favorable market interest rate environment and does not intend to sell nor expect that it will be required to sell such securities before recovery of their amortized cost basis.

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

	At June 30, 2013									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
(in thousands)	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
Available for sale:										
Mortgage-backed securities:										
Residential	$—	— %	$—	— %	$—	— %	$120,939	2.10 %	$120,939	2.10 %
Commercial	—	—	—	—	—	—	13,892	4.44	13,892	4.44
Municipal bonds	—	—	—	—	18,864	3.45	128,811	4.44	147,675	4.31
Collateralized mortgage obligations:										
Residential	—	—	—	—	8,646	2.07	128,897	2.43	137,543	2.41
Commercial	—	—	—	—	5,338	1.89	12,195	1.40	17,533	1.55
Corporate debt securities	—	—	—	—	33,791	3.31	37,182	3.75	70,973	3.54
U.S. Treasury securities	28,609	0.23	1,000	0.18	—	—	—	—	29,609	0.23
Total available for sale	$28,609	0.23 %	$1,000	0.18 %	$66,639	3.08 %	$441,916	3.07 %	$538,164	2.92 %

	At December 31, 2012									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
(in thousands)	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
Available for sale:										
Mortgage-backed securities:										
Residential	$—	— %	$—	— %	$—	— %	$62,853	2.81 %	$62,853	2.81 %
Commercial	—	—	—	—	—	—	14,380	4.03	14,380	4.03
Municipal bonds	—	—	—	—	15,673	3.64	113,502	4.66	129,175	4.53
Collateralized mortgage										

obligations:																			
Residential	—	—			—	—			—	—			170,199	2.64			170,199	2.64	
Commercial	—	—			—	—			—	—			9,043	2.06			9,043	2.06	
U.S. Treasury securities	30,679	0.23			—	—			—	—			—	—			30,679	0.23	
Total available for sale	$	30,679	0.23	%	$	—	—	%	$	15,673	3.64	%	$	369,977	3.33	%	$	416,329	3.11 %

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Sales of investment securities available for sale were as follows.

(in thousands)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Proceeds	$34,840	$85,492	$50,594	$119,539
Gross gains	318	1,233	322	1,346
Gross losses	(80)	(322)	(132)	(394)

There were $104.8 million in investment securities pledged to secure advances from the Federal Home Loan Bank of Seattle ("FHLB") at June 30, 2013 and $51.9 million in investment securities pledged to secure advances from the FHLB at December 31, 2012. At June 30, 2013 and December 31, 2012 there were $7.7 million and $18.6 million, respectively, of securities pledged to secure derivatives in a liability position.

Tax-exempt interest income on securities available for sale of $1.4 million and $1.0 million for the three months ended June 30, 2013 and 2012, respectively, and $2.7 million and $1.7 million for the six months ended June 30, 2013 and 2012, 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 to the Company's 2012 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 loans within the consumer loan portfolio segment and commercial real estate, multifamily, construction/land development and commercial business loans within the commercial loan portfolio segment.

Loans held for investment consist of the following.

(in thousands)	At June 30, 2013	At December 31, 2012
Consumer loans		
Single family	$772,450	$673,865
Home equity	132,218	136,746
	904,668	810,611
Commercial loans		
Commercial real estate	382,345	361,879
Multifamily	26,120	17,012
Construction/land development	61,125	71,033
Commercial business	73,202	79,576
	542,792	529,500
	1,447,460	1,340,111

Net deferred loan fees and discounts	(3,366)	(3,576)
	1,444,094	1,336,535
Allowance for loan losses	(27,655)	(27,561)
	$1,416,439	$1,308,974

Loans in the amount of $473.0 million and $469.8 million at June 30, 2013 and December 31, 2012, respectively, were pledged to secure borrowings from the FHLB as part of our liquidity management strategy. The FHLB does not have the right to sell or repledge these loans.

Loans held for investment are primarily secured by real estate located in the states of Washington, Oregon, Idaho and Hawaii. Loan concentrations may exist when there are amounts loaned to borrowers engaged in similar activities or similar types of loans extended to a diverse group of borrowers that would cause them to be similarly impacted by economic or other conditions. At June 30, 2013 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 43.5% and 21.9% respectively. At December 31, 2012 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 40.4% and 22.5% of the total portfolio, respectively. These loans were mostly located within the Puget Sound area, particularly within King County.

