

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

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2017

Commission file number: 001-35424

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HOMESTREET, INC.

(Exact name of registrant as specified in its charter)

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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

Emerging growth Company

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

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

The number of outstanding shares of the registrant's common stock as of August 1, 2017 was 26,884,028.6.



Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

<u>Consolidated Statements of Financial Condition (Unaudited) at June 30, 2017 and December 31, 2016</u>	<u>4</u>
<u>Interim Consolidated Statements of Operations (Unaudited) for the Three and Six Months Ended June 30, 2017 and 2016</u>	<u>5</u>
<u>Interim Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Six Months Ended June 30, 2017 and 2016</u>	<u>6</u>
<u>Interim Consolidated Statements of Shareholders' Equity (Unaudited) for the Six Months Ended June 30, 2017 and 2016</u>	<u>7</u>
<u>Interim Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2017 and 2016</u>	<u>8</u>
<u>Notes to Interim Consolidated Financial Statements (Unaudited)</u>	
<u>Note 1 – Summary of Significant Accounting Policies</u>	<u>10</u>
<u>Note 2 – Business Combinations</u>	<u>12</u>
<u>Note 3 – Investment Securities</u>	<u>13</u>
<u>Note 4 – Loans and Credit Quality</u>	<u>18</u>
<u>Note 5 – Deposits</u>	<u>34</u>
<u>Note 6 – Derivatives and Hedging Activities</u>	<u>35</u>
<u>Note 7 – Mortgage Banking Operations</u>	<u>37</u>
<u>Note 8 – Commitments, Guarantees and Contingencies</u>	<u>42</u>
<u>Note 9 – Fair Value Measurement</u>	<u>43</u>
<u>Note 10 – Earnings Per Share</u>	<u>54</u>
<u>Note 11 – Business Segments</u>	<u>54</u>
<u>Note 12 – Accumulated Other Comprehensive Income</u>	<u>56</u>
<u>Note 13 – Subsequent Events</u>	<u>57</u>

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

<u>Forward-Looking Statements</u>	<u>58</u>
<u>Summary Financial Data</u>	<u>59</u>
<u>Management's Overview of Financial Performance</u>	<u>62</u>
<u>Critical Accounting Policies and Estimates</u>	<u>65</u>
<u>Results of Operations</u>	<u>66</u>
<u>Review of Financial Condition</u>	<u>74</u>
<u>Business Segments</u>	<u>77</u>
<u>Off-Balance Sheet Arrangements</u>	<u>82</u>
<u>Enterprise Risk Management</u>	<u>82</u>
<u>Credit Risk Management</u>	<u>82</u>
<u>Liquidity and Capital Resources</u>	<u>87</u>
<u>Accounting Developments</u>	<u>91</u>

Table of Contents

ITEM 3	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>92</u>
ITEM 4	<u>CONTROLS AND PROCEDURES</u>	<u>95</u>
<u>PART II – OTHER INFORMATION</u>		
ITEM 1	<u>LEGAL PROCEEDINGS</u>	<u>95</u>
ITEM 1A	<u>RISK FACTORS</u>	<u>96</u>
ITEM 6	<u>EXHIBITS</u>	<u>115</u>
	<u>SIGNATURES</u>	<u>116</u>

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

PART I  
ITEM 1.  
FINANCIAL  
STATEMENTS

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

(in thousands, except share data)	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
Cash and cash equivalents (including interest-earning instruments of \$23,107 and \$34,615)	\$54,447	\$53,932
Investment securities (includes \$884,266 and \$993,990 carried at fair value)	936,522	1,043,851
Loans held for sale (includes \$680,959 and \$656,334 carried at fair value)	784,556	714,559
Loans held for investment (net of allowance for loan losses of \$36,136 and \$34,001; includes \$5,134 and \$17,988 carried at fair value)	4,156,424	3,819,027
Mortgage servicing rights (includes \$236,621 and \$226,113 carried at fair value)	258,222	245,860
Other real estate owned	4,597	5,243
Federal Home Loan Bank stock, at cost	41,769	40,347
Premises and equipment, net	101,797	77,636
Goodwill	22,175	22,175
Other assets	226,048	221,070
Total assets	\$6,586,557	\$6,243,700
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Deposits	\$4,747,771	\$4,429,701
Federal Home Loan Bank advances	867,290	868,379
Accounts payable and other liabilities	190,421	191,189
Long-term debt	125,234	125,147
Total liabilities	5,930,716	5,614,416
<b>Commitments and contingencies (Note 8)</b>		
<b>Shareholders' equity:</b>		
Preferred stock, no par value, authorized 10,000 shares, issued and outstanding, 0 shares and 0 shares	—	—
Common stock, no par value, authorized 160,000,000 shares, issued and outstanding, 26,874,871 shares and 26,800,183 shares	511	511
Additional paid-in capital	337,515	336,149
Retained earnings	323,228	303,036
Accumulated other comprehensive loss	(5,413 )	(10,412 )
Total shareholders' equity	655,841	629,284
Total liabilities and shareholders' equity	\$6,586,557	\$6,243,700

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

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

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

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Diluted weighted average number of shares outstanding 27,084,602 24,911,919 27,071,028 24,394,648  
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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 11,209	\$ 21,749	\$ 20,192	\$ 28,156
Other comprehensive income, net of tax:				
Unrealized gain on investment securities available for sale:				
Unrealized holding gain arising during the period, net of tax expense of \$1,848 and \$3,030 for the three months ended June 30, 2017 and 2016, and \$2,887 and \$6,602 for the six months ended June 30, 2017 and 2016, respectively	3,431	5,627	5,361	12,260
Reclassification adjustment for net gains included in net income, net of tax expense of \$193 and \$22 for the three months ended June 30, 2017 and 2016 and, \$195 and \$34 for the six months ended June 30, 2017 and 2016, respectively	(358 )	(40 )	(362 )	(63 )
Other comprehensive income	3,073	5,587	4,999	12,197
Comprehensive income	\$ 14,282	\$ 27,336	\$ 25,191	\$ 40,353

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



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

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

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

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

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

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

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

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

Recent Accounting Developments

In March 2017 the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-08, Receivables - Nonrefundable Fees and other Costs (Subtopic 320-20): Premium Amortization on Purchased Callable Debt Securities, or ASU 2017-08. This standard shortens the amortization period for the premium to the earliest call date to more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. Adoption of ASU 2017-08 is required for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018, early adoption is permitted. The Company is currently evaluating the provisions of this guidance to determine the potential impact the new standard will have on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, or ASU 2017-04, which eliminates Step 2 from the goodwill impairment test. ASU 2017-04 also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity

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

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

be applied prospectively. Upon adoption, the standard will impact how we assess acquisitions (or disposals) of assets or businesses. Management does not expect the adoption of ASU 2017-01 to have a material impact on its consolidated financial statements.

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

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

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

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

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

earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. Management is currently evaluating the provisions of this guidance to determine the potential impact the new standard will have on the Company's consolidated financial statements. While we have not quantified the impact to our balance sheet, upon the adoption of this ASU we expect to report increased assets and liabilities on our Consolidated Statement of Financial Condition as a result of recognizing right-of-use assets and lease liabilities related to these leases and certain equipment under non-cancelable operating lease agreements, which currently are not on our Consolidated Statement of Financial Condition.

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

through net income. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value under certain circumstances and require enhanced disclosures about those investments. This ASU simplifies the impairment assessment of equity investments without readily determinable fair values. This ASU also eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The amendments in this ASU require separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This ASU excludes from net income gains or losses that the entity may not realize because those financial liabilities are not usually transferred or settled at their fair values before maturity. The amendments in this ASU require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the provisions of ASU No. 2016-01 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU clarifies the principles for recognizing revenue from contracts with customers. On August 12, 2015, the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. On March 17, 2016, the FASB issued Accounting Standards Update 2016-08 to clarify the implementation guidance on principal versus agent considerations. We intend to adopt this new guidance on January 1, 2018. We are in the process of completing an analysis that includes (1) identification of all revenue streams included in the financial statements; (2) of the revenue streams identified, determine which are within the scope of the pronouncement; (3) determination of size, timing and amount of revenue recognition for streams of income within the scope of this pronouncement; (4) determination of the sample size of contracts for further analysis; and (5) completion of analysis on sample of contracts to evaluate the impact of the new guidance. Based on this analysis, we are developing processes and procedures in 2017 to address the amendments of this ASU, including new disclosures. Additionally, we do not expect the implementation of this guidance to have a material impact on our consolidated financial statements.

#### NOTE 2—BUSINESS COMBINATIONS:

##### Recent Acquisition Activity

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

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

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



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

## NOTE 3—INVESTMENT SECURITIES:

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

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

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

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

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

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

**HELD TO MATURITY**

Mortgage-backed securities:

Residential		\$(68)	\$6,360	\$—	\$—	\$(68)	\$6,360
Commercial		(10)	4,533	—	—	(10)	4,533
Municipal bonds		(152)	10,690	—	—	(152)	10,690
		\$(230)	\$21,583	\$—	\$—	\$(230)	\$21,583

At December 31, 2016

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

**HELD TO MATURITY**

Mortgage-backed securities:

Residential		\$(90)	\$5,481	\$—	\$—	\$(90)	\$5,481
Commercial		(64)	13,156	—	—	(64)	13,156

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

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

15

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

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

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



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(dollars in thousands)	At December 31, 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
<b>AVAILABLE FOR SALE</b>										
<b>Mortgage-backed securities:</b>										
Residential	\$1	0.29 %	\$—	— %	\$2,122	1.59 %	\$174,951	2.03 %	\$177,074	2.02 %
Commercial	—	—	20,951	2.13	4,585	2.06	—	—	25,536	2.11
Municipal bonds	3,479	3.30	20,939	2.94	52,043	2.55	391,212	3.08	467,673	3.02
<b>Collateralized mortgage obligations:</b>										
Residential	—	—	—	—	1,639	1.32	189,562	2.06	191,201	2.06
Commercial	—	—	10,860	1.84	19,273	2.74	40,631	1.91	70,764	2.12
Corporate debt securities	—	—	10,516	2.67	21,493	3.74	19,113	3.54	51,122	3.45
U.S. Treasury securities	999	0.64	—	—	9,621	1.76	—	—	10,620	1.66
Total available for sale	\$4,479	2.70 %	\$63,266	2.43 %	\$110,776	2.69 %	\$815,469	2.57 %	\$993,990	2.57 %

**HELD TO MATURITY**

<b>Mortgage-backed securities:</b>										
Residential	\$—	— %	\$—	— %	\$—	— %	\$13,825	3.11 %	\$13,825	3.11 %
Commercial	—	—	4,581	2.06	11,728	2.71	—	—	16,309	2.53
Municipal bonds	—	—	—	—	6,450	2.73	12,802	3.31	19,252	3.11
Corporate debt securities	—	—	—	—	—	—	102	6.00	102	6.00
Total held to maturity	\$—	— %	\$4,581	2.06 %	\$18,178	2.72 %	\$26,729	3.22 %	\$49,488	2.93 %

Sales of investment securities available for sale were as follows.

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



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

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

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

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

#### NOTE 4—LOANS AND CREDIT QUALITY:

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

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

Loans held for investment consist of the following:

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

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

18

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

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

#### Credit Risk Concentrations

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

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

#### Credit Quality

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

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

Activity in the allowance for credit losses was as follows.

