

HomeStreet, Inc.  
Form 10-Q  
May 09, 2013

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

FORM 10-Q

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

For the quarterly period ended: March 31, 2013

Commission file number: 001-35424

HOMESTREET, INC.

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of incorporation)

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)

91-0186600

(IRS Employer Identification No.)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of outstanding shares of the registrant's common stock as of April 30, 2013 was 14,399,992.

PART I – FINANCIAL INFORMATION

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

PART I – FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

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

(in thousands, except share data)	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and cash equivalents (including interest-bearing instruments of \$7,183 and \$12,414)	\$18,709	\$25,285
Investment securities available for sale	415,238	416,329
Loans held for sale (includes \$419,106 and \$600,305 carried at fair value)	430,857	620,799
Loans held for investment (net of allowance for loan losses of \$28,405 and \$27,561)	1,358,982	1,308,974
Mortgage servicing rights (includes \$102,678 and \$87,396 carried at fair value)	111,828	95,493
Other real estate owned	21,664	23,941
Federal Home Loan Bank stock, at cost	36,037	36,367
Premises and equipment, net	16,893	15,232
Accounts receivable and other assets	98,043	88,810
Total assets	\$2,508,251	\$2,631,230
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Deposits	\$1,934,704	\$1,976,835
Federal Home Loan Bank advances	183,590	259,090
Accounts payable and other liabilities	57,695	69,686
Long-term debt	61,857	61,857
Total liabilities	2,237,846	2,367,468
<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, issued and outstanding, 14,400,206 shares and 14,382,638 shares	511	511
Additional paid-in capital	90,687	90,189
Retained earnings	173,229	163,872
Accumulated other comprehensive income	5,978	9,190
Total shareholders' equity	270,405	263,762
Total liabilities and shareholders' equity	\$2,508,251	\$2,631,230

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

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

(in thousands, except share data)	Three Months Ended March 31,	
	2013	2012
Interest income:		
Loans	\$18,049	\$16,481
Investment securities available for sale	2,659	2,238
Other	30	137
	20,738	18,856
Interest expense:		
Deposits	3,489	4,879
Federal Home Loan Bank advances	292	675
Long-term debt	1,717	465
Other	5	4
	5,503	6,023
Net interest income	15,235	12,833
Provision for credit losses	2,000	—
Net interest income after provision for credit losses	13,235	12,833
Noninterest income:		
Net gain on mortgage loan origination and sale activities	53,913	29,496
Mortgage servicing income	3,072	7,873
Income from Windermere Mortgage Services Series LLC	620	1,166
Depositor and other retail banking fees	721	735
Insurance commissions	180	182
(Loss) gain on sale of investment securities available for sale (includes \$(31) and \$41 of unrealized (loss) gain reclassified from accumulated other comprehensive income)	(48	) 41
Other	443	604
	58,901	40,097
Noninterest expense:		
Salaries and related costs	35,062	21,351
General and administrative	10,888	5,273
Legal	611	435
Consulting	696	355
Federal Deposit Insurance Corporation assessments	567	1,240
Occupancy	2,802	1,790
Information services	2,996	1,723
Other real estate owned expense	2,135	2,520
	55,757	34,687
Income before income taxes	16,379	18,243
Income tax expense (benefit) (includes \$(17) and \$0 from reclassification items)	5,439	(1,716
NET INCOME	\$10,940	\$19,959
Basic income per share	\$0.76	\$1.94
Diluted income per share	\$0.74	\$1.86
Basic weighted average number of shares outstanding	14,359,691	10,292,566
Diluted weighted average number of shares outstanding	14,804,129	10,720,330

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

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

(in thousands)	Three Months Ended March 31,	
	2013	2012
Net income	\$10,940	\$19,959
Other comprehensive income (loss), net of tax:		
Unrealized (loss) gain on securities:		
Unrealized holding loss arising during the period (net of tax benefit of \$1,746 and \$0 for the three months ended March 31, 2013 and 2012)	(3,243	) (910
Reclassification adjustment included in net income (net of tax (benefit) expense of \$(17) and \$0 for the three months ended March 31, 2013 and 2012)	31	(41
Other comprehensive loss	(3,212	) (951
Comprehensive income	\$7,728	\$19,008

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, 2012	5,403,498	\$511	\$31	\$81,746	\$ 4,119	\$86,407
Net income	—	—	—	19,959	—	19,959
Share-based compensation	—	—	334	—	—	334
Common stock issued	8,921,716	—	86,390	—	—	86,390
Other comprehensive loss	—	—	—	—	(951 )	(951 )
Balance, March 31, 2012	14,325,214	\$511	\$86,755	\$101,705	\$ 3,168	\$192,139
Balance, January 1, 2013	14,382,638	\$511	\$90,189	\$163,872	\$ 9,190	\$263,762
Net income	—	—	—	10,940	—	10,940
Dividends declared	—	—	—	(1,583 )	—	(1,583 )
Share-based compensation	—	—	456	—	—	456
Common stock issued	17,568	—	42	—	—	42
Other comprehensive loss	—	—	—	—	(3,212 )	(3,212 )
Balance, March 31, 2013	14,400,206	\$511	\$90,687	\$173,229	\$ 5,978	\$270,405

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

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

(in thousands)	Three Months Ended March 31,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$10,940	\$19,959
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization/accretion of discount/premium on loans held for investment, net of additions	(344	) (172
Amortization/accretion of discount/premium on investment securities	1,331	1,192
Amortization of intangibles	10	27
Amortization of mortgage servicing rights	490	491
Provision for credit losses	2,000	—
Provision for losses on other real estate owned	638	2,754
Depreciation and amortization on premises and equipment	1,014	529
Fair value adjustment of loans held for sale	13,034	(3,804
Fair value adjustment of foreclosed loans transferred to other real estate owned	—	(490
Origination of mortgage servicing rights	(18,349	) (7,522
Change in fair value of mortgage servicing rights	1,528	(2,441
Net loss (gain) on sale of investment securities	48	(41
Gain on sale of other real estate owned	(108	) (100
Net deferred income tax expense (benefit)	1,374	(3,972
Share-based compensation expense	343	334
Origination of loans held for sale	(1,431,625	) (698,851
Proceeds from sale of loans held for sale	1,608,533	561,196
Cash used by changes in operating assets and liabilities:		
Increase in accounts receivable and other assets	(3,405	) (16,737
(Decrease) increase in accounts payable and other liabilities	(19,652	) 4,838
Net cash provided by (used in) operating activities	167,800	(142,810
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investment securities	(29,013	) (158,143
Proceeds from sale of investment securities	15,754	34,047
Principal repayments and maturities of investment securities	8,029	4,843
Proceeds from sale of other real estate owned	2,225	8,978
Mortgage servicing rights purchased from others	(4	) (48
Capital expenditures related to other real estate owned	(22	) (52
Origination of loans held for investment and principal repayments, net	(51,524	) 5,208
Property and equipment purchased	(2,675	) (994
Net cash used in investing activities	(57,230	) (106,161

(in thousands)	Three Months Ended March 31,	
	2013	2012
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Decrease in deposits, net	\$(42,131	) \$(9,122
Proceeds from Federal Home Loan Bank advances	1,569,042	—
Repayment of Federal Home Loan Bank advances	(1,644,542	) —
Proceeds from Federal Home Loan Bank stock repurchase	330	—
Proceeds from stock issuance, net	42	87,744
Excess tax benefits related to stock options	113	—
Net cash (used in) provided by financing activities	(117,146	) 78,622
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(6,576</b>	<b>) (170,349</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	25,285	263,302
End of period	\$18,709	\$92,953
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$17,880	\$6,024
Federal and state income taxes	5,442	—
Non-cash activities:		
Loans held for investment foreclosed and transferred to other real estate owned	3,303	3,458
Ginnie Mae loans recognized with the right to repurchase, net	\$3,132	\$3,092

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

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

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

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

NOTE 2—SIGNIFICANT RISKS AND UNCERTAINTIES:

Regulatory Agreements

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

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



## NOTE 3—INVESTMENT SECURITIES AVAILABLE FOR SALE:

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

(in thousands)	At March 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	\$69,707	\$223	\$(482)	) \$69,448
Commercial	13,653	754	—	) 14,407
Municipal bonds <sup>(1)</sup>	126,841	4,405	(199)	) 131,047
Collateralized mortgage obligations:				
Residential	147,296	3,922	(1,105)	) 150,113
Commercial	19,777	81	(63)	) 19,795
U.S. Treasury securities	30,416	12	—	) 30,428
	\$407,690	\$9,397	\$(1,849)	) \$415,238
	At December 31, 2012			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	\$62,847	\$223	\$(217)	) \$62,853
Commercial	13,720	660	—	) 14,380
Municipal bonds <sup>(1)</sup>	123,695	5,574	(94)	) 129,175
Collateralized mortgage obligations:				
Residential	163,981	6,333	(115)	) 170,199
Commercial	8,983	60	—	) 9,043
U.S. Treasury securities	30,670	11	(2)	) 30,679
	\$403,896	\$12,861	\$(428)	) \$416,329

Comprised of general obligation bonds (i.e., backed by the general credit of the issuer) and revenue bonds (i.e., (1)backed by revenues from the specific project being financed) issued by various municipal corporations. As of March 31, 2013 and December 31, 2012, substantially all bonds were rated; no bonds were rated below "A."

Mortgage-backed securities and collateralized mortgage obligations represent securities issued by government sponsored entities ("GSEs"). Each of the mortgage-backed securities ("MBS") and the collateralized mortgage obligations ("CMOs") in our investment portfolio are guaranteed by Fannie Mae, Ginnie Mae or Freddie Mac. Substantially all securities held are rated and considered at least investment grade, according to their credit rating by Standard and Poor's Rating Services ("S&P") or Moody's Investors Services ("Moody's").

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



(in thousands)	At March 31, 2013		12 months or more		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Mortgage-backed securities:						
Residential	\$(482	) \$37,896	\$—	\$—	\$(482	) \$37,896
Municipal bonds	(199	) 20,667	—	—	(199	) 20,667
Collateralized mortgage obligations:						
Residential	(1,105	) 55,494	—	—	(1,105	) 55,494
Commercial	(63	) 12,176	—	—	(63	) 12,176
	\$(1,849	) \$126,233	\$—	\$—	\$(1,849	) \$126,233
(in thousands)	At December 31, 2012		12 months or more		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Mortgage-backed securities:						
Residential	\$(217	) \$18,121	\$—	\$—	\$(217	) \$18,121
Municipal bonds	(94	) 4,212	—	—	(94	) 4,212
Collateralized mortgage obligations:						
Residential	(115	) 13,883	—	—	(115	) 13,883
U.S. Treasury securities	—	—	(2	) 10,238	(2	) 10,238
	\$(426	) \$36,216	\$(2	) \$10,238	\$(428	) \$46,454

The Company has evaluated securities that are in an unrealized loss position and has determined that the decline in value is temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any company- or industry-specific credit event. The Company anticipates full recovery of the amortized cost of these securities at maturity or sooner in the event of a more favorable market interest rate environment and does not intend to sell nor expect that it will be required to sell such securities before recovery of their amortized cost basis.



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

At March 31, 2013											
(in thousands)	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	
Available for sale:											
Mortgage-backed securities:											
Residential	\$—	— %	\$—	— %	\$—	— %	\$69,448	2.44 %	\$69,448	2.44 %	
Commercial	—	—	—	—	—	—	14,407	3.86	14,407	3.86	
Municipal bonds	—	—	—	—	17,575	3.56	113,472	4.60	131,047	4.46	
Collateralized mortgage obligations											
Residential	—	—	—	—	—	—	150,113	2.61	150,113	2.61	
Commercial	—	—	—	—	5,615	1.88	14,180	2.35	19,795	2.22	
U.S. Treasury securities	30,428	0.23	—	—	—	—	—	—	30,428	0.23	
Total available for sale	\$30,428	0.23 %	\$—	— %	\$23,190	3.16 %	\$361,620	3.24 %	\$415,238	3.01 %	

At December 31, 2012											
(in thousands)	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	
Available for sale:											
Mortgage-backed securities:											
Residential	\$—	— %	\$—	— %	\$—	— %	\$62,853	2.81 %	\$62,853	2.81 %	
Commercial	—	—	—	—	—	—	14,380	4.03	14,380	4.03	
Municipal bonds	—	—	—	—	15,673	3.64	113,502	4.66	129,175	4.53	
Collateralized mortgage obligations											
Residential	—	—	—	—	—	—	170,199	2.64	170,199	2.64	

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Commercial	—	—	—	—	—	—	9,043	2.06	9,043	2.06
U.S. Treasury	30,679	0.23	—	—	—	—	—	—	30,679	0.23
Total available for sale	\$30,679	0.23 %	\$—	— %	\$15,673	3.64 %	\$369,977	3.33 %	\$416,329	3.11 %

Sales of investment securities available for sale were as follows.

(in thousands)	Three Months Ended March 31,	
	2013	2012
Proceeds	\$15,754	\$34,047
Gross gains	4	113
Gross losses	(52	) (72

There were no investment securities pledged to secure advances from the Federal Home Loan Bank ("FHLB") at March 31, 2013 and \$51.9 million in securities pledged to secure advances from the FHLB at December 31, 2012. At March 31, 2013 and December 31, 2012 there were \$18.5 million and \$18.6 million, respectively, of securities pledged to secure derivatives in a liability position.

Tax-exempt interest income on securities available for sale of \$1.3 million and \$700 thousand for the three months ended March 31, 2013 and 2012, respectively, was recorded in the Company's consolidated statements of operations.

#### NOTE 4—LOANS AND CREDIT QUALITY:

For a detailed discussion of loans and credit quality, including accounting policies and the methodology used to estimate the allowance for credit losses, see Note 1, Summary of Significant Accounting Policies and Note 5, Loans and Credit Quality to the Company's 2012 Annual Report on Form 10-K.

Loans held for investment consist of the following.

(in thousands)	At March 31,	At
	2013	December 31, 2012
Consumer loans		
Single family	\$730,553	\$673,865
Home equity	132,537	136,746
	863,090	810,611
Commercial loans		
Commercial real estate	387,819	361,879
Multifamily	21,859	17,012
Construction/land development	43,600	71,033
Commercial business	73,851	79,576
	527,129	529,500
	1,390,219	1,340,111
Net deferred loan fees and discounts	(2,832	) (3,576
	1,387,387	1,336,535
Allowance for loan losses	(28,405	) (27,561
	\$1,358,982	\$1,308,974

The Company's portfolio of loans held for investment is divided into two portfolio segments, consumer loans and commercial loans, which are the same segments used to determine the allowance for loan losses. Within each portfolio segment, the Company monitors and assesses credit risk based on the risk characteristics of each of the

following loan classes: single family and home equity loans within the consumer loan portfolio segment and commercial real estate, multifamily, construction/land development and commercial business loans within the commercial loan portfolio segment.

Loans, which totaled \$361.7 million and \$469.8 million at March 31, 2013 and December 31, 2012, respectively, are pledged to secure borrowings from the FHLB as part of our liquidity management strategy. The FHLB does not have the right to sell or repledge these loans.

Loans held for investment are primarily secured by real estate located in the states of Washington, Oregon, Idaho and Hawaii. Loan concentrations may exist when there are amounts loaned to borrowers engaged in similar activities or similar types of loans extended to a diverse group of borrowers that would cause them to be similarly impacted by economic or other conditions. At March 31, 2013 we had concentrations representing 10% or more of the total portfolio by state and property type for the loan classes of single family and commercial real estate within the state of Washington, which represented 42.6% and 23.2% respectively. At December 31, 2012 we had concentrations representing 10% or more of the total portfolio by state and property type for the loan classes of single family and commercial real estate within the state of Washington, which represented 40.4% and 22.5% of the total portfolio, respectively. These loans were mostly located within the Puget Sound area, particularly within King County.