Credit Quality

Management considers the level of allowance for loan losses to be appropriate to cover credit losses inherent within the loans held for investment portfolio as of June 30, 2013. 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 the 2012 Annual Report on Form 10-K.

Activity in the allowance for credit losses was as follows.

(in thousands)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Allowance for credit losses (roll-forward):				
Beginning balance	$28,594	$35,402	$27,751	$42,800
Provision for credit losses	400	2,000	2,400	2,000
(Charge-offs), net of recoveries	(1,136)	(10,277)	(2,293)	(17,675)
Ending balance	$27,858	$27,125	$27,858	$27,125
Components:				
Allowance for loan losses	$27,655	$26,910	$27,655	$26,910
Allowance for unfunded commitments	203	215	203	215
Allowance for credit losses	$27,858	$27,125	$27,858	$27,125

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

(in thousands)	Three Months Ended June 30, 2013 Beginning balance	Charge-offs	Recoveries	Provision	Ending balance
Consumer loans					
Single family	$14,478	$(1,141)	$171	$302	$13,810
Home equity	4,708	(299)	156	314	4,879
	19,186	(1,440)	327	616	18,689
Commercial loans					

Commercial real estate	5,958	(340)	—	105	5,723
Multifamily	635	—	—	55	690
Construction/land development	894	—	281	10	1,185
Commercial business	1,921	—	36	(386)	1,571
	9,408	(340)	317	(216)	9,169
Total allowance for credit losses	$28,594	$(1,780)	$644	$400	$27,858

(in thousands)	Three Months Ended June 30, 2012 Beginning balance	Charge-offs	Recoveries	Provision	Ending balance
Consumer loans					
Single family	$11,667	$(1,251)	$433	$2,016	$12,865
Home equity	4,531	(1,150)	212	1,258	4,851
	16,198	(2,401)	645	3,274	17,716
Commercial loans					
Commercial real estate	4,898	(1,691)	128	1,008	4,343
Multifamily	346	—	—	577	923
Construction/land development	12,716	(7,223)	514	(2,985)	3,022
Commercial business	1,244	(323)	74	126	1,121
	19,204	(9,237)	716	(1,274)	9,409
Total allowance for credit losses	$35,402	$(11,638)	$1,361	$2,000	$27,125

(in thousands)	Six Months Ended June 30, 2013 Beginning balance	Charge-offs	Recoveries	Provision	Ending balance
Consumer loans					
Single family	$13,388	(1,862)	$246	$2,038	$13,810
Home equity	4,648	(1,138)	253	1,116	4,879
	18,036	(3,000)	499	3,154	18,689
Commercial loans					
Commercial real estate	5,312	(143)	—	554	5,723
Multifamily	622	—	—	68	690
Construction/land development	1,580	(148)	351	(598)	1,185
Commercial business	2,201	—	148	(778)	1,571
	9,715	(291)	499	(754)	9,169
Total allowance for credit losses	$27,751	$(3,291)	$998	$2,400	$27,858

(in thousands)	Six Months Ended June 30, 2012 Beginning balance	Charge-offs	Recoveries	Provision	Ending balance
Consumer loans					
Single family	$10,671	$(2,526)	$433	$4,287	$12,865
Home equity	4,623	(2,499)	277	2,450	4,851
	15,294	(5,025)	710	6,737	17,716
Commercial loans					
Commercial real estate	4,321	(1,717)	128	1,611	4,343
Multifamily	335	—	—	588	923
Construction/land development	21,237	(12,035)	642	(6,822)	3,022
Commercial business	1,613	(464)	86	(114)	1,121
	27,506	(14,216)	856	(4,737)	9,409
Total allowance for credit losses	$42,800	$(19,241)	$1,566	$2,000	$27,125

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

(in thousands)	At June 30, 2013 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	$12,060	$1,750	$13,810	$687,178	$85,272	$772,450
Home equity	4,727	152	4,879	128,587	3,631	132,218
	16,787	1,902	18,689	815,765	88,903	904,668
Commercial loans						
Commercial real estate	4,769	954	5,723	354,677	27,668	382,345
Multifamily	222	468	690	22,922	3,198	26,120
Construction/land development	954	231	1,185	53,356	7,769	61,125
Commercial business	847	724	1,571	71,335	1,867	73,202
	6,792	2,377	9,169	502,290	40,502	542,792
Total	$23,579	$4,279	$27,858	$1,318,055	$129,405	$1,447,460

(in thousands)	At December 31, 2012 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	$11,212	$2,176	$13,388	$599,538	$74,327	$673,865
Home equity	4,611	37	4,648	133,026	3,720	136,746
	15,823	2,213	18,036	732,564	78,047	810,611
Commercial loans						
Commercial real estate	3,682	1,630	5,312	334,406	27,473	361,879
Multifamily	106	516	622	13,791	3,221	17,012
Construction/land development	1,092	488	1,580	58,129	12,904	71,033
Commercial business	680	1,521	2,201	77,256	2,320	79,576
	5,560	4,155	9,715	483,582	45,918	529,500
Total	$21,383	$6,368	$27,751	$1,216,146	$123,965	$1,340,111

Interest payments on impaired loans, applied against loan principal or recognized as interest income, of $1.2 million and $1.6 million were recorded for cash payments received during the three months ended June 30, 2013 and 2012, respectively, and $2.3 million and $3.0 million was recorded for cash payments received during the six months ended June 30, 2013 and 2012, respectively.

Impaired Loans

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

(in thousands)	At June 30, 2013 Recorded investment (1)	Unpaid principal balance (2)	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$44,769	$48,162	$—
Home equity	2,721	3,227	—
	47,490	51,389	—
Commercial loans			
Commercial real estate	10,733	11,997	—
Multifamily	508	508	—
Construction/land development	7,458	17,431	—
Commercial business	129	144	—
	18,828	30,080	—
	$66,318	$81,469	$—
With an allowance recorded:			
Consumer loans			
Single family	$40,503	$40,800	$1,750
Home equity	910	938	152
	41,413	41,738	1,902
Commercial loans			
Commercial real estate	16,935	17,230	954
Multifamily	2,690	3,867	468
Construction/land development	311	311	231
Commercial business	1,738	1,838	724
	21,674	23,246	2,377
	$63,087	$64,984	$4,279
Total:			
Consumer loans			
Single family	$85,272	$88,962	$1,750
Home equity	3,631	4,165	152
	88,903	93,127	1,902
Commercial loans			
Commercial real estate	27,668	29,227	954
Multifamily	3,198	4,375	468
Construction/land development	7,769	17,742	231
Commercial business	1,867	1,982	724
	40,502	53,326	2,377
Total impaired loans	$129,405	$146,453	$4,279

(in thousands)	At December 31, 2012 Recorded investment [1]	Unpaid principal balance [2]	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$28,202	$29,946	$—
Home equity	2,728	3,211	—
	30,930	33,157	—
Commercial loans			
Commercial real estate	10,933	12,445	—
Multifamily	508	508	—
Construction/land development	11,097	20,990	—
Commercial business	147	162	—
	22,685	34,105	—
	$53,615	$67,262	$—
With an allowance recorded:			
Consumer loans			
Single family	$46,125	$47,553	$2,176
Home equity	992	1,142	37
	47,117	48,695	2,213
Commercial loans			
Commercial real estate	16,540	16,540	1,630
Multifamily	2,713	2,891	516
Construction/land development	1,807	1,807	488
Commercial business	2,173	2,287	1,521
	23,233	23,525	4,155
	$70,350	$72,220	$6,368
Total:			
Consumer loans			
Single family	$74,327	$77,499	$2,176
Home equity	3,720	4,353	37
	78,047	81,852	2,213
Commercial loans			
Commercial real estate	27,473	28,985	1,630
Multifamily	3,221	3,399	516
Construction/land development	12,904	22,797	488
Commercial business	2,320	2,449	1,521
	45,918	57,630	4,155
Total impaired loans	$123,965	$139,482	$6,368

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

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

The following table provides the average recorded investment in impaired loans by portfolio segment and class. Information related to interest income recognized on average impaired loan balances is not included as it is not operationally practicable to derive this.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2013	2012	2013	2012
Consumer loans				
Single family	$81,628	$69,967	$79,194	$66,535
Home equity	3,550	2,721	3,607	2,794
	85,178	72,688	82,801	69,329
Commercial loans				
Commercial real estate	28,191	32,902	27,952	33,677
Multifamily	3,204	5,787	3,210	6,673
Construction/land development	9,115	41,768	10,378	51,159
Commercial business	1,921	965	2,054	1,024
	42,431	81,422	43,594	92,533
	$127,609	$154,110	$126,395	$161,862

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 following tables present designated loan grades by loan portfolio segment and loan class.

	At June 30, 2013				
(in thousands)	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$677,673	$49,910	$ 18,229	$26,638	$772,450
Home equity	128,336	115	325	3,442	132,218