HomeStreet, Inc.
Form 10-K
March 25, 2015

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from to

Commission file number: 001-35424

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

Washington (State or other jurisdiction of incorporation or organization)	91-0186600 (I.R.S. Employer Identification Number)

601 Union Street, Ste. 2000
Seattle, WA 98101
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (206) 623-3050
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of June 30, 2014, the last business day of the registrant’s most recently completed second fiscal quarter, the aggregate market value of common stock held by non-affiliates was approximately $173.8 million, based on a closing price of $18.37 per share of common stock on the Nasdaq Global Select Market on such date. Shares of common stock held by each executive officer and director and by each person known to the Company who beneficially owns more than 5% of the outstanding common stock have been excluded in that such persons may under certain circumstances be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.
The number of outstanding shares of the registrant’s common stock as of March 10, 2015 was 22,038,748.

DOCUMENTS INCORPORATED BY REFERENCE
Certain information that will be contained in the definitive proxy statement for the registrant's annual meeting to be held in 2015 is incorporated by reference into Part III of this Form 10-K.

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Unless we state otherwise or the content otherwise requires, references in this Form 10-K 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 1

FORWARD-LOOKING STATEMENTS

This Form 10-K 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. All statements other than statements of historical fact are “forward-looking statements” for the purposes of these provisions. When used in this Form 10-K, terms such as “anticipates,” “believes,” “continue,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “should,” or “will” or the negative of those other 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. The known risks that could cause our results to differ, or may cause us to take actions that are not currently planned or expected, are described in Item 1A, Risk Factors.

Unless required by law, we do not intend to update any of the forward-looking statements after the date of this Form 10-K 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-K.

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.

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ITEM 1 BUSINESS

General

We are a diversified financial services company founded in 1921 and headquartered in Seattle, Washington, serving customers primarily in the Pacific Northwest, California and Hawaii. HomeStreet, Inc. (the "Company") is principally engaged in real estate lending, including mortgage banking activities, and commercial and consumer banking. Our primary subsidiaries are HomeStreet Bank (the "Bank") and HomeStreet Capital Corporation. The Bank is a Washington state-chartered savings bank that provides mortgage and commercial loans, deposit products and services, non-deposit investment products, private banking and cash management services. Our primary loan products include single family residential mortgages, loans secured by commercial real estate, construction loans for residential and commercial real estate projects, commercial business loans and agricultural loans. HomeStreet Capital Corporation, a Washington corporation, originates, sells and services multifamily mortgage loans under the Fannie Mae Delegated Underwriting and Servicing Program ("DUS®[(1)]) in conjunction with HomeStreet Bank. Doing business as HomeStreet Insurance Agency, we provide insurance products and services for consumers and businesses. We also offer single family home loans through our partial ownership in an affiliated business arrangement with WMS Series LLC, whose businesses are known as Windermere Mortgage Services and Penrith Home Loans. At December 31, 2014, we had total assets of $3.54 billion.

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 earn noninterest income from the origination, sale and servicing of loans and from fees earned on deposit services and investment and insurance sales.

At December 31, 2014, we had a network of 33 bank branches in the Puget Sound, Eastern and Southwest regions of Washington state, Portland, Oregon and Hawaii, as well as 55 stand-alone lending centers located in these same areas and additionally in California; Phoenix, Arizona; the Eugene and Salem regions of Oregon; and in the Boise and northern regions of Idaho. WMS Series LLC provides point-of-sale loan origination services at 42 Windermere Real Estate offices in Washington and Oregon. On March 1, 2015 we added seven bank branches in Southern California with the acquisition of Simplicity Bancorp, Inc. ("Simplicity") and its wholly owned subsidiary, Simplicity Bank.

We operate two business segments: Commercial and Consumer Banking and Mortgage Banking. For a discussion of operating results of these lines of business, see "Business Segments" within Management's Discussion and Analysis of this Form 10-K.

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

Mortgage Banking. We originate single family residential mortgage loans for sale in the secondary markets. We have become a rated originator and servicer of non-conforming jumbo loans, allowing us to sell these loans to other securitizers. We also purchase loans from WMS Series LLC through a correspondent arrangement with that company. 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. On occasion, we may sell a portion of our MSR portfolio. A small percentage of our loans are brokered to other lenders or sold on a servicing-released basis to correspondent lenders. We manage the loan funding and the interest rate risk associated with the secondary market loan sales and the retained single family mortgage servicing rights within this business segment.