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



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

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

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

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

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

20

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Six Months Ended June 30, 2016

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

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

(in thousands)	At June 30, 2017					
	Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total
Consumer loans						
Single family	\$7,964	\$ 324	\$8,288	\$1,059,203	\$ 83,968	\$1,143,171
Home equity and other	6,810	46	6,856	412,729	1,701	414,430
	14,774	370	15,144	1,471,932	85,669	1,557,601
Commercial loans						
Commercial real estate	7,455	—	7,455	938,765	3,357	942,122
Multifamily	4,059	—	4,059	779,774	828	780,602
Construction/land development	8,226	—	8,226	647,649	1,023	648,672
Commercial business	2,414	172	2,586	247,083	1,825	248,908
	22,154	172	22,326	2,613,271	7,033	2,620,304
Total loans evaluated for impairment	36,928	542	37,470	4,085,203	92,702	4,177,905
Loans held for investment carried at fair value						5,134 (1)
Total loans held for investment	\$36,928	\$ 542	\$37,470	\$4,085,203	\$ 92,702	\$4,183,039

(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, 2016			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	\$7,871	\$ 325	\$8,196	\$985,219	\$ 80,676	\$1,065,895
Home equity and other	6,104	49	6,153	358,350	1,463	359,813
	13,975	374	14,349	1,343,569	82,139	1,425,708
Commercial loans						
Commercial real estate	6,680	—	6,680	869,225	2,338	871,563
Multifamily	3,086	—	3,086	673,374	845	674,219
Construction/land development	8,553	—	8,553	634,427	1,893	636,320
Commercial business	2,591	5	2,596	220,360	3,293	223,653
	20,910	5	20,915	2,397,386	8,369	2,405,755
Total loans evaluated for impairment	34,885	379	35,264	3,740,955	90,508	3,831,463
Loans held for investment carried at fair value						17,988 (1)
Total loans held for investment	\$34,885	\$ 379	\$35,264	\$3,740,955	\$ 90,508	\$3,849,451

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



## Impaired Loans

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

(in thousands)	At June 30, 2017		
	Unpaid		
	Recorded investment	principal balance <sup>(1)</sup>	Related allowance
		(2)	
With no related allowance recorded:			
Consumer loans			
Single family	\$79,782	\$81,373	\$ —
Home equity and other	1,185	1,211	—
	80,967	82,584	—
Commercial loans			
Commercial real estate	3,357	3,874	—
Multifamily	828	845	—
Construction/land development	1,023	1,549	—
Commercial business	395	1,623	—
	5,603	7,891	—
	\$86,570	\$90,475	\$ —
With an allowance recorded:			
Consumer loans			
Single family	\$4,186	\$4,277	\$ 324
Home equity and other	516	516	46
	4,702	4,793	370
Commercial loans			
Commercial business	1,430	1,481	172
	\$6,132	\$6,274	\$ 542
Total:			
Consumer loans			
Single family <sup>(3)</sup>	\$83,968	\$85,650	\$ 324
Home equity and other	1,701	1,727	46
	85,669	87,377	370
Commercial loans			
Commercial real estate	3,357	3,874	—
Multifamily	828	845	—
Construction/land development	1,023	1,549	—
Commercial business	1,825	3,104	172
	7,033	9,372	172
Total impaired loans	\$92,702	\$96,749	\$ 542

(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 trouble debt restructurings "TDRs".



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(in thousands)	At December 31, 2016		
	Recorded investment	Unpaid principal balance (2)	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	\$77,756	\$80,573	\$ —
Home equity and other	946	977	—
	78,702	81,550	—
Commercial loans			
Commercial real estate	2,338	2,846	—
Multifamily	845	851	—
Construction/land development	1,893	2,819	—
Commercial business	2,945	4,365	—
	8,021	10,881	—
	\$86,723	\$92,431	\$ —
With an allowance recorded:			
Consumer loans			
Single family	\$2,920	\$3,011	\$ 325
Home equity and other	517	517	49
	3,437	3,528	374
Commercial loans			
Commercial business	348	347	5
	348	347	5
	\$3,785	\$3,875	\$ 379
Total:			
Consumer loans			
Single family <sup>(3)</sup>	\$80,676	\$83,584	\$ 325
Home equity and other	1,463	1,494	49
	82,139	85,078	374
Commercial loans			
Commercial real estate	2,338	2,846	—
Multifamily	845	851	—
Construction/land development	1,893	2,819	—
Commercial business	3,293	4,712	5
	8,369	11,228	5
Total impaired loans	\$90,508	\$96,306	\$ 379

(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 \$73.1 million in single family performing TDRs.

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The following tables provide the average recorded investment and interest income recognized on impaired loans by portfolio segment and class.

(in thousands)	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016	
	Average Interest Recorded Investment	Interest Recognized	Average Interest Recorded Investment	Interest Recognized
Consumer loans				
Single family	\$83,653	\$ 790	\$81,754	\$ 740
Home equity and other	1,568	24	1,412	17
	85,221	814	83,166	757
Commercial loans				
Commercial real estate	4,441	37	3,125	4
Multifamily	832	6	1,864	6
Construction/land development	1,105	21	2,458	23
Commercial business	2,380	36	2,802	23
	8,758	100	10,249	56
	\$93,979	\$ 914	\$93,415	\$ 813

(in thousands)	Six Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	Average Interest Recorded Investment	Interest Recognized	Average Interest Recorded Investment	Interest Recognized
Consumer loans				
Single family	\$82,661	\$ 1,540	\$81,612	\$ 1,444
Home equity and other	1,533	43	1,504	33
	84,194	1,583	83,116	1,477
Commercial loans				
Commercial real estate	3,740	96	3,124	8
Multifamily	836	12	1,878	35
Construction/land development	1,368	47	3,023	44
Commercial business	2,684	83	2,503	41
	8,628	238	10,528	128
	\$92,822	\$ 1,821	\$93,644	\$ 1,605

### 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.

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.

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 June 30, 2017				
	Pass	Watch	Special mention	Substandard	Total
<b>Consumer loans</b>					
Single family	\$ 1,117,636 <sup>(1)</sup>	\$ 3,508	\$ 15,243	\$ 11,842	\$ 1,148,229
Home equity and other	412,039	205	659	1,603	414,506
	1,529,675	3,713	15,902	13,445	1,562,735
<b>Commercial loans</b>					
Commercial real estate	886,638	42,739	8,713	4,032	942,122
Multifamily	765,652	12,737	1,893	320	780,602
Construction/land development	632,857	14,366	1,449	—	648,672
Commercial business	195,504	46,362	4,549	2,493	248,908
	2,480,651	116,204	16,604	6,845	2,620,304
	\$ 4,010,326	\$ 119,917	\$ 32,506	\$ 20,290	\$ 4,183,039

(1) Includes \$5.1 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.



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(in thousands)	At December 31, 2016				
	Pass	Watch	Special mention	Substandard	Total
<b>Consumer loans</b>					
Single family	\$ 1,051,463 <sup>(1)</sup>	\$ 4,348	\$ 15,172	\$ 12,839	\$ 1,083,822
Home equity and other	357,191	597	514	1,572	359,874
	1,408,654	4,945	15,686	14,411	1,443,696
<b>Commercial loans</b>					
Commercial real estate	809,996	52,519	7,165	1,883	871,563
Multifamily	660,234	13,140	508	337	674,219
Construction/land development	615,675	16,074	3,083	1,488	636,320
Commercial business	171,883	42,767	3,385	5,618	223,653
	2,257,788	124,500	14,141	9,326	2,405,755
	\$ 3,666,442	\$ 129,445	\$ 29,827	\$ 23,737	\$ 3,849,451

<sup>(1)</sup> Includes \$18.0 million of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

As of June 30, 2017 and December 31, 2016, 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 2016 Annual Report on Form 10-K.

#### Nonaccrual and Past Due Loans

Loans are placed on nonaccrual status when the full and timely collection of principal and interest is doubtful, generally when the loan becomes 90 days or more past due for principal or interest payment or if part of the principal balance has been charged off. Loans whose repayments are insured by the FHA or guaranteed by the VA are generally maintained on accrual status even if 90 days or more past due.

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

(in thousands)	At June 30, 2017						
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days or more past due and accruing
<b>Consumer loans</b>							
Single family	\$ 9,911	\$ 4,246	\$ 45,545	\$ 59,702	\$ 1,088,527 <sup>(1)</sup>	\$ 1,148,229	\$ 33,824 <sup>(2)</sup>
Home equity and other	1,096	73	1,603	2,772	411,734	414,506	—
	11,007	4,319	47,148	62,474	1,500,261	1,562,735	33,824
<b>Commercial loans</b>							
Commercial real estate	—	—	1,242	1,242	940,880	942,122	—
Multifamily	—	—	320	320	780,282	780,602	—
Construction/land development	147	—	—	147	648,525	648,672	—
Commercial business	424	—	590	1,014	247,894	248,908	—
	571	—	2,152	2,723	2,617,581	2,620,304	—
	\$ 11,578	\$ 4,319	\$ 49,300	\$ 65,197	\$ 4,117,842	\$ 4,183,039	\$ 33,824

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(in thousands)	At December 31, 2016				Current	Total loans	90 days or more past due and accruing
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due			
Consumer loans							
Single family	\$4,310	\$ 5,459	\$53,563	\$63,332	\$1,020,490 <sup>(1)</sup>	\$1,083,822	\$ 40,846 <sup>(2)</sup>
Home equity and other	251	442	1,571	2,264	357,610	359,874	—
	4,561	5,901	55,134	65,596	1,378,100	1,443,696	40,846
Commercial loans							
Commercial real estate	71	205	2,127	2,403	869,160	871,563	—
Multifamily	—	—	337	337	673,882	674,219	—
Construction/land development	—	—	1,376	1,376	634,944	636,320	—
Commercial business	202	—	2,414	2,616	221,037	223,653	—
	273	205	6,254	6,732	2,399,023	2,405,755	—
	\$4,834	\$ 6,106	\$61,388	\$72,328	\$3,777,123	\$3,849,451	\$ 40,846

Includes \$5.1 million and \$18.0 million of loans at June 30, 2017 and December 31, 2016, respectively, where a (1) 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.

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

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

(in thousands)	At June 30, 2017		
	Accrual	Nonaccrual	Total
Consumer loans			
Single family	\$ 1,136,508 <sup>(1)</sup>	\$ 11,721	\$ 1,148,229
Home equity and other	412,903	1,603	414,506
	1,549,411	13,324	1,562,735
Commercial loans			
Commercial real estate	940,880	1,242	942,122
Multifamily	780,282	320	780,602
Construction/land development	648,672	—	648,672
Commercial business	248,318	590	248,908
	2,618,152	2,152	2,620,304
	\$ 4,167,563	\$ 15,476	\$ 4,183,039

(in thousands)	At December 31, 2016		
	Accrual	Nonaccrual	Total
Consumer loans			
Single family	\$ 1,071,105 <sup>(1)</sup>	\$ 12,717	\$ 1,083,822
Home equity and other	358,303	1,571	359,874
	1,429,408	14,288	1,443,696
Commercial loans			
Commercial real estate	869,436	2,127	871,563
Multifamily	673,882	337	674,219
Construction/land development	634,944	1,376	636,320
Commercial business	221,239	2,414	223,653
	2,399,501	6,254	2,405,755
	\$ 3,828,909	\$ 20,542	\$ 3,849,451

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

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

		Three Months Ended June 30, 2017			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs	
Consumer loans					
Single family					
	Interest rate reduction	13	\$ 2,097	\$	—
	Payment restructure	30	6,015	—	—
Home equity and other					
	Payment restructure	1	277	—	—
Total consumer					
	Interest rate reduction	13	2,097	—	—
	Payment restructure	31	6,292	—	—
		44	8,389	—	—
Commercial loans					
Construction/land development					
	Payment restructure	1	436	—	—
Total commercial					
	Payment restructure	1	436	—	—
		1	436	—	—
Total loans					
	Interest rate reduction	13	2,097	—	—
	Payment restructure	32	6,728	—	—
		45	\$ 8,825	\$	—

		Three Months Ended June 30, 2016			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs	
Consumer loans					
Single family					
	Interest rate reduction	13	\$ 2,369	\$	—
	Payment restructure	19	3,747	—	—
Home equity and other					
	Interest rate reduction	1	13	—	—
Total consumer					
	Interest rate reduction	14	2,382	—	—
	Payment restructure	19	3,747	—	—
		33	6,129	—	—
Total loans					
	Interest rate reduction	14	2,382	—	—
	Payment restructure	19	3,747	—	—
		33	\$ 6,129	\$	—





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Six Months Ended June 30, 2017

(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	39	\$ 6,920	\$ —
	Payment restructure	42	8,892	—
Home equity and other				
	Payment restructure	2	351	—
Total consumer				
	Interest rate reduction	39	6,920	—
	Payment restructure	44	9,243	—
		83	16,163	—
Commercial loans				
Construction/land development				
	Payment restructure	1	436	—
Commercial business				
	Payment restructure	1	18	—
Total commercial				
	Payment restructure	2	454	—
		2	454	—
Total loans				
	Interest rate reduction	39	6,920	—
	Payment restructure	46	9,697	—
		85	\$ 16,617	\$ —

Six Months Ended June 30, 2016

(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	18	\$ 3,389	\$ —
	Payment restructure	34	6,918	—
Home equity and other				
	Interest rate reduction	1	13	—
Total consumer				
	Interest rate reduction	19	3,402	—
	Payment restructure	34	6,918	—
		53	10,320	—
Total loans				
	Interest rate reduction	19	3,402	—
	Payment restructure	34	6,918	—
		53	\$ 10,320	\$ —



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The following table presents loans that were modified as TDRs within the previous 12 months and subsequently re-defaulted during the three and six months ended June 30, 2017 and 2016, 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.

(dollars in thousands)	Three Months Ended June 30,	
	2017	2016
	Number of loan relationships that re-defaulted	Number of loan relationships that re-defaulted
Consumer loans		
Single family	7 \$ 1,382	8 \$ 2,367
Home equity and other	—	1 93
	7 \$ 1,382	9 \$ 2,460

(dollars in thousands)	Six Months Ended June 30,	
	2017	2016
	Number of loan relationships that re-defaulted	Number of loan relationships that re-defaulted
Consumer loans		
Single family	8 \$ 1,652	9 \$ 2,638
Home equity and other	—	1 93
	8 \$ 1,652	10 \$ 2,731

NOTE 5—DEPOSITS:

Deposit balances, including stated rates, were as follows.

(in thousands)	At June 30, 2017	At December 31, 2016
Noninterest-bearing accounts	\$1,015,301	\$ 964,829
NOW accounts, 0.00% to 1.00% at June 30, 2017 and December 31, 2016	541,592	468,812
Statement savings accounts, due on demand, 0.05% to 1.13% at June 30, 2017 and December 31, 2016	311,202	301,361
Money market accounts, due on demand, 0.00% to 1.70% and at June 30, 2017 and December 31, 2016	1,587,741	1,603,141

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Certificates of deposit, 0.05% to 3.80% at June 30, 2017 and December 31, 2016

1,291,935 1,091,558  
\$4,747,771 \$ 4,429,701

Interest expense on deposits was as follows.

(in thousands)	Three Months		Six Months	
	Ended June 30, 2017	2016	Ended June 30, 2017	2016
NOW accounts	\$503	\$489	\$980	\$981
Statement savings accounts	253	255	505	509
Money market accounts	1,935	1,606	4,165	2,973
Certificates of deposit	3,176	2,099	5,840	3,555
	\$5,867	\$4,449	\$11,490	\$8,018

34

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The weighted-average interest rates on certificates of deposit were 1.01% and 0.96% at June 30, 2017 and December 31, 2016, respectively.

Certificates of deposit outstanding mature as follows.

(in thousands)	At June 30, 2017
Within one year	\$967,731
One to two years	265,348
Two to three years	32,627
Three to four years	14,060
Four to five years	11,944
Thereafter	225
	\$1,291,935

The aggregate amount of time deposits in denominations of \$100 thousand or more at June 30, 2017 and December 31, 2016 were \$481.1 million and \$508.6 million, respectively. The aggregate amount of time deposits in denominations of more than \$250 thousand at June 30, 2017 and December 31, 2016 were \$102.1 million and \$87.4 million, respectively. There were \$412.7 million and \$234.4 million of brokered deposits at June 30, 2017 and December 31, 2016, respectively.

#### NOTE 6—DERIVATIVES AND HEDGING ACTIVITIES:

To reduce the risk of significant interest rate fluctuations on the value of certain assets and liabilities, such as certain mortgage loans held for sale or MSR, 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 June 30, 2017 or December 31, 2016. 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 June 30, 2017 and December 31, 2016, 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 2016 Annual Report on Form 10-K.

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

(in thousands)	At June 30, 2017		
	Notional amount	Fair value derivatives	
		Asset	Liability
Forward sale commitments	\$2,110,125	\$4,665	\$(3,818)
Interest rate swaptions	30,000	1	—
Interest rate lock and purchase loan commitments	831,294	22,331	(48 )
Interest rate swaps	1,912,850	14,139	(21,139 )
Eurodollar futures	1,188,000	98	(52 )
Total derivatives before netting	\$6,072,269	41,234	(25,057)
Netting adjustment/Cash collateral <sup>(1)</sup>		16,873	21,329
Carrying value on consolidated statements of financial condition		\$58,107	\$(3,728)

Includes cash collateral of \$38.2 million at June 30, 2017 as part of netting adjustments which primarily consists of (1) collateral transferred by the Company at the initiation of derivative transactions and held by the counterparty as security.

(in thousands)	At December 31, 2016		
	Notional amount	Fair value derivatives	
		Asset	Liability
Forward sale commitments	\$3,596,677	\$24,623	\$(15,203)
Interest rate swaptions	20,000	1	—
Interest rate lock and purchase loan commitments	746,102	19,586	(367 )
Interest rate swaps	1,689,850	15,016	(26,829 )
Total derivatives before netting	\$6,052,629	59,226	(42,399 )
Netting adjustment/Cash collateral <sup>(1)</sup>		10,174	37,836
Carrying value on consolidated statements of financial condition		\$69,400	\$(4,563 )

Includes cash collateral of \$48.0 million at December 31, 2016 as part of netting adjustments which primarily (1) 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.

(in thousands)	At June 30, 2017				Net amount
	Gross fair value	Netting adjustments/ Cash collateral <sup>(1)</sup>	Carrying value	Securities not offset in consolidated balance sheet (disclosure-only netting)	
Derivative assets	\$41,234	\$ 16,873	\$58,107	\$ —	\$58,107
Derivative liabilities	\$(25,057)	\$ 21,329	\$(3,728 )	\$ 2,616	\$(1,112 )

(in thousands)  
At December 31, 2016

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	Gross fair value	Netting adjustments/ Cash collateral <sup>(1)</sup>	Carrying value	Securities not offset in consolidated balance sheet (disclosure-only netting)	Net amount
Derivative assets	\$59,226	\$ 10,174	\$69,400	\$ —	\$69,400
Derivative liabilities	\$(42,399)	\$ 37,836	\$(4,563 )	\$ 1,820	\$(2,743 )



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Includes cash collateral of \$38.2 million and \$48.0 million at June 30, 2017 and December 31, 2016 respectively, (1) 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Recognized in noninterest income:				
Net gain (loss) on loan origination and sale activities <sup>(1)</sup>	\$(10,109)	\$761	\$(11,608)	\$(331 )
Loan servicing income <sup>(2)</sup>	8,874	22,241	9,253	53,948
Other <sup>(3)</sup>	—	(390 )	—	(1,352 )
	\$(1,235 )	\$22,612	\$(2,355 )	\$52,265

(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 MSR.

(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 7—MORTGAGE BANKING OPERATIONS:

Loans held for sale consisted of the following.

(in thousands)	At June 30, 2017	At December 31, 2016
Single family	\$680,959	\$ 656,334
Multifamily DUS <sup>®</sup> (1)	39,099	35,506
Other (2)	64,498	22,719
Total loans held for sale	\$784,556	\$ 714,559

(1) Fannie Mae Multifamily Delegated Underwriting and Servicing Program ("DUS<sup>®</sup>") is a registered trademark of Fannie Mae.

(2) Includes multifamily and commercial loans originated from sources other than DUS<sup>®</sup>.

Loans sold consisted of the following.

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Single family	\$1,808,500	\$2,173,392	\$3,548,237	\$3,644,975
Multifamily DUS <sup>®</sup>	35,312	109,394	112,161	157,364

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Other <sup>(1)</sup>	24,695	31,813	37,881	31,813
Total loans sold	\$1,868,507	\$2,314,599	\$3,698,279	\$3,834,152

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

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

(in thousands)	Three Months		Six Months Ended	
	Ended June 30, 2017	2016	June 30, 2017	2016
Single family:				
Servicing value and secondary market gains <sup>(1)</sup>	\$57,353	\$73,685	\$107,891	\$127,812
Loan origination and administration fees	6,823	7,355	12,604	12,683
Total single family	64,176	81,040	120,495	140,495
Multifamily DUS <sup>®</sup>	1,273	3,655	4,633	5,184
Other <sup>(2)</sup>	459	935	1,061	1,214
Total gain on loan origination and sale activities	\$65,908	\$85,630	\$126,189	\$146,893

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 and commercial loans originated from sources other than DUS<sup>®</sup>.

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 June 30, 2017	At December 31, 2016
Single family		
U.S. government and agency	\$20,574,300	\$18,931,835
Other	530,308	556,621
	21,104,608	19,488,456
Commercial		
Multifamily DUS <sup>®</sup>	1,135,722	1,108,040
Other	75,336	69,323
	1,211,058	1,177,363
Total loans serviced for others	\$22,315,666	\$20,665,819

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

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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Balance, beginning of period	\$2,863	\$2,725	\$3,382	\$2,922
Additions (reductions), net <sup>(1)</sup>	328	885	(32 )	912
Realized losses <sup>(2)</sup>	(201 )	(231 )	(360 )	(455 )
Balance, end of period	\$2,990	\$3,379	\$2,990	\$3,379

(1) Includes additions for new loan sales and changes in estimated probable future repurchase losses on previously sold loans.

(2) Includes principal losses and accrued interest on repurchased loans, "make-whole" settlements, settlements with claimants and certain related expense.

The Company has agreements with certain investors, depending on the requirements, 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 \$6.4 million and \$7.5 million were recorded in other assets as of June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016, delinquent or defaulted mortgage loans currently in Ginnie Mae pools that the Company has recognized on its consolidated statements of financial condition totaled \$33.4 million and \$35.8 million, respectively, with a corresponding amount recorded within accounts payable and other liabilities on the consolidated statements of financial condition. The recognition of previously sold loans does not impact the accounting for the previously recognized MSR's.

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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Servicing income, net:				
Servicing fees and other	\$15,977	\$12,923	\$32,156	\$25,356
Changes in fair value of single family MSR's due to modeled amortization <sup>(1)</sup>	(8,909 )	(7,758 )	(17,429 )	(15,015 )
Amortization of multifamily MSR's	(761 )	(648 )	(1,692 )	(1,285 )
	6,307	4,517	13,035	9,056
Risk management, single family MSR's:				
Changes in fair value of MSR's due to changes in market inputs and/or model updates <sup>(2)</sup>	(6,417 )	(14,055 )	(4,285 )	(42,269 )
Net gain from derivatives economically hedging MSR	8,874	22,241	9,253	53,948
	2,457	8,186	4,968	11,679
Mortgage servicing income	\$8,764	\$12,703	\$18,003	\$20,735

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

(2)

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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's are initially measured and recorded at fair value at the time loans are sold. Single family MSR's 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's 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) <sup>(1)</sup>	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Constant prepayment rate ("CPR") <sup>(2)</sup>	14.75 %	15.62 %	13.39 %	16.30 %
Discount rate <sup>(3)</sup>	10.30 %	10.57 %	10.29 %	10.44 %

(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 June 30, 2017
Fair value of single family MSR	\$236,621
Expected weighted-average life (in years)	6.02
Constant prepayment rate <sup>(1)</sup>	12.94 %
Impact on 25 basis points adverse change in interest rates	\$(17,984 )
Impact on 50 basis points adverse change in interest rates	\$(37,908 )
Discount rate	10.40 %
Impact on fair value of 100 basis points increase	\$(8,206 )
Impact on fair value of 200 basis points increase	\$(15,868 )

(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 measured at fair value are as follows.

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Beginning balance	\$235,997	\$133,449	\$226,113	\$156,604
Additions and amortization:				
Originations	15,748	19,264	31,666	31,580
Purchases	211	—	565	—
Sale of single family MSRs	—	—	—	—
Changes due to modeled amortization <sup>(1)</sup>	(8,909 )	(7,758 )	(17,429 )	(15,015 )
Net additions and amortization	7,050	11,506	14,802	16,565
Changes in fair value of MSRs due to changes in market inputs and/or model updates <sup>(2)</sup>	(6,426 )	(14,055 )	(4,294 )	(42,269 )
Ending balance	\$236,621	\$130,900	\$236,621	\$130,900

(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.

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

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

(in thousands)	Three Months		Six Months Ended	
	Ended June 30, 2017	2016	June 30, 2017	2016
Beginning balance	\$21,424	\$15,402	\$19,747	\$14,651
Origination	937	1,612	3,545	3,000
Amortization	(761 )	(648 )	(1,692 )	(1,285 )
Ending balance	\$21,600	\$16,366	\$21,600	\$16,366

At June 30, 2017, the expected weighted-average life of the Company's multifamily MSRs was 10.21 years. Projected amortization expense for the gross carrying value of multifamily MSRs is estimated as follows.

(in thousands)	At June 30, 2017
Remainder of 2017	\$1,498
2018	2,944
2019	2,842
2020	2,760
2021	2,546
2022 and thereafter	9,010
Carrying value of multifamily MSR	\$21,600





NOTE 8—COMMITMENTS, GUARANTEES AND CONTINGENCIES:

Commitments

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

The Company makes certain unfunded loan commitments as part of its lending activities that have not been recognized in the Company's financial statements. These include commitments to extend credit made as part of the Company's lending activities on loans the Company intends to hold in its loans held for investment portfolio. The aggregate amount of these unrecognized unfunded loan commitments existing at June 30, 2017 and December 31, 2016 was \$89.0 million and \$42.6 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 \$614.2 million and \$603.8 million at June 30, 2017 and December 31, 2016, respectively. Unused home equity and commercial banking funding lines totaled \$390.6 million and \$289.3 million at June 30, 2017 and December 31, 2016, 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 \$1.3 million at June 30, 2017 and December 31, 2016, respectively.

Guarantees

In the ordinary course of business, the Company sells loans through the Fannie Mae Multifamily DUS<sup>®</sup> 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<sup>®</sup> contracts. Under the program, the DUS<sup>®</sup> 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<sup>®</sup> 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 June 30, 2017 and December 31, 2016, the total unpaid principal balance of loans sold under this program was \$1.14 billion and \$1.11 billion, respectively. The Company's reserve liability related to this arrangement totaled \$1.7 million and \$1.8 million at June 30, 2017 and December 31, 2016, respectively. There were no actual losses incurred under this arrangement during the three and six months ended June 30, 2017 and 2016.

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 guaranteed mortgage-backed securities and pools conventional loans into 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, or FHA or VA 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 \$21.18 billion and \$19.56 billion as of June 30, 2017 and December 31, 2016, respectively. At June 30, 2017 and December 31, 2016, 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 \$3.0 million and \$3.4 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 June 30, 2017, 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 June 30, 2017.

#### NOTE 9–FAIR VALUE MEASUREMENT:

For a further discussion of fair value measurements, including information regarding the Company's valuation methodologies and the fair value hierarchy, see Note 17, Fair Value Measurement within our 2016 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. 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.

43

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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"> <li>• Expected prepayment speeds</li> <li>• Estimated credit losses</li> <li>• Market liquidity adjustments</li> </ul> <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"> <li>• Expected prepayment speeds</li> <li>• Estimated credit losses</li> <li>• Market liquidity adjustments</li> </ul>	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"> <li>• Quoted market prices, where available</li> <li>• Dealer quotes for similar loans</li> <li>• Forward sale commitments</li> </ul> <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"> <li>• Current lending rates for new loans</li> </ul>	Level 2 recurring fair value measurement
Loans originated as held for investment and transferred to held for sale	<ul style="list-style-type: none"> <li>• Expected prepayment speeds</li> <li>• Estimated credit losses</li> <li>• Market liquidity adjustments</li> </ul> <p>Fair value is based on discounted cash flows, which considers the following inputs:</p> <ul style="list-style-type: none"> <li>• Current lending rates for new loans</li> </ul>	Estimated fair value classified as Level 3.  Carried at lower of amortized cost or fair value.  Estimated fair value

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- 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 2016 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"> <li>• Current lending rates for new loans</li> <li>• Expected prepayment speeds</li> <li>• Estimated credit losses</li> <li>• Market liquidity adjustments</li> </ul> <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"> <li>• 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</li> </ul>	Estimated fair value classified as Level 3.
Loans held for investment, collateral dependent	<ul style="list-style-type: none"> <li>• 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)</li> <li>• Bulk discounts applied for sales costs, holding costs and profit for tract development and certain other properties</li> </ul> <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"> <li>• 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</li> <li>• 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)</li> <li>• Bulk discounts applied for sales costs, holding costs and profit for tract development and certain other properties</li> </ul> <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"> <li>• Current lending rates for new loans</li> <li>• Expected prepayment speeds</li> <li>• Estimated credit losses</li> <li>• Market liquidity adjustments</li> </ul>	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 7, 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		
Eurodollar futures	Fair value is based on closing exchange prices.	



		Level 1 recurring fair value measurement
	Fair value is based on quoted prices for identical or similar instruments, when available.	
Interest rate swaps	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:	Level 2 recurring fair value measurement
Interest rate swaptions		
Forward sale commitments		
	<ul style="list-style-type: none"><li>• Forward interest rates</li><li>• Interest rate volatilities</li></ul>	

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Asset/Liability class	Valuation methodology, inputs and assumptions The fair value considers several factors including:	Classification
Interest rate lock and purchase loan commitments	<ul style="list-style-type: none"> <li>Fair value of the underlying loan based on quoted prices in the secondary market, when available.</li> <li>Value of servicing</li> <li>Fall-out factor</li> </ul>	Level 3 recurring fair value measurement
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 June 30, 2017			
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Investment securities available for sale				
Mortgage backed securities:				
Residential	\$ 150,935	\$ —	\$ 150,935	\$—
Commercial	23,381	—	23,381	—
Municipal bonds	372,729	—	372,729	—
Collateralized mortgage obligations:				
Residential	184,695	—	184,695	—
Commercial	76,230	—	76,230	—
Corporate debt securities	30,218	—	30,218	—
U.S. Treasury securities	10,740	—	10,740	—
Agency	35,338	—	35,338	—
Single family mortgage servicing rights	236,621	—	—	236,621
Single family loans held for sale	680,959	—	651,700	29,259
Single family loans held for investment	5,134	—	—	5,134
Derivatives				
Eurodollar futures	98	98	—	—
Forward sale commitments	4,665	—	4,665	—
Interest rate swaptions	1	—	1	—
Interest rate lock and purchase loan commitments	22,331	—	—	22,331
Interest rate swaps	14,139	—	14,139	—
Total assets	\$1,848,214	\$ 98	\$1,554,771	\$293,345
<b>Liabilities:</b>				
Derivatives				
Eurodollar futures	\$52	\$ 52	\$—	\$—
Forward sale commitments	3,818	—	3,818	—
Interest rate lock and purchase loan commitments	48	—	—	48
Interest rate swaps	21,139	—	21,139	—
Total liabilities	\$25,057	\$ 52	\$24,957	\$48

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(in thousands)	Fair Value at December 31, 2016	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	\$ 177,074	\$ —	\$ —177,074	\$ —
Commercial	25,536	—	25,536	—
Municipal bonds	467,673	—	467,673	—
Collateralized mortgage obligations:				
Residential	191,201	—	191,201	—
Commercial	70,764	—	70,764	—
Corporate debt securities	51,122	—	51,122	—
U.S. Treasury securities	10,620	—	10,620	—
Single family mortgage servicing rights	226,113	—	—	226,113
Single family loans held for sale	656,334	—	614,524	41,810
Single family loans held for investment	17,988	—	—	17,988
Derivatives				
Forward sale commitments	24,623	—	24,623	—
Interest rate swaptions	1	—	1	—
Interest rate lock and purchase loan commitments	19,586	—	—	19,586
Interest rate swaps	15,016	—	15,016	—
Total assets	\$ 1,953,651	\$ —	\$ —1,648,154	\$ 305,497
Liabilities:				
Derivatives				
Forward sale commitments	\$ 15,203	\$ —	\$ —15,203	\$ —
Interest rate lock and purchase loan commitments	367	—	—	367
Interest rate swaps	26,829	—	26,829	—
Total liabilities	\$ 42,399	\$ —	\$ —42,032	\$ 367

There were no transfers between levels of the fair value hierarchy during the three and six months ended June 30, 2017 and 2016.

#### 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 six months ended June 30, 2017 and 2016, see Note 7, 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 \$5.1 million at June 30, 2017.



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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 June 30, 2017		Significant Unobservable Input	Low	High	Weighted Average
	Fair Value	Valuation Technique				
Loans held for investment, fair value option	\$5,134	Income approach	Implied spread to benchmark interest rate curve	3.53%	4.88%	4.21%
(dollars in thousands)	At December 31, 2016		Significant Unobservable Input	Low	High	Weighted Average
	Fair Value	Valuation Technique				
Loans held for investment, fair value option	\$17,988	Income approach	Implied spread to benchmark interest rate curve	3.62%	4.97%	4.49%

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 June 30, 2017		Significant Unobservable Input	Low	High	Weighted Average
	Fair Value	Valuation Technique				
Loans held for sale, fair value option	\$29,259	Income approach	Implied spread to benchmark interest rate curve	3.24%	5.26%	4.47%
			Market price movement from comparable bond	(0.27)%	(0.09)%	(0.18)%
(dollars in thousands)	At December 31, 2016		Significant Unobservable Input	Low	High	Weighted Average
	Fair Value	Valuation Technique				
Loans held for sale, fair value option	\$41,810	Income approach	Implied spread to benchmark interest rate curve	3.46%	6.14%	4.23%
			Market price movement from comparable bond	(0.49)%	(0.11)%	(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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Beginning balance, net	\$27,136	\$28,482	\$19,219	\$17,711
Total realized/unrealized gains	34,127	58,767	69,586	103,295
Settlements	(38,980)	(47,258)	(66,522)	(81,015)
Ending balance, net	\$22,283	\$39,991	\$22,283	\$39,991



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The following table presents fair value changes and activity for Level 3 loans held for sale and loans held for investment.

Three Months Ended June 30, 2017	Beginning balance	Additions	Transfers	Payoffs/Sales	Change in mark to market	Ending balance
(in thousands)						
Loans held for sale	\$ 40,331	\$ 197	\$ 13,755	\$ (25,884)	\$ 860	\$ 29,259
Loans held for investment	19,042	—	(13,575)	(479)	146	5,134
Three Months Ended June 30, 2016						
Loans held for sale	\$ 45,558	\$ 7,480	\$ (4,582)	\$ (3,696)	\$ (1,018)	\$ 43,742
Loans held for investment	18,327	106	4,572	(503)	(140)	22,362
Six Months Ended June 30, 2017	Beginning balance	Additions	Transfers	Payoffs/Sales	Change in mark to market	Ending balance
(in thousands)						
Loans held for sale	\$ 41,810	\$ 2,996	\$ 13,066	\$ (29,110)	\$ 497	\$ 29,259
Loans held for investment	17,988	—	(12,369)	(479)	(6)	5,134
Six Months Ended June 30, 2016						
Loans held for sale	\$ 49,322	\$ 7,963	\$ (4,582)	\$ (8,525)	\$ (436)	\$ 43,742
Loans held for investment	21,544	106	4,572	(3,583)	(277)	22,362

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 June 30, 2017					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock and purchase loan commitments, net	\$ 22,283	Income approach	Fall-out factor	0.40%	62.52%	14.30%
			Value of servicing	0.64%	1.92%	1.02%
(dollars in thousands)	At December 31, 2016					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock and purchase loan commitments, net	\$ 19,219	Income approach	Fall-out factor	0.50%	60.34%	11.95%
			Value of servicing	0.65%	2.27%	1.08%





## 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 six months ended June 30, 2017, the Company recorded an adjustment of 7.10% to the appraisal values of certain commercial loans held for investment that are collateralized by real estate. During the three and six months ended June 30, 2016, the Company recorded no adjustment 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 June 30, 2017, the Company applied a range of stated value adjustments of 0.0% to 42.6%, with a weighted average of 42.3%. During the six months ended June 30, 2017, the Company applied a range of stated value adjustments of 0.0% to 100.0%, with a weighted average of 41.3%. During the three and six months ended June 30, 2016, the Company applied a stated value adjustment of 63.4%. During the three and six months ended June 30, 2017 and 2016, 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 six months ended June 30, 2017 and 2016 and what we still held at the end of the respective reporting period.

(in thousands)	At or for the Three Months Ended June 30, 2017				Total Gains (Losses)
	Level 1	Level 2	Level 3		
	Fair Value of Assets Held at June 30, 2017				

Loans held for investment<sup>(1)</sup> \$2,003 \$ —\$ —\$2,003 \$ 162

(in thousands)	At or for the Three Months Ended June 30, 2016				Total Gains (Losses)
	Level 1	Level 2	Level 3		
	Fair Value of Assets Held at June 30, 2016				

Loans held for investment<sup>(1)</sup> \$2,581 \$ —\$ —\$2,581 \$ 20

(in thousands)	At or for the Six Months Ended June 30, 2017				Total Gains (Losses)
	Level 1	Level 2	Level 3		
	Fair Value of Assets Held at June 30, 2017				

Loans held for investment<sup>(1)</sup> \$2,003 \$ —\$ —\$2,003 \$ 140

(in thousands)	At or for the Six Months Ended June 30, 2016				Total Gains (Losses)
	Level 1	Level 2	Level 3		
	Fair Value of Assets Held at June 30, 2016				

30,  
2016

Loans held for investment <sup>(1)</sup>	\$2,581	\$	—\$	—\$2,581	\$ (14 )
Other real estate owned <sup>(2)</sup>	5,485	—	—	5,485	(391 )
Total	\$8,066	\$	—\$	—\$8,066	\$ (405 )

(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 June 30, 2017		Level 1	Level 2	Level 3
	Carrying Value	Fair Value			
Assets:					
Cash and cash equivalents	\$54,447	\$54,447	\$54,447	\$—	\$ —
Investment securities held to maturity	52,256	52,551	—	52,551	—
Loans held for investment	4,151,290	4,205,010	—	—	4,205,010
Loans held for sale – transferred from held for investment	62,183	62,183	—	—	62,183
Loans held for sale – multifamily and other	41,414	41,414	—	41,414	—
Mortgage servicing rights – multifamily	21,600	23,662	—	—	23,662
Federal Home Loan Bank stock	41,769	41,769	—	41,769	—
Liabilities:					
Deposits	\$4,747,771	\$4,727,531	\$—	\$4,727,531	\$ —
Federal Home Loan Bank advances	867,290	869,559	—	869,559	—
Long-term debt	125,234	122,712	—	122,712	—
At December 31, 2016					
(in thousands)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	Value	Value			
Assets:					
Cash and cash equivalents	\$53,932	\$53,932	\$53,932	\$—	\$ —
Investment securities held to maturity	49,861	49,488	—	49,488	—
Loans held for investment	3,801,039	3,840,990	—	—	3,840,990
Loans held for sale – transferred from held for investment	17,512	17,512	—	—	17,512
Loans held for sale – multifamily	40,712	40,712	—	40,712	—
Mortgage servicing rights – multifamily	19,747	21,610	—	—	21,610
Federal Home Loan Bank stock	40,347	40,347	—	40,347	—
Liabilities:					
Deposits	\$4,429,701	\$4,410,213	\$—	\$4,410,213	\$ —
Federal Home Loan Bank advances	868,379	870,782	—	870,782	—
Long-term debt	125,147	122,357	—	122,357	—

## NOTE 10—EARNINGS PER SHARE:

The following table summarizes the calculation of earnings per share.

(in thousands, except share and per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$11,209	\$ 21,749	\$20,192	\$ 28,156
Weighted average shares:				
Basic weighted-average number of common shares outstanding	26,866,230	24,708,375	26,843,812	24,192,441
Dilutive effect of outstanding common stock equivalents <sup>(1)</sup>	218,378	203,544	227,215	202,207
Diluted weighted-average number of common stock outstanding	27,084,608	24,911,919	27,071,027	24,394,648
Earnings per share:				
Basic earnings per share	\$0.42	\$ 0.88	\$0.75	\$ 1.16
Diluted earnings per share	\$0.41	\$ 0.87	\$0.75	\$ 1.15

Excluded from the computation of diluted earnings per share (due to their antidilutive effect) for the three and six months ended June 30, 2017 and 2016 were certain stock options and unvested restricted stock issued to key senior (1) 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 6,417 at June 30, 2017 and zero at June 30, 2016.

## NOTE 11—BUSINESS SEGMENTS:

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

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

Commercial and Consumer Banking provides diversified financial products and services to our commercial and consumer customers through bank branches and through ATMs, online, mobile and telephone banking. These products and services include deposit products; residential, consumer, business and agricultural portfolio loans; non-deposit investment products; insurance products and cash management services. We originate construction loans, bridge loans and permanent loans for our portfolio primarily on single family residences, and on office, retail, industrial and multifamily property types. We originate multifamily real estate loans through our Fannie Mae DUS<sup>®</sup> 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 and performs mortgage servicing on certain loans. 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 June 30, 2017		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income <sup>(1)</sup>	\$4,420	\$42,448	\$46,868
Provision for credit losses	—	500	500
Noninterest income	72,732	8,276	81,008
Noninterest expense	74,613	36,631	111,244
Income before income taxes	2,539	13,593	16,132
Income tax expense	776	4,147	4,923
Net income	\$1,763	\$9,446	\$11,209
Total assets	\$992,668	\$5,593,889	\$6,586,557

(in thousands)	Three Months Ended June 30, 2016		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income <sup>(1)</sup>	\$6,089	\$38,393	\$44,482
Provision for credit losses	—	1,100	1,100
Noninterest income	94,295	8,181	102,476
Noninterest expense	76,928	34,103	111,031
Income before income taxes	23,456	11,371	34,827
Income tax expense	8,786	4,292	13,078
Net income	\$14,670	\$7,079	\$21,749
Total assets	\$966,586	\$4,974,592	\$5,941,178

(in thousands)	Six Months Ended June 30, 2017		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income <sup>(1)</sup>	\$9,167	\$83,352	\$92,519
Provision for credit losses	—	500	500
Noninterest income	137,768	17,701	155,469
Noninterest expense	145,017	73,101	218,118

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Income before income taxes	1,918	27,452	29,370
Income tax expense	464	8,714	9,178
Net income	\$1,454	\$18,738	\$20,192
Total assets	\$992,668	\$5,593,889	\$6,586,557

55

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Six Months Ended June 30, 2016

(in thousands)	Commercial		Total
	Mortgage and Banking	Consumer Banking	
Condensed income statement:			
Net interest income <sup>(1)</sup>	\$ 11,134	\$ 74,039	\$ 85,173
Provision for credit losses	—	2,500	2,500
Noninterest income	161,360	12,824	174,184
Noninterest expense	141,651	70,733	212,384
Income before income taxes	30,843	13,630	44,473
Income tax expense	11,308	5,009	16,317
Net income	\$ 19,535	\$ 8,621	\$ 28,156
Total assets	\$ 966,586	\$ 4,974,592	\$ 5,941,178

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 12—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Beginning balance	\$ (8,486)	\$ 4,161	\$ (10,412)	\$ (2,449)
Other comprehensive income before reclassifications	3,431	5,627	5,361	12,260
Amounts reclassified from accumulated other comprehensive loss	(358 )	(40 )	(362 )	(63 )
Net current-period other comprehensive income	3,073	5,587	4,999	12,197
Ending balance	\$ (5,413)	\$ 9,748	\$ (5,413 )	\$ 9,748

The following table shows the affected line items in the consolidated statements of operations from reclassifications of unrealized gain 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	Six Months Ended

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(in thousands)	June 30,		June 30,	
	2017	2016	2017	2016
Gain on sale of investment securities available for sale	\$551	\$ 62	\$557	\$ 97
Income tax expense	193	22	195	34
Total, net of tax	\$358	\$ 40	\$362	\$ 63

56

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NOTE 13–SUBSEQUENT EVENTS:

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

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 2016 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 management's plans and objectives for future operations or programs;
- any statements regarding future operations, plans, regulatory compliance or approvals;
- any statements concerning proposed new products or services;
- any statements about the expected or estimated performance of our loan portfolio;
- any statements regarding our pending or potential expansion into other geographic markets or potential increases in personnel or business in existing markets;
- 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. Statements of knowledge, intention or belief reflect those characteristics of our executive management team based on current facts and circumstances.

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 Six Months Ended		
	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	June 30, 2017	June 30, 2016
Income statement data (for the period ended):							
Net interest income	\$46,868	\$45,651	\$48,074	\$46,802	\$44,482	\$92,519	\$85,173
Provision for credit losses	500	—	350	1,250	1,100	500	2,500
Noninterest income	81,008	74,461	73,221	111,745	102,476	155,469	174,184
Noninterest expense	111,244	106,874	117,539	114,399	111,031	218,118	212,384
Income before income taxes	16,132	13,238	3,406	42,898	34,827	29,370	44,473
Income tax expense	4,923	4,255	1,112	15,197	13,078	9,178	16,317
Net income	\$11,209	\$8,983	\$2,294	\$27,701	\$21,749	\$20,192	\$28,156
Basic income per share	\$0.42	\$0.33	\$0.09	\$1.12	\$0.88	\$0.75	\$1.16
Diluted income per share	\$0.41	\$0.33	\$0.09	\$1.11	\$0.87	\$0.75	\$1.15
Common shares outstanding	26,874,871	26,862,744	26,800,183	24,833,008	24,821,349	26,874,871	24,821,349
Weighted average number of shares outstanding:							
Basic	26,866,230	26,821,396	25,267,909	24,811,169	24,708,375	26,843,813	24,192,441
Diluted	27,084,608	27,057,449	25,588,691	24,996,747	24,911,919	27,071,028	24,394,648
Shareholders' equity per share	\$24.40	\$23.86	\$23.48	\$23.60	\$22.55	\$24.40	\$22.55
Financial position (at period end):							
Cash and cash equivalents	\$54,447	\$61,492	\$53,932	\$55,998	\$45,229	\$54,447	\$45,229
Investment securities	936,522	1,185,654	1,043,851	991,325	928,364	936,522	928,364
Loans held for sale	784,556	537,959	714,559	893,513	772,780	784,556	772,780
Loans held for investment, net	4,156,424	3,957,959	3,819,027	3,764,178	3,698,959	4,156,424	3,698,959
Mortgage servicing rights	258,222	257,421	245,860	167,501	147,266	258,222	147,266
Other real estate owned	4,597	5,646	5,243	6,440	10,698	4,597	10,698
Total assets	6,586,557	6,401,143	6,243,700	6,226,601	5,941,178	6,586,557	5,941,178
Deposits	4,747,771	4,595,809	4,429,701	4,504,560	4,239,155	4,747,771	4,239,155
Federal Home Loan Bank advances	867,290	862,335	868,379	858,923	878,987	867,290	878,987
Shareholders' equity	\$655,841	\$640,919	\$629,284	\$586,028	\$559,603	\$655,841	\$559,603
Financial position (averages):							
Investment securities	\$1,089,552	\$1,153,248	\$962,504	\$981,223	\$766,248	\$1,121,224	\$695,971
Loans held for investment	4,119,825	3,914,537	3,823,253	3,770,133	3,677,361	4,017,748	3,538,420
Total interest-earning assets	5,837,917	5,782,061	5,711,154	5,692,999	5,186,131	5,810,143	4,907,819
Total interest-bearing deposits	3,652,036	3,496,190	3,413,311	3,343,339	3,072,314	3,574,543	2,903,645
Federal Home Loan Bank advances	872,019	975,914	938,342	988,358	946,488	923,679	921,607
Federal funds purchased and securities sold under agreements to repurchase	4,804	978	951	2,242	—	2,901	—
Total interest-bearing liabilities	4,654,064	4,598,243	4,477,732	4,459,213	4,110,208	4,626,306	3,901,883
Shareholders' equity	\$668,377	\$649,439	\$616,497	\$588,335	\$548,080	\$658,961	\$529,482





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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 Six Months Ended		
	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	June 30, 2017	June 30, 2016	
<b>Financial performance:</b>								
Return on average shareholders' equity <sup>(1)</sup>	6.71	% 5.53	% 1.49	% 18.83	% 15.87	% 6.13	% 10.64	%
Return on average assets	0.70	% 0.57	% 0.15	% 1.79	% 1.54	% 0.63	% 1.06	%
Net interest margin <sup>(2)</sup>	3.29	% 3.23	% 3.42	% 3.34	% 3.48	% 3.26	% 3.52	%
Efficiency ratio <sup>(3)</sup>	86.99	% 88.98	% 96.90	% 72.15	% 75.55	% 87.96	% 81.89	%
<b>Asset quality:</b>								
Allowance for credit losses	\$37,470	\$36,042	\$35,264	\$35,233	\$34,001	\$37,470	\$34,001	
Allowance for loan losses/total loans <sup>(4)</sup>	0.86	% 0.87	% 0.88	% 0.89	% 0.88	% 0.86	% 0.88	%
Allowance for loan losses/nonaccrual loans	233.50	% 185.99	% 165.52	% 131.07	% 207.41	% 233.50	% 207.41	%
Total nonaccrual loans <sup>(5)(6)</sup>	\$15,476	\$18,676	\$20,542	\$25,921	\$15,745	\$15,476	\$15,745	
Nonaccrual loans/total loans	0.37	% 0.47	% 0.53	% 0.68	% 0.42	% 0.37	% 0.42	%
Other real estate owned	\$4,597	\$5,646	\$5,243	\$6,440	\$10,698	\$4,597	\$10,698	
Total nonperforming assets <sup>(6)</sup>	\$20,073	\$24,322	\$25,785	\$32,361	\$26,443	\$20,073	\$26,443	
Nonperforming assets/total assets	0.30	% 0.38	% 0.41	% 0.52	% 0.45	% 0.30	% 0.45	%
Net (recoveries) charge-offs	\$(928)	\$(778)	\$319	\$18	\$(478)	\$(1,706)	\$(842)	
<b>Regulatory capital ratios for the Bank:</b>								
Tier 1 leverage capital (to average assets)	10.13	% 9.98	% 10.26	% 9.91	% 10.28	% 10.13	% 10.28	%
Common equity tier 1 risk-based capital (to risk-weighted assets)	13.23	% 13.25	% 13.92	% 13.61	% 13.52	% 13.23	% 13.52	%
Tier 1 risk-based capital (to risk-weighted assets)	13.23	% 13.25	% 13.92	% 13.61	% 13.52	% 13.23	% 13.52	%
Total risk-based capital (to risk-weighted assets)	14.01	% 14.02	% 14.69	% 14.41	% 14.33	% 14.01	% 14.33	%
<b>Regulatory capital ratios for the Company:</b>								
Tier 1 leverage capital (to average assets)	9.55	% 9.45	% 9.78	% 9.52	% 9.88	% 9.55	% 9.88	%
Tier 1 common equity risk-based capital (to risk-weighted assets)	10.01	% 9.96	% 10.54	% 10.37	% 10.31	% 10.01	% 10.31	%
Tier 1 risk-based capital (to risk-weighted assets)	11.10	% 11.07	% 11.66	% 11.55	% 11.51	% 11.10	% 11.51	%
Total risk-based capital (to risk-weighted assets)	11.79	% 11.74	% 12.34	% 12.25	% 12.22	% 11.79	% 12.22	%

(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 0.95%, 0.97%, 1.00%, 1.05% and 1.03% at June 30, 2017, March 31, 2017, December 31, 2016, September 30, 2016 and June 30, 2016, 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 \$732 thousand, \$750 thousand, \$1.9 million, \$2.1 million and \$2.6 million of nonperforming loans (6) guaranteed by the SBA at June 30, 2017, March 31, 2017, December 31, 2016, September 30, 2016 and June 30, 2016, respectively.

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(in thousands)	At or for the Three Months Ended					At or for the Six Months Ended	
	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	June 30, 2017	June 30, 2016
<b>SUPPLEMENTAL DATA:</b>							
Loans serviced for others:							
Single family	\$21,104,608	\$20,303,169	\$19,488,456	\$18,199,040	\$17,073,520	\$21,104,608	\$17,073,520
Multifamily DUS <sup>®</sup> (3)	1,135,722	1,140,414	1,108,040	1,055,181	1,023,505	1,135,722	1,023,505
Other	75,336	73,832	69,323	67,348	62,466	75,336	62,466
Total loans serviced for others	\$22,315,666	\$21,517,415	\$20,665,819	\$19,321,569	\$18,159,491	\$22,315,666	\$18,159,491
Loan production volumes:							
Mortgage Banking segment:							
Single family mortgage closed loans <sup>(1)(2)</sup>	\$2,011,127	\$1,621,053	\$2,514,657	\$2,647,943	\$2,261,599	\$3,632,180	\$3,834,747
Single family mortgage interest rate lock commitments <sup>(2)</sup>	1,950,427	1,622,622	1,765,942	2,689,640	2,361,691	3,573,049	4,165,394
Single family mortgage loans sold <sup>(2)</sup>	1,808,500	1,739,737	2,651,022	2,489,415	2,173,392	3,548,237	3,644,975
Commercial and Consumer Banking segment:							
Loan originations							
Multifamily DUS <sup>®</sup> (3)	\$58,343	\$57,552	\$94,725	\$45,497	\$146,535	115,895	185,629
Other (4)	6,126	6,798	3,008	2,913	5,528	12,924	5,528
Loans sold							
Multifamily DUS <sup>®</sup> (3)	35,312	76,849	85,594	58,484	109,394	112,161	157,364
Other (4)	\$24,695	\$13,186	\$75,000	\$50,255	\$31,813	\$37,881	\$31,813

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

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

(3) Fannie Mae Multifamily Delegated Underwriting and Servicing Program ("DUS<sup>®</sup>) is a registered trademark of Fannie Mae.

(4) Includes multifamily loans originated from sources other than DUS<sup>®</sup>.

## About Us

HomeStreet is a diversified financial services company founded in 1921, headquartered in Seattle, Washington, serving customers primarily in the western United States, including Hawaii. We are principally engaged in commercial and consumer banking and real estate lending, including single family mortgage origination and servicing.

HomeStreet, Inc. is a bank holding company that has elected to be treated as a financial holding company. Our primary subsidiaries are HomeStreet Bank and HomeStreet Capital Corporation. We also sell insurance products and services for commercial and consumer clients under the name HomeStreet Insurance.

HomeStreet Bank is a Washington state-chartered commercial bank providing commercial, consumer and mortgage loans, deposit products and services, non-deposit investment products, private banking and cash management services. Our loan products include commercial business loans and agriculture loans, consumer loans, single family residential mortgages, loans secured by commercial real estate and construction loans for residential and commercial real estate projects. We also have partial ownership in WMS Series LLC, an affiliated business arrangement with various owners of Windermere Real Estate Company franchises home loan business 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 Multifamily Delegated Underwriting and Servicing Program (“DUS®”<sup>(1)</sup>) in conjunction with HomeStreet Bank.