#### Credit Quality

Management considers the level of allowance for loan losses to be appropriate to cover credit losses inherent within the loans held for investment portfolio as of March 31, 2013. In addition to the allowance for loan losses, the Company maintains a separate allowance for losses related to unfunded loan commitments which is included in accounts payable and other liabilities on the consolidated statements of financial condition. Collectively, these allowances are referred to as the allowance for credit losses.

For further information on the policies that govern the determination of the allowance for loan losses levels, see Note 1, Summary of Significant Accounting Policies within the 2012 Annual Report on Form 10-K.

Activity in the allowance for credit losses was as follows.

(in thousands)	Three Months Ended March 31,	
	2013	2012
Allowance for credit losses (roll-forward):		
Beginning balance	\$27,751	\$42,800
Provision for credit losses	2,000	—
(Charge-offs), net of recoveries	(1,157	) (7,398
Ending balance	\$28,594	\$35,402
Components:		
Allowance for loan losses	\$28,405	\$35,204
Allowance for unfunded commitments	189	198
Allowance for credit losses	\$28,594	\$35,402

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

(in thousands)	Three Months Ended March 31, 2013				Ending Balance
	Beginning balance	Charge-offs	Recoveries	Provision	
Consumer loans					
Single family	\$13,388	\$(721	) \$75	\$1,736	\$14,478
Home equity	4,648	(839	) 97	802	4,708
	18,036	(1,560	) 172	2,538	19,186
Commercial loans					

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Commercial real estate	5,312	197	—	449	5,958
Multifamily	622	—	—	13	635
Construction/land development	1,580	(148	) 70	(608	) 894
Commercial business	2,201	—	112	(392	) 1,921
	9,715	49	182	(538	) 9,408
Total allowance for credit losses	\$27,751	\$(1,511	) \$354	\$2,000	\$28,594

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(in thousands)	Three Months Ended March 31, 2012				Ending Balance
	Beginning balance	Charge-offs	Recoveries	Provision	
Consumer loans					
Single family	\$10,671	\$(1,275)	) \$—	\$2,271	\$11,667
Home equity	4,623	(1,349)	) 65	1,192	4,531
	15,294	(2,624)	) 65	3,463	16,198
Commercial loans					
Commercial real estate	4,321	(26)	) —	603	4,898
Multifamily	335	—	) —	11	346
Construction/land development	21,237	(4,812)	) 128	(3,837)	) 12,716
Commercial business	1,613	(141)	) 12	(240)	) 1,244
	27,506	(4,979)	) 140	(3,463)	) 19,204
Total allowance for credit losses	\$42,800	\$(7,603)	) \$205	\$—	\$35,402

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

(in thousands)	At March 31, 2013					
	Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total
Consumer loans						
Single family	\$12,073	\$2,405	\$14,478	\$652,570	\$77,983	\$730,553
Home equity	4,607	101	4,708	129,067	3,470	132,537
	16,680	2,506	19,186	781,637	81,453	863,090
Commercial loans						
Commercial real estate	4,645	1,313	5,958	359,106	28,713	387,819
Multifamily	160	475	635	18,648	3,211	21,859
Construction/land development	630	264	894	33,139	10,461	43,600
Commercial business	847	1,074	1,921	71,876	1,975	73,851
	6,282	3,126	9,408	482,769	44,360	527,129
Total	\$22,962	\$5,632	\$28,594	\$1,264,406	\$125,813	\$1,390,219

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

Interest payments on impaired loans, applied against loan principal or recognized as interest income, of \$1.1 million and \$1.4 million were recorded for cash payments received during the three months ended March 31, 2013 and 2012 respectively.



Impaired Loans

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

(in thousands)	At March 31, 2013		Related allowance
	Recorded investment <sup>(1)</sup>	Unpaid principal balance <sup>(2)</sup>	
With no related allowance recorded:			
Consumer loans			
Single family	\$32,488	\$34,131	\$—
Home equity	2,382		