

HomeStreet, Inc.
Form 10-Q
August 10, 2012

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

FORM 10-Q

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

For the quarterly period ended: June 30, 2012

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. On July 31, 2012 there were 7,163,753 shares of no par value Common Stock outstanding.

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

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HOMESTREET, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

(in thousands, except share data)	June 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents (including interest-bearing instruments of \$53,041 and \$246,113)	\$75,063	\$263,302
Investment securities available for sale	415,610	329,047
Loans held for sale (includes \$400,019 and \$130,546 carried at fair value)	412,933	150,409
Loans held for investment (net of allowance for loan losses of \$26,910 and \$42,689)	1,235,253	1,300,873
Mortgage servicing rights (includes \$70,585 and \$70,169 carried at fair value)	78,240	77,281
Other real estate owned	40,618	38,572
Federal Home Loan Bank stock, at cost	37,027	37,027
Premises and equipment, net	10,226	6,569
Accounts receivable and other assets	119,977	61,877
	\$2,424,947	\$2,264,957
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	\$1,904,749	\$2,009,755
Federal Home Loan Bank advances	65,590	57,919
Securities sold under agreements to repurchase	100,000	—
Accounts payable and accrued expenses	78,728	49,019
Long-term debt	61,857	61,857
	2,210,924	2,178,550
Shareholders' equity:		
Preferred stock, no par value, Authorized 10,000 shares, Issued and outstanding, 0 shares and 0 shares	—	—
Common stock, no par value, Authorized 80,000,000, Issued and outstanding, 7,162,607 shares and 2,701,749 shares	511	511
Additional paid-in capital	88,637	31
Retained earnings	118,793	81,746
Accumulated other comprehensive income	6,082	4,119
	214,023	86,407
	\$2,424,947	\$2,264,957

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

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

(in thousands, except share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest income:				
Loans	\$17,250	\$17,947	\$33,803	\$36,615
Investment securities available for sale	2,449	1,848	4,688	3,706
Other	56	73	192	157
	19,755	19,868	38,683	40,478
Interest expense:				
Deposits	4,198	6,538	9,077	13,579
Federal Home Loan Bank advances	535	959	1,209	2,267
Securities sold under agreements to repurchase	50	—	50	—
Long-term debt	271	457	736	1,128
Other	3	—	9	—
	5,057	7,954	11,081	16,974
Net interest income	14,698	11,914	27,602	23,504
Provision for credit losses	2,000	2,300	2,000	2,300
Net interest income after provision for credit losses	12,698	9,614	25,602	21,204
Noninterest income:				
Net gain on mortgage loan origination and sale activities	45,486	9,151	73,997	13,936
Mortgage servicing income	7,091	7,713	14,964	13,561
Income from Windermere Mortgage Services Series LLC	1,394	503	2,560	478
Gain (loss) on debt extinguishment	(939) —	(939) 2,000
Depositor and other retail banking fees	771	795	1,506	1,535
Insurance commissions	177	258	359	621
Gain on sale of investment securities available for sale	911	1	952	1
Other	611	191	1,214	786
	55,502	18,612	94,613	32,918
Noninterest expense:				
Salaries and related costs	28,224	11,700	49,575	23,839
General and administrative	6,725	4,555	11,997	7,997
Legal	724	399	1,159	1,303
Consulting	322	197	677	363
Federal Deposit Insurance Corporation assessments	717	1,265	1,957	3,014
Occupancy	2,092	1,700	3,881	3,368
Information services	1,994	1,477	3,717	2,957
Other real estate owned expense	6,049	5,666	8,569	17,420
	46,847	26,959	81,532	60,261
Income (loss) before income taxes	21,353	1,267	38,683	(6,139
Income tax (benefit) expense	3,357	(17) 1,636	26
NET INCOME (LOSS)	\$17,996	\$1,284	\$37,047	\$(6,165
Basic income (loss) per share	\$2.53	\$0.48	\$6.04	\$(2.28
Diluted income (loss) per share	\$2.43	\$0.45	\$5.80	\$(2.23
	7,126,060	2,701,749	6,136,171	2,701,749

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Basic weighted average number of shares
outstanding

Diluted weighted average number of shares outstanding	7,412,032	2,837,691	6,386,099	2,769,720
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See accompanying notes to interim consolidated financial statements (unaudited).

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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	\$17,996	\$1,284	\$37,047	\$(6,165)
Other comprehensive income, net of tax:				
Unrealized gain on securities:				
Unrealized holding gain arising during the period (net of tax expense of \$1,571 and \$1,237 for the three and six months ended June 30, 2012 and \$0 and \$0 for the three and six months ended June 30, 2011)	3,492	5,810	2,582	5,680
Reclassification adjustment for net gain included in net income (net of tax expense of \$333 for the three and six months ended June 30, 2012 and \$0 for the three and six months ended June 30, 2011)	(578)	(1)	(619)	(1)
Other comprehensive income	2,914	5,809	1,963	5,679
Comprehensive income (loss)	\$20,910	\$7,093	\$39,010	\$(486)

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

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

(in thousands, except share data)	Number of shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2011	2,701,749	\$511	\$16	\$65,627	\$ (7,365)	\$58,789
Net loss	—	—	—	(6,165)	—	(6,165)
Share-based compensation expense	—	—	8	—	—	8
Other comprehensive income	—	—	—	—	5,679	5,679
Balance, June 30, 2011	2,701,749	\$511	\$24	\$59,462	\$ (1,686)	\$58,311
Balance, January 1, 2012	2,701,749	\$511	\$31	\$81,746	\$ 4,119	\$86,407
Net income	—	—	—	37,047	—	37,047
Share-based compensation expense	—	—	2,216	—	—	2,216
Common stock issued	4,460,858	—	86,390	—	—	86,390
Other comprehensive income	—	—	—	—	1,963	1,963
Balance, June 30, 2012	7,162,607	\$511	\$88,637	\$118,793	\$ 6,082	\$214,023

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

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

(in thousands)	Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$37,047	\$(6,165)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Amortization of loans held for investment, net of additions	(554)	(540)
Amortization of investment securities	2,576	1,243
Amortization of intangibles	52	65
Amortization of mortgage servicing rights	953	666
Provision for credit losses	2,000	2,300
Provision for losses on other real estate owned	8,332	15,298
Depreciation and amortization on premises and equipment	1,121	967
Originations of loans held for sale	(1,835,017)	(694,146)
Proceeds from sale of loans held for sale	1,584,367	788,585
Fair value adjustment of loans held for sale	(11,874)	(3,053)
Fair value adjustment of foreclosed loans transferred to other real estate owned	(490)	—
Addition of originated mortgage servicing rights	(18,817)	(13,494)
Change in fair value of mortgage servicing rights	16,964	5,773
Net gain on sale of investment securities	(952)	(1)
Gain on sale of other real estate owned	(237)	(363)
Gain on early retirement of long-term debt	—	(2,000)
Net deferred income tax benefit	(13,222)	—
Share-based compensation expense	2,216	8
Cash used by changes in operating assets and liabilities:		
Decrease in accounts receivable and other assets	(50,710)	(9,897)
(Increase) decrease in accrued interest receivable	(243)	945
Increase in income taxes payable	10,096	—
Decrease in income taxes receivable	1,309	148
Increase (decrease) in accounts payable and other liabilities	18,187	(23,892)
Net cash (used in) provided by operating activities	(246,896)	62,447
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(223,483)	(12,557)
Proceeds from sale of investment securities	119,539	9,214
Principal repayments and maturities of investment securities	19,290	5,578
Proceeds from sale of other real estate owned	18,919	84,966
Mortgage servicing rights purchased from others	(59)	(33)
Capital expenditures related to other real estate owned	(63)	(859)
Origination of loans held for investment and principal repayments, net	38,883	114,454
Net property and equipment purchased	(4,778)	(637)
Net cash (used in) provided by investing activities	(31,752)	200,126

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(in thousands)	Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposits	\$(105,006) \$(136,087)
Proceeds from Federal Home Loan Bank advances	525,521	35,796
Repayment of Federal Home Loan Bank advances	(517,850) (123,746)
Proceeds from securities sold under agreements to repurchase	293,500	—
Repayment of securities sold under agreements to repurchase	(193,500) —
Repayment of long-term debt	—	(3,000)
Proceeds from stock issuance, net	87,744	—
Net cash provided by (used in) financing activities	90,409	(227,037)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(188,239) 35,536
CASH AND CASH EQUIVALENTS:		
Beginning of year	263,302	72,639
End of period	\$75,063	\$108,175
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for -		
Interest	\$11,081	