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

During the second quarter of 2017, we continued to execute our strategy of diversifying earnings by expanding our commercial and consumer banking business, adding new branches in the high-growth areas of Puget Sound and Southern California to promote convenience and build market share while also building deposits at our existing branches. Meanwhile, in our mortgage banking segment we are currently focused on optimizing our resources in our existing markets in the face of rate changes and inventory constraints that have lowered the number of loans that can be originated in the marketplace, and are actively seeking efficiencies in our single family lending operations.

At June 30, 2017, we had total assets of \$6.59 billion, net loans held for investment of \$4.16 billion, deposits of \$4.75 billion and shareholders’ equity of \$655.8 million. This includes \$189.2 million of assets, \$125.8 million of loans, \$126.5 million of deposits and \$8.4 million of goodwill added through the acquisition of Orange County Business Bank by merger in the first quarter of 2016, \$41.6 million in assets, \$40.3 million in loans and \$48.1 million in deposits added through the acquisition of the assets and certain liabilities of The Bank of Oswego in the third quarter of 2016, and \$104.5 million in deposits added through the acquisition of two branches in Southern California from Boston Private Bank & Trust in the fourth quarter of 2016.

In the second quarter of 2017, we entered into an agreement to acquire a branch located in El Cajon, California. This transaction is expected to close in the second half of 2017 and is subject to customary closing conditions, including receipt of regulatory approval.

Although our business traditionally has been centered heavily in mortgage banking, we have invested significantly in the growth of our commercial and consumer banking business since our initial public offering in 2012. The significant development of this business over the last five years has been helpful in offsetting the relatively lower performance of our residential mortgage banking operations in 2017, as the scarcity of homes available for sale in our key markets is creating challenges for customers looking for suitable housing at an affordable price which in turn has reduced our ability to originate purchase mortgages in those markets. As a result of this shift in market trends, we have begun to reassess the optimum staffing level and geographic scope of our mortgage operations, including a recent reduction in headcount in our mortgage origination operations by 73 employees. We are continuing to monitor market factors and to assess the appropriate office locations and staffing levels for mortgage banking. We expect that unless trends reverse sharply in the coming months, it may become necessary to further optimize staffing levels and reconsider maintaining the full complement of our existing office locations for mortgage banking operations. Some of the

scenarios currently under consideration include measures that may require us to incur restructuring charges. However, if these steps become necessary, management expects to respond promptly and proactively to promote efficient growth in the business overall while still providing exceptional service to our customers.

<sup>1</sup> DUS® is a registered trademark of Fannie Mae 62

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## Management's Overview of Second Quarter of 2017 Financial Performance

## Results of Operations

Results for the second quarter of 2017 reflect the benefit of our investment in growth and diversification. We have continued to execute on our strategy of becoming a leading west coast regional bank by combining steady organic growth and effective integration of our bank and branch acquisitions. At the same time, our mortgage business has been impacted by both the low supply of houses in our primary markets and higher interest rates, resulting in lower rate locks. In response to these changes in market forces, we are currently focused on cost control and optimization in this segment, including implementing a new loan origination system and a reduction in workforce. Our commercial and consumer banking segment continued to have strong growth, including an increase of loans held for investment of 5% in the quarter.

For the three and six months ended June 30, 2017, net income was \$11.2 million and \$20.2 million, respectively, a decrease of \$10.5 million or 48.5% and \$8.0 million or 28.3% from \$21.7 million and \$28.2 million for the three and six months ended June 30, 2016, respectively. Included in net income for both the three and six months ended June 30, 2017 were \$115 thousand in acquisition-related expenses, net of tax, compared to \$666 thousand and \$4.0 million in the three and six months ended 2016, respectively.

As of June 30, 2017, we had 47 primary stand-alone home loan centers, seven primary commercial loan centers and 57 retail deposit branches. We also have one stand-alone insurance office.

## Consolidated Financial Performance

(in thousands, except per share data and ratios)	At or for the Three Months Ended June 30,		Percent Change	At or for the Six Months Ended June 30,		Percent Change
	2017	2016		2017	2016	
<b>Selected statement of operations data</b>						
Total net revenue <sup>(1)</sup>	\$127,876	\$146,958	(13 )%	\$247,988	\$259,357	(4 )%
Total noninterest expense	111,244	111,031	— %	218,118	212,384	3 %
Provision for credit losses	500	1,100	(55 )%	500	2,500	(80 )%
Income tax expense	4,923	13,078	(62 )%	9,178	16,317	(44 )%
Net income	\$11,209	\$21,749	(48 )%	\$20,192	\$28,156	(28 )%
<b>Financial performance</b>						
Diluted income per share	\$0.41	\$0.87		\$0.75	\$1.15	
Return on average common shareholders' equity	6.71	% 15.87	%	6.13	% 10.64	%
Return on average assets	0.70	% 1.54	%	0.63	% 1.06	%
Net interest margin	3.29	% 3.48	%	3.26	% 3.52	%

(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 six months ended June 30, 2017 was \$9.4 million and \$18.7 million, respectively, compared to \$7.1 million and \$8.6 million for the three and six months ended June 30, 2016, respectively. The increases were primarily due to higher net interest income resulting from higher average balances of interest-earning assets. These increases were the result of growth in income related to assets gained in merger and acquisition activities as well as organic growth. Included in net income for both the three and six

months ended June 30, 2017, were acquisition-related expenses, net of tax, of \$115 thousand, compared to \$666 thousand and \$4.0 million in the three and six months ended June 30, 2016, respectively.

Commercial and Consumer Banking segment net interest income was \$42.4 million for the second quarter of 2017, an increase of \$4.1 million, or 10.6%, from \$38.4 million for the second quarter of 2016, reflecting higher average balances of loans held for investment primarily as a result of organic growth. For the six months ended June 30, 2017 segment net interest income was



\$83.4 million, an increase of \$9.3 million, or 12.6%, from \$74.0 million for the six months ended June 30, 2016, reflecting higher average balances of loans held for investment as a result of organic growth and acquisitions.

Our provision for credit losses was \$500 thousand in both the three and six months ended June 30, 2017, compared to \$1.1 million and \$2.5 million, respectively, for the three and six months ended June 30, 2016. Net recoveries were \$1.7 million in the first six months of 2017 compared to net recoveries of \$842 thousand in the first six months of 2016. Overall, the allowance for loan losses (which excludes the allowance for unfunded commitments) was 0.86% and 0.88% of loans held for investment at June 30, 2017 and June 30, 2016, respectively. Excluding loans acquired through business combinations, the allowance for loan losses was 0.95% of loans held for investment at June 30, 2017 compared to 1.03% at June 30, 2016. Nonperforming assets were \$20.1 million, or 0.30% of total assets at June 30, 2017, compared to \$26.4 million, or 0.45% of total assets at June 30, 2016.

Commercial and Consumer Banking segment noninterest expense was \$36.6 million for the second quarter of 2017, an increase of \$2.5 million, or 7.4%, from \$34.1 million for the second quarter of 2016. For the six months ended June 30, 2017 noninterest expense was \$73.1 million, an increase of \$2.4 million, or 3.3%, from \$70.7 million for the six months ended June 30, 2016. The increases were primarily attributable to increased costs related to organic growth of our commercial real estate and commercial business lending units and the expansion of our branch banking network. For the six months ended June 30, 2017, we added two de novo retail deposit branches and increased the segment's headcount by 13.9%. During the same period, the commercial and consumer banking segment further expanded its commercial lending business with the opening of two new stand-alone primary commercial lending centers.

#### Mortgage Banking Segment Results

Mortgage Banking segment net income for the three and six months ended June 30, 2017 was net income of \$1.8 million and \$1.5 million, respectively, compared to net income of \$14.7 million and \$19.5 million for the three and six months ended June 30, 2016, respectively. The decrease in net income was primarily due to a \$411.3 million and \$592.3 million reduction in rate locks, respectively, and higher noninterest expense from technology investments and the expansion of personnel and offices in new markets. In June 2017, as a result of anticipated loan processing efficiencies from our new loan origination system, as well as lower mortgage origination volume, we implemented cost reduction strategies, including a reduction in workforce impacting mortgage origination and processing personnel.

Mortgage Banking noninterest income for the three and six months ended June 30, 2017 was \$72.7 million and \$137.8 million, respectively compared to \$94.3 million and \$161.4 million, for the three and six months ended June 30, 2016, respectively, primarily due to a 17.4% and 14.2% decrease in single family mortgage interest rate lock commitments, respectively. The decrease in interest rate lock commitments was the result of both the limited supply of housing in our markets which reduced the volume of purchase mortgage activity in the period, and higher mortgage interest rates, which reduced the volume of refinance activity in the period. This decrease was partially offset by growth in overall segment loan origination capacity through the addition of mortgage production personnel and the expansion of our network of mortgage loan centers. Although our mortgage production personnel increased by 9% at June 30, 2017 compared to June 30, 2016, in the second quarter of 2017 we focused on optimizing our resources in that segment and reduced the total number of employees in the mortgage segment by 73 on a net basis as compared to March 31, 2017, including a reduction in workforce of 41 employees toward the end of the quarter.

Mortgage Banking noninterest expense for the three and six months ended June 30, 2017 was \$74.6 million and \$145.0 million, respectively compared to \$76.9 million and \$141.7 million for the three and six months ended June 30, 2016, respectively. The quarter over quarter decrease is primarily due to decreased commissions, salary and related costs on lower closed loan volumes. The increase from the six months ended June 30, 2016 was primarily due to the expansion of personnel and offices in existing markets and costs associated with implementing a new loan origination system which automated certain tasks that previously required manual entry.

## Regulatory Matters

The Company's Tier 1 leverage, common equity risk-based capital, Tier 1 risk-based capital and total risk-based capital ratios at June 30, 2017 were 9.55%, 10.01%, 11.10% and 11.79%, respectively. The Company and the Bank remain above current “well-capitalized” regulatory minimums. Under the Basel III standards, the Bank's Tier 1 leverage, common equity risk-based capital, Tier 1 risk-based capital and total risk-based capital ratios at June 30, 2017 were 10.13%, 13.23%, 13.23% and 14.01%, respectively. The Company's Tier 1 leverage, common equity risk-based capital, Tier 1 risk-based capital and total risk-based capital ratios at December 31, 2016 were 9.78%, 10.54%, 11.66% and 12.34%, respectively. At December 31, 2016, the Bank's

Tier 1 leverage, common equity risk-based capital, Tier 1 risk-based capital and total risk-based capital ratios were 10.26%, 13.92%, 13.92% and 14.69%, respectively.

For more on the Basel III requirements as they apply to us, please see "Capital Management" within the Liquidity and Capital Resources section of our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the Securities and Exchange Commission on March 9, 2017 and please see "Capital Management" within the Liquidity and Capital Resource section of this Form 10-Q.

#### Critical Accounting Policies and Estimates

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

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

These policies and estimates are described in further detail in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1, Summary of Significant Accounting Policies, within our 2016 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 June 30,							
	2017				2016			
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
<b>Assets:</b>								
Interest-earning assets: <sup>(1)</sup>								
Cash and cash equivalents	\$87,249	\$125	0.57 %		\$37,572	\$27	0.28 %	
Investment securities	1,089,552	6,466	2.38 %		766,248	4,677	2.44 %	
Loans held for sale	541,291	5,586	4.13 %		704,950	6,565	3.73 %	
Loans held for investment	4,119,825	45,701	4.43 %		3,677,361	40,727	4.42 %	
Total interest-earning assets	5,837,917	57,878	3.96 %		5,186,131	51,996	4.00 %	
Noninterest-earning assets <sup>(2)</sup>	587,211				451,116			
Total assets	\$6,425,128				\$5,637,247			
<b>Liabilities and shareholders' equity:</b>								
<b>Deposits:</b>								
Interest-bearing demand accounts	\$494,997	\$502	0.41 %		\$456,461	\$489	0.43 %	
Savings accounts	309,844	256	0.33 %		299,103	255	0.34 %	
Money market accounts	1,551,328	1,917	0.50 %		1,286,570	1,589	0.50 %	
Certificate accounts	1,295,867	3,303	1.03 %		1,030,180	2,191	0.86 %	
Total interest-bearing deposits	3,652,036	5,978	0.66 %		3,072,314	4,524	0.59 %	
Federal Home Loan Bank advances	872,019	2,368	1.09 %		946,488	1,462	0.62 %	
Federal funds purchased and securities sold under agreements to repurchase	4,804	14	1.20 %		—	—	— %	
Long-term debt	125,205	1,514	4.86 %		91,406	823	3.62 %	
Total interest-bearing liabilities	4,654,064	9,874	0.85 %		4,110,208	6,809	0.67 %	
Noninterest-bearing liabilities	1,102,687				978,959			
Total liabilities	5,756,751				5,089,167			
Shareholders' equity	668,377				548,080			
Total liabilities and shareholders' equity	\$6,425,128				\$5,637,247			
Net interest income <sup>(3)</sup>		\$48,004				\$45,187		
Net interest spread			3.11 %				3.33 %	
Impact of noninterest-bearing sources			0.18 %				0.15 %	
Net interest margin			3.29 %				3.48 %	

(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 \$1.1 million and \$705 thousand for the quarter ended June 30, 2017 and 2016, respectively. The estimated federal statutory tax rate was 35% for the periods presented.



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(in thousands)	Six Months Ended June 30,							
	2017				2016			
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost		
<b>Assets:</b>								
Interest-earning assets: <sup>(1)</sup>								
Cash and cash equivalents	\$89,224	\$261	0.59 %	\$38,805	\$71	0.36 %		
Investment securities	1,121,224	13,065	2.33 %	695,971	8,442	2.43 %		
Loans held for sale	581,947	11,673	4.02 %	634,623	12,051	3.81 %		
Loans held for investment	4,017,748	89,187	4.44 %	3,538,420	78,006	4.40 %		
Total interest-earning assets	5,810,143	114,186	3.93 %	4,907,819	98,570	4.01 %		
Noninterest-earning assets <sup>(2)</sup>	574,654			426,906				
Total assets	\$6,384,797			\$5,334,725				
<b>Liabilities and shareholders' equity:</b>								
<b>Deposits:</b>								
Interest-bearing demand accounts	\$472,920	\$980	0.42 %	\$436,093	\$981	0.45 %		
Savings accounts	307,095	508	0.33 %	297,821	509	0.34 %		
Money market accounts	1,570,406	4,128	0.53 %	1,237,023	2,953	0.48 %		
Certificate accounts	1,224,122	6,104	1.00 %	932,708	3,716	0.79 %		
Total interest-bearing deposits	3,574,543	11,720	0.66 %	2,903,645	8,159	0.56 %		
Federal Home Loan Bank advances	923,679	4,770	1.04 %	921,607	2,881	0.62 %		
Federal funds purchased and securities sold under agreements to repurchase	2,901	16	1.03 %	—	—	— %		
Long-term debt	125,183	2,992	4.81 %	76,631	1,133	2.80 %		
Total interest-bearing liabilities	4,626,306	19,498	0.85 %	3,901,883	12,173	0.63 %		
Noninterest-bearing liabilities	1,099,530			903,360				
Total liabilities	5,725,836			4,805,243				
Shareholders' equity	658,961			529,482				
Total liabilities and shareholders' equity	\$6,384,797			\$5,334,725				
Net interest income <sup>(3)</sup>		\$94,688			\$86,397			
Net interest spread			3.08 %			3.38 %		
Impact of noninterest-bearing sources			0.18 %			0.14 %		
Net interest margin			3.26 %			3.52 %		

(1) The average balances of nonaccrual assets and related income, if any, are included in their respective categories.

(2) Includes loan balances that have been foreclosed and are now reclassified to other real estate owned.

Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of  
(3) \$2.2 million and \$1.2 million for the six months ended June 30, 2017 and June 30, 2016, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

#### Interest on Nonaccrual Loans

We do not include interest collected on nonaccrual loans in interest income. When we place a loan on nonaccrual status, we reverse the accrued but unpaid interest, which reduces interest income for the period in which the reversal occurs and we stop amortizing any net deferred fees (which are normally amortized over the life of the loan). 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 \$352 thousand and \$546 thousand for the three months ended June 30, 2017 and 2016, respectively, and \$797 thousand and \$1.2 million for the six months ended June 30, 2017 and 2016, respectively.

## Net Income

For the three months ended June 30, 2017, net income was \$11.2 million, a decrease of \$10.5 million or 48.5% from \$21.7 million for the three months ended June 30, 2016. For the six months ended June 30, 2017, net income was \$20.2 million, a decrease of \$8.0 million, or 28.3% from \$28.2 million for the six months ended June 30, 2016. Included in net income in both the three and six months ended June 30, 2017 were \$115 thousand in merger-related expenses, net of tax, compared to \$666 thousand and \$4.0 million in the three and six months ended June 30, 2016, 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 trust preferred securities, senior unsecured notes and advances from the Federal Home Loan Bank ("FHLB").

Net interest income on a tax equivalent basis for the second quarter of 2017 was \$48.0 million, an increase of \$2.8 million, or 6.2%, from the second quarter of 2016. For the six months ended June 30, 2017, net interest income on a tax equivalent basis was \$94.7 million, an increase of \$8.3 million, or 9.6%, from \$86.4 million for the six months ended June 30, 2016. These increases from 2016 were primarily due to growth in average interest earning assets. The net interest margin for the second quarter of 2017 decreased to 3.29% from 3.48% for the second quarter of 2016. For the six months ended June 30, 2017 net interest margin decreased to 3.26% from 3.52% for the six months ended June 30, 2016. These decreases in our net interest margin were primarily due to both higher cost of funds and a higher portion of lower yielding investments, primarily from interest expense related to our long-term debt issuance in the second quarter of 2016, and higher FHLB borrowing costs due to higher short-term rates.

Total average interest-earning assets increased \$651.8 million, or 12.6% from the three months ended June 30, 2016 and increased \$902.3 million, or 18.4% from the six months ended June 30, 2016 primarily as a result of growth in average loans held for investment, both organically and through acquisition activity. Additionally, our average balance of investment securities grew from prior periods as part of the strategic growth of the Company.

Total interest income of \$57.9 million on a tax equivalent basis in the second quarter of 2017 increased \$5.9 million, or 11.3%, from \$52.0 million in the second quarter of 2016. For the six months ended June 30, 2017 total interest income on a tax equivalent basis of \$114.2 million increased 15.8%, or \$15.6 million from \$98.6 million. These increases primarily resulted from higher average balances of loans held for investment, which increased \$442.5 million, or 12.0% and \$479.3 million, or 13.5% for the three and six months ended June 30, 2017, respectively.

Total interest expense in the second quarter of 2017 increased \$3.1 million, or 45.0% from \$6.8 million in the second quarter of 2016. For the six months ended June 30, 2017, interest expense increased \$7.3 million, or 60.2% from the six months ended June 30, 2016. These increases resulted from higher average balances of interest-bearing deposits, FHLB advances and interest paid on our \$65.0 million in senior debt issued in May 2016.

## Provision for Credit Losses

We recorded a provision for credit losses of \$500 thousand in the second quarter of 2017 compared to a provision of \$1.1 million for the second quarter of 2016. For the first half of 2017, provision for credit losses was \$500 thousand compared to a provision for credit losses of \$2.5 million for the first half of 2016.

Nonaccrual loans were \$15.5 million at June 30, 2017, a decrease of \$5.1 million, or 24.7%, from \$20.5 million at December 31, 2016. Nonaccrual loans as a percentage of total loans decreased to 0.37% at June 30, 2017 from 0.53%



at December 31, 2016.

Net recoveries were \$928 thousand in the second quarter of 2017 compared to net recoveries of \$478 thousand in the second quarter of 2016. For the first half of 2017, net recoveries were \$1.7 million compared to net recoveries of \$842 thousand for the first half of 2016. 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 June 30,		Dollar Change	Percent Change	Six Months Ended June 30,		Dollar Change	Percent Change
	2017	2016			2017	2016		
Noninterest income								
Gain on loan origination and sale activities <sup>(1)</sup>	\$65,908	\$85,630	\$(19,722)	(23 )%	\$126,189	\$146,893	\$(20,704)	(14 )%
Loan servicing income	8,764	12,703	(3,939 )	(31 )	18,003	20,735	(2,732 )	(13 )
Income from WMS Series LLC	406	1,164	(758 )	(65 )	591	1,300	(709 )	(55 )
Depositor and other retail banking fees	1,811	1,652	159	10	3,467	3,247	220	7
Insurance agency commissions	501	370	131	35	897	764	133	17
Gain on sale of investment securities available for sale	551	62	489	789	557	97	460	474
Other	3,067	895	2,172	243	5,765	1,148	4,617	402
Total noninterest income	\$81,008	\$102,476	\$(21,468)	(21 )%	\$155,469	\$174,184	\$(18,715)	(11 )%

(1) Single family, multifamily and other commercial loan banking activities.

Our noninterest income is heavily dependent upon our single family mortgage banking activities, which are comprised of mortgage origination and sale as well as mortgage servicing activities. The level of our mortgage banking activity fluctuates and is highly sensitive to changes in mortgage interest rates, as well as to general economic conditions such as employment trends and housing supply and affordability. The decrease in noninterest income in the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 was primarily due to a decrease in gain on loan origination and sale activities resulting from a 17%, and 14% decrease in single family rate lock volume, respectively.

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

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

(in thousands)	Three Months Ended June 30,		Dollar Change	Percent Change	Six Months Ended June 30,		Dollar Change	Percent Change
	2017	2016			2017	2016		
Single family held for sale:								
Servicing value and secondary market gains <sup>(1)</sup>	\$57,353	\$73,685	\$(16,332)	(22 )%	\$107,891	\$127,812	\$(19,921)	(16 )%
Loan origination and administrative fees	6,823	7,355	(532 )	(7 )	12,604	12,683	(79 )	(1 )
Total single family held for sale	64,176	81,040	(16,864 )	(21 )	120,495	140,495	(20,000 )	(14 )
Multifamily DUS <sup>®</sup>	1,273	3,655	(2,382 )	(65 )	4,633	5,184	(551 )	(11 )
Other <sup>(2)</sup>	459	935	(476 )	(51 )	1,061	1,214	(153 )	(13 )
Gain on loan origination and sale activities	\$65,908	\$85,630						