Shares of our common stock are traded on the Nasdaq Global Select Market under the symbol “HMST.”

Acquisitions

On March 1, 2015, we completed our acquisition of Simplicity and its wholly owned subsidiary, Simplicity Bank.

On November 1, 2013, the Company completed its acquisitions of Fortune Bank (“Fortune”) and YNB Financial Services Corp. (“YNB”), the parent company of Yakima National Bank.

(1) DUS® is a registered trademark of Fannie Mae.

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On December 6, 2013, the Company acquired two retail deposit branches and certain related assets from AmericanWest Bank, a Washington state-chartered bank. The branches are located on Bainbridge Island and in West Seattle.

Recent Developments

On March 1, 2015, we completed our acquisition of Simplicity and its wholly owned subsidiary, Simplicity Bank, and issued 7,180,005 shares of our common stock as merger consideration to the former stockholders of Simplicity. The shares were issued pursuant to a permit to register shares granted by the California Department of Business Oversight following a fairness hearing by that office that determined that the merger was fair, just and equitable to Simplicity stockholders. Through the merger, HomeStreet acquired seven bank branches in Southern California. At December 31, 2014, Simplicity had assets of approximately $863 million and deposits of approximately $656 million. Simplicity's principal business activities prior to the merger were attracting retail deposits from the general public, originating or purchasing loans, primarily loans secured by first mortgages on owner-occupied, one-to-four family residences and multi-family residences located in Southern California and, to a lesser extent, commercial real estate, automobile and other consumer loans; and mortgage banking consisting mostly of the origination and sale of fixed-rate, conforming, one-to-four family residential real estate loans in the secondary market, usually with servicing retained. We believe that we will be able to grow the business of the former Simplicity branches by offering additional banking and lending products to former Simplicity customers as well as new customers.

Business Strategy

During 2014, we made significant progress in building a strong foundation for growth and diversification. We grew our Commercial and Consumer Banking segment by expanding our business development capacity and geographic footprint through hiring additional loan officers, by opening three de novo bank branches and through the acquisition of Simplicity in California, which was completed in March 2015. In our Mortgage Banking segment, we continued to build on our heritage as a single family mortgage lender by increasing the number of mortgage lending offices within our current footprint, including significant growth in California, as well as expanding into Arizona, and by targeted hiring throughout our network of mortgage lending offices. We believe the mortgage industry is moving toward a higher ratio of purchase mortgage loans and away from the refinance mortgage loan trend that has dominated residential lending in recent years. Therefore, we have hired additional purchase-oriented lending officers in order to help mitigate the impact of the transition to a purchase mortgage market and reduction in refinancing activity.

We are pursuing the following strategies in our business segments:

Commercial and Consumer Banking. Our Commercial and Consumer Banking strategy involves growth through expansion while improving operations and productivity to drive cost efficiencies. Through our acquisitions of Fortune and YNB in November 2013, we increased our portfolio of commercial business loans and added experienced commercial lending officers and managers. We increased our presence in the Puget Sound area through the Fortune acquisition and expanded into central and eastern Washington through our acquisition of YNB. In March 2015, we gained a foothold in retail banking in Southern California with our acquisition of Simplicity, acquiring 7 retail deposit branches in the Los Angeles area with a significant retail deposit customer base and increasing our portfolio of single family mortgage loans.

In the commercial real estate arena, we plan to expand our business, with a focus on multifamily mortgage origination, including through our Fannie Mae DUS origination and servicing relationships. We also plan to expand beyond our current markets by forming strategic alliances with multifamily property service providers inside and outside our existing lending areas. We expect to continue to benefit from being one of only 25 companies nationally that is an approved Fannie Mae DUS seller and servicer. In addition, we have historically supported our DUS program by providing new construction and short-term bridge loans to experienced borrowers who intend to build or purchase apartment buildings for renovation, which we then seek to replace with permanent financing upon completion of the projects. Through our recent acquisition of Simplicity, we also expect to grow our commercial real estate and residential construction lending in Southern California.

We also originate commercial construction real estate loans, bridge loans and permanent loans for our portfolio, primarily on office, retail, industrial and multifamily property types located within the Company's geographic footprint. We also may place loans with capital market sources, such as life insurance companies.

Our Commercial and Consumer Banking strategy also involves the expansion of our retail deposit branch network, primarily focusing on high-growth areas of Puget Sound and by gaining a foothold in teh California market, in order to build convenience and market share. In connection with this strategy, we opened three de novo retail deposit branches during 2014 and acquired seven bank branches in Southern California with the acquisition of Simplicity in 2015. We are also in the process of growing our consumer banking business in central and eastern Washington through our 2013 acquisition of YNB, which allowed us to

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add four retail deposit branches in those regions. We intend to continue to add de novo retail deposit branches in new and existing markets. We seek to meet the financial needs of our consumer and business customers by providing targeted banking products and services, investment services and products, and insurance products through our bank branches and through dedicated investment advisors, insurance agents and business banking officers. We intend to grow our network of retail deposit branches and in turn grow our core deposits and increase business deposits from new cash management and business lending customers.

Mortgage Banking. We have leveraged our reputation for high quality service and reliable loan closing to increase our single family mortgage market share significantly over the last four years. With the 2015 Simplicity acquisition, we expect to expand our existing Southern California single family mortgage origination footprint to attractive new sub-markets. We plan to continue to grow our business in the western U.S. through targeted hiring of loan originators with successful track records and an emphasis on purchase mortgage transactions. We intend to continue to focus on conventional conforming and government insured or guaranteed single family mortgage origination. We also expect to use portfolio lending to complement secondary market lending, particularly for well-qualified borrowers with loan sizes greater than the conventional conforming limits.

Market and Competition

The financial services industry is highly competitive. We compete with banks, savings and loan associations, credit unions, mortgage banking companies, insurance companies, finance companies, and investment and mutual fund companies. In particular, we compete with several financial institutions with greater resources, including the capacity to make larger loans, fund extensive advertising and offer a broader array of products and services. The number of competitors for middle-market business customers has, however, decreased in recent years due to bank failures and consolidations. At the same time, national banks have been focused on larger customers to achieve economies of scale in lending and depository relationships and have also consolidated business banking operations and support and reduced service levels in the Pacific Northwest. We have taken advantage of the failures and takeovers of certain of our competitors by recruiting well-qualified employees and attracting new customers who seek long-term stability, local decision-making, quality services, products and expertise. We believe there is a significant opportunity for a well-capitalized, community-focused bank that emphasizes responsive and personalized service to provide a full range of financial services to small- and middle-market commercial and consumer customers in those markets where we do business. During 2014, we expanded our home loan production into Arizona and opened additional home lending centers in Southern California. Through the 2015 acquisition of Simplicity, we continued to increase our presence in Southern California by adding consumer retail deposit branches and single family mortgage loan production personnel.

In addition, we believe we are well positioned to take advantage of changes in the single family mortgage origination and servicing industry that have helped to reduce the number of competitors. The mortgage industry is compliance-intensive and requires significant expertise and internal control systems to ensure mortgage loan origination and servicing providers meet all origination, processing, underwriting, servicing and disclosure requirements. These requirements are causing some competitors to exit the industry. New entrants must make significant investments in experienced personnel and specialized systems to manage the compliance process. These investments represent a significant barrier to entry. In addition, lending in conventional and government guaranteed or insured mortgage products, including Federal Housing Administration ("FHA") and Department of Veterans' Affairs ("VA") loans, requires significantly higher capitalization than had previously been required for mortgage brokers and non-bank mortgage companies.

Our single family mortgage origination and servicing business is highly dependent upon compliance with underwriting and servicing guidelines of Fannie Mae, Freddie Mac, FHA, VA and Ginnie Mae as well as a myriad of federal and state consumer compliance regulations. Our demonstrated expertise in these activities, together with our significant volume of lending in low- and moderate-income areas and direct community investment, contribute to our uninterrupted record of “Outstanding” Community Reinvestment Act (“CRA”) ratings since 1986. We believe our ability to maintain our historically strong compliance culture represents a significant competitive advantage.

Employees

As of December 31, 2014 the Company employed 1,611 full-time equivalent employees, compared to 1,502 full-time equivalent employees at December 31, 2013.

Where You Can Obtain Additional Information

We file annual, quarterly, current and other reports with the Securities and Exchange Commission (the "SEC"). We make available free of charge on or through our website http://www.homestreet.com all of these reports (and all amendments thereto), as soon as reasonably practicable after we file these materials with the SEC. Please note that the contents of our website do not

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constitute a part of our reports, and those contents are not incorporated by reference into this report or any of our other securities filings. You may review a copy of our reports, including exhibits and schedules filed therewith, and obtain copies of such materials at the SEC'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 SEC at 1-800-SEC-0330. The SEC maintains a website (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants, such as HomeStreet, that file electronically with the SEC.

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REGULATION AND SUPERVISION

The following is a brief description of certain laws and regulations that are applicable to us. The description of these laws and regulations, as well as descriptions of laws and regulations contained elsewhere in this annual report on Form 10-K, does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

The bank regulatory framework to which we are subject is intended primarily for the protection of bank depositors and the Deposit Insurance Fund and not for the protection of shareholders or other security holders.

General

The Company is a savings and loan holding company and is regulated by the Board of Governors of the Federal Reserve System (the "Federal Reserve"), and the Washington State Department of Financial Institutions, Division of Banks (the "WDFI"). The Company is required to register and file reports with, and otherwise comply with, the rules and regulations of the Federal Reserve and the WDFI.

The Office of Thrift Supervision, or the OTS, previously was the Company's primary federal regulator. Under the Dodd-Frank Act, the OTS was dissolved on July 21, 2011 and its authority to supervise and regulate the Company and its non-bank subsidiaries was transferred to the Federal Reserve. References to the Federal Reserve in this document should be read to include the OTS prior to the date of the transfer with respect to those functions transferred to the Federal Reserve.

The Bank is a Washington state-chartered savings bank. The Bank is subject to regulation, examination and supervision by the WDFI and the Federal Deposit Insurance Corporation (the "FDIC").

As a result of the recent financial crisis, regulation of the financial services industry has been undergoing major changes. Among these is the Dodd-Frank Act, which makes significant modifications to and expansions of the rulemaking, supervisory and enforcement authority of the federal banking regulators. Some of the changes were effective immediately, but others are being phased in over time. The Dodd-Frank Act requires various regulators, including the banking regulators, to adopt numerous regulations, not all of which have been finalized. Accordingly, in certain instances, the precise requirements of the Dodd-Frank Act are not yet known.

Further, new statutes, regulations and guidance are considered regularly that could contain wide-ranging potential changes to the competitive landscape for financial institutions operating and doing business in the United States. We cannot predict whether or in what form any proposed statute, regulation or other guidance will be adopted or promulgated, or the extent to which our business may be affected. Any change in policies, whether by the Federal Reserve, the WDFI, the FDIC, the Washington legislature or the United States Congress, could have a material adverse impact on us and our operations and shareholders. In addition, the Federal Reserve, the WDFI and the FDIC have significant discretion in connection with their supervisory and enforcement activities and examination policies, including, among other things, policies with respect to the Bank's capital levels, the classification of assets and establishment of adequate loan loss reserves for regulatory purposes.

Our operations and earnings will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. In addition to its role as the regulator of savings and loan holding companies, the Federal Reserve has, and is likely to continue to have, an important impact on the operating results of financial institutions through its power to implement national monetary and fiscal policy including, among other things, actions taken in order to curb inflation or combat a recession. The Federal Reserve affects the levels of bank loans, investments and deposits in various ways, including through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which banks are subject. In recent years, in response to the financial crisis, the Federal Reserve has created several innovative programs to stabilize certain financial institutions, to help ensure the availability of credit and to purchase financial assets through programs such as quantitative easing. Quantitative easing has had a significant impact on the market for mortgage-backed securities ("MBS") and by some accounts has stimulated the national economy. We believe these policies have had a beneficial effect on the Company and the mortgage banking industry as a whole. In late 2014, the Federal Reserve discontinued its quantitative easing program of purchasing financial assets. We cannot predict the effects of this discontinuance. In addition, we cannot predict the nature or impact of future changes in monetary and fiscal policies of the Federal Reserve.

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Regulation of the Company

General

Because we have made an election under Section 10(1) of the Home Owners' Loan Act ("HOLA") for the Bank to be treated as a "savings association" for purposes of Section 10 of HOLA, the Company is registered as a savings and loan holding company with the Federal Reserve and is subject to Federal Reserve regulations, examinations, supervision and reporting requirements relating to savings and loan holding companies. Among other things, the Federal Reserve is authorized to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness or stability of a subsidiary savings bank. Unlike bank holding companies, savings and loan holding companies have not in the past been subject to any specific regulatory capital ratios, although they have been subject to review by the Federal Reserve and approval of capital levels as part of its examination process. However, as a result of the Dodd-Frank Act, beginning in 2015, the Company has become subject to capital requirements. Our continued ability to use the provisions of Section 10(1) of HOLA - which allow the Company to be registered as a savings and loan holding company rather than as a bank holding company - is conditioned upon the Bank's continued qualification as a lender under the Qualified Thrift Lender test set forth in HOLA. See "- Regulation and Supervision of HomeStreet Bank - Qualified Thrift Lender Test." Since the Bank is chartered under Washington law, the WDFI has authority to regulate the Company generally relating to its conduct affecting the Bank. As a subsidiary of a savings and loan holding company, the Bank is subject to certain restrictions in its dealings with the Company and affiliates thereof.

Numerous provisions of the Dodd-Frank Act affect the Company and its business and operations. Some of the provisions are:

- New capital requirements for savings and loan holding companies.
- All holding companies of depository institutions are required to serve as a source of strength for their depository subsidiaries.
- The Federal Reserve is given heightened authority to examine, regulate and take action with respect to all of a holding company's subsidiaries.

The Company is a unitary savings and loan holding company within the meaning of federal law. Generally, companies that become savings and loan holding companies following the May 4, 1999 grandfather date in the Gramm-Leach-Bliley Act of 1999 may engage only in the activities permitted for financial institution holding companies as well as activities that are permitted for multiple savings and loan holding companies. Because the Company became a savings and loan holding company prior to that grandfather date, the activities in which the Company and its subsidiaries (other than the Bank and its subsidiaries) may engage generally are not restricted by HOLA. If, however, we are acquired by a non-financial company, or if we acquire another savings association subsidiary (and become a multiple savings and loan holding company), we will terminate our "grandfathered" unitary savings and loan holding company status and become subject to certain limitations on the types of business activities in which we could engage. The Company may not engage in any activity or render any service for or on behalf of the Bank for the purpose of or with the effect of evading any law or regulation applicable to the Bank.

Because the Bank is treated as a savings association subsidiary of a savings and loan holding company, we must give the Federal Reserve at least 30 days' advance notice of the proposed declaration of a dividend by the Bank. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the Federal Reserve, and the Federal Reserve has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the Bank.

Capital / Source of Strength

Under the Dodd-Frank Act, capital requirements are now imposed on savings and loan holding companies such as the Company. See "Regulation and Supervision of HomeStreet Bank - Capital and Prompt Corrective Action Requirements - Proposed Capital Regulations."

Regulations and historical practice of the Federal Reserve have required bank holding companies to serve as a "source of strength" for their subsidiary banks. The Dodd-Frank Act codifies this requirement and extends it to all companies that control an insured depository institution. Accordingly, the Company is now required to act as a source of strength for the Bank.

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Restrictions Applicable to Savings and Loan Holding Companies

Federal law prohibits a savings and loan holding company, including the Company, directly or indirectly (or through one or more subsidiaries), from acquiring:

- control (as defined under HOLA) of another savings institution (or a holding company parent) without prior written approval of the Federal Reserve;
- through merger, consolidation or purchase of assets, another savings institution or a holding company thereof, or acquiring all or substantially all of the assets of such institution (or a holding company) without prior Federal Reserve or FDIC approval;
- with certain exceptions, more than 5.0% of the voting shares of a non-subsidiary savings association or a non-subsidiary holding company; or
- control of any depository institution not insured by the FDIC (except through a merger with and into the holding company's savings institution subsidiary that is approved by the FDIC).

In evaluating applications by holding companies to acquire savings associations, the Federal Reserve must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community and competitive factors.

A savings and loan holding company generally may not acquire as a separate subsidiary a savings association in a different state from where its current savings association is located, except:

- in the case of certain emergency acquisitions approved by the FDIC;
- if such holding company controls a savings association that operated a home or branch office in such additional state as of March 5, 1987; or
- if the laws of the state in which the savings association to be acquired is located specifically authorize a savings association chartered by that state to be acquired by a savings institution chartered by the state where the acquiring savings association or savings and loan holding company is located, or by a holding company that controls such a state-chartered association.

Acquisition of Control

Under the federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve if any person (including a company), or group acting in concert, seeks to acquire “control” of a savings and loan holding company. An acquisition of control can occur upon the acquisition of 10.0% or more of the voting stock of a savings and loan holding company or as otherwise defined by the Federal Reserve. Under the Change in Bank Control Act, the Federal Reserve has 60 days from the filing of a complete notice to act (the 60-day period may be extended), taking into consideration certain factors, including the financial and managerial resources of the acquirer and the antitrust effects of the acquisition. Control can also exist if an individual or company has, or exercises, directly or indirectly or by acting in concert with others, a controlling influence over the Bank. Washington law also imposes certain limitations on the ability of persons and entities to acquire control of banking institutions and their parent companies.

Dividend Policy

Under Washington law, the Company is generally permitted to make a distribution, including payments of dividends, only if, after giving effect to the distribution, in the judgment of the board of directors, (1) the Company would be able to pay its debts as they become due in the ordinary course of business and (2) the Company's total assets would at least equal the sum of its total liabilities plus the amount that would be needed if the Company were to be dissolved at the time of the distribution to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.

The Company had previously elected to defer the payment of interest on its outstanding Trust Preferred Securities ("TruPS"), and therefore had been prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, its common stock until it is current on all interest payments due. On March 12, 2013, the Federal Reserve approved the Company's request to make its interest payments current on its outstanding TruPS and the Company subsequently paid all deferred and current interest owed on its outstanding TruPS on March 15, 2013.

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The Company's ability to pay dividends to shareholders is significantly dependent on the Bank's ability to pay dividends to the Company. New capital rules impose additional requirements on the ability of the Company and the Bank to pay dividends. See “Regulation of Home Street Bank - Capital and Prompt Corrective Action Requirements - New Capital Rules.”

Compensation Policies

Compensation policies and practices at HomeStreet, Inc. and HomeStreet Bank are subject to regulation by their respective banking regulators and the SEC.

Guidance on Sound Incentive Compensation Policies. Effective on June 25, 2010, the Office of the Comptroller of the Currency, the Federal Reserve, the FDIC and the OTS adopted Sound Incentive Compensation Policies Final Guidance (the “Final Guidance”) designed to help ensure that incentive compensation policies at banking organizations do not encourage imprudent risk-taking and are consistent with the safety and soundness of the organization.

The Final Guidance applies to senior executives and others who are responsible for oversight of HomeStreet's company-wide activities and material business lines, as well as other employees who, either individually or as a part of a group, have the ability to expose the Bank to material amounts of risk.

Dodd-Frank Act. In addition to the Final Guidance, the Dodd-Frank Act contains a number of provisions relating to compensation applying to public companies such as the Company. The Dodd-Frank Act added a new Section 14A(a) to the Exchange Act that requires companies to include a separate non-binding resolution subject to shareholder vote in their proxy materials approving the executive compensation disclosed in the materials. In addition, a new Section 14A(b) to the Exchange Act requires any proxy or consent solicitation materials for a meeting seeking shareholder approval of an acquisition, merger, consolidation or disposition of all or substantially all of the company's assets to include a separate non-binding shareholder resolution approving certain “golden parachute” payments made in connection with the transaction. A new Section 10D to the Exchange Act requires the SEC to direct the national securities exchanges to require companies to implement a policy to “claw back” certain executive payments that were made based on improper financial statements.

In addition, Section 956 of the Dodd-Frank Act requires certain regulators (including the FDIC, SEC and Federal Reserve) to adopt requirements or guidelines prohibiting excessive compensation or compensation that could lead to material loss as well as rules relating to disclosure of compensation. On April 14, 2011, these regulators published a joint proposed rulemaking to implement Section 956 of Dodd-Frank for depository institutions, their holding companies and various other financial institutions with $1 billion or more in assets. Section 956 prohibits incentive-based compensation arrangements which encourage inappropriate risk taking by covered financial institutions and are deemed to be excessive, or that may lead to material losses. The proposed rule would (1) prohibit incentive-based compensation arrangements for covered persons that would encourage inappropriate risks by providing excess compensation, (2) prohibit incentive-based compensation arrangements for covered persons that would expose the institution to inappropriate risks by providing compensation that could lead to a material financial loss, (3) require policies and procedures for incentive-based compensation arrangements that are commensurate with the size and complexity of the institutions and (4) require annual reports on incentive compensation structures to the institution's appropriate federal regulator.

FDIC Regulations. We are further restricted in our ability to make certain “golden parachute” and “indemnification” payments under Part 359 of the FDIC regulations, and the FDIC also regulates payments to executives under Part 364 of its regulations relating to excessive executive compensation.

Emerging Growth Company

We are an “Emerging Growth Company,” as defined in the Jumpstart Our Business Startups Act (the “JOBS Act”), and are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not Emerging Growth Companies. These include, but are not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from certain requirements under the Dodd-Frank Act, including the requirement to hold a non-binding advisory vote on executive compensation and the requirement to obtain stockholder approval of any golden parachute payments not previously approved. We currently intend to take advantage of some or all of these reporting exemptions until we no longer qualify as an Emerging Growth Company.

We will remain an Emerging Growth Company for up to five years from the end of the year of our initial public offering, or until (1) we have total annual gross revenues of at least $1 billion, (2) we qualify as a large accelerated filer, or (3) we issue more than $1 billion in nonconvertible debt in a three-year period.

Regulation and Supervision of HomeStreet Bank

General

As a savings bank chartered under the laws of the State of Washington, HomeStreet Bank is subject to applicable provisions of Washington law and regulations of the WDFI. As a state-chartered savings bank that is not a member of the Federal Reserve System, the Bank's primary federal regulator is the FDIC. It is subject to regulation and examination by the WDFI and the FDIC, as well as enforcement actions initiated by the WDFI and the FDIC, and its deposits are insured by the FDIC.

Washington Banking Regulation

As a Washington savings bank, the Bank's operations and activities are substantially regulated by Washington law and regulations, which govern, among other things, the Bank's ability to take deposits and pay interest, to make loans on or invest in residential and other real estate, to make consumer and commercial loans, to invest in securities, to offer various banking services to its customers and to establish branch offices. Under state law, savings banks in Washington also generally have, subject to certain limitations or approvals, all of the powers that Washington chartered commercial banks have under Washington law and that federal savings banks and national banks have under federal laws and regulations.

Washington law also governs numerous corporate activities relating to the Bank, including the Bank's ability to pay dividends, to engage in merger activities and to amend its articles of incorporation, as well as limitations on change of control of the Bank. Under Washington law, the board of directors of the Bank generally may not declare a cash dividend on its capital stock if payment of such dividend would cause its net worth to be reduced below the net worth requirements, if any, imposed by the WDFI and dividends may not be paid in an amount greater than its retained earnings without the approval of the WDFI. These restrictions are in addition to restrictions imposed by federal law. Mergers involving the Bank and sales or acquisitions of its branches are generally subject to the approval of the WDFI. No person or entity may acquire control of the Bank until 30 days after filing an application with the WDFI, who has the authority to disapprove the application. Washington law defines “control” of an entity to mean directly or indirectly, alone or in concert with others, to own, control or hold the power to vote 25.0% or more of the outstanding stock or voting power of the entity. Any amendment to the Bank's articles of incorporation requires the approval of the WDFI.

The Bank is subject to periodic examination by and reporting requirements of the WDFI, as well as enforcement actions initiated by the WDFI. The WDFI's enforcement powers include the issuance of orders compelling or restricting conduct by the Bank and the authority to bring actions to remove the Bank's directors, officers and employees. The WDFI has authority to place the Bank under supervisory direction or to take possession of the Bank and to appoint the FDIC as receiver.

Dodd-Frank Act

Numerous provisions of the Dodd-Frank Act affect the Bank and its business and operations. For example, the Dodd-Frank Act broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor.

In addition, under the Dodd-Frank Act:

- The requirements relating to the Bank's capital have been modified.
- In order to prevent abusive residential lending practices, new responsibilities are imposed on parties engaged in residential mortgage origination, brokerage and lending, and securitizers of mortgages and other asset-backed securities ("ABS") are required, subject to certain exemptions, to retain not less than five percent of the credit risk of the mortgages or other assets backing the securities.
- Restrictions on affiliate and insider transactions are expanded.
- Restrictions on management compensation and related governance have been enhanced.
- A federal Consumer Financial Protection Bureau ("CFPB") is created with a broad authority to regulate consumer financial products and services.
- Restrictions are imposed on the amount of interchange fees that certain debit card issuers may charge.

- Restrictions on banking entities from engaging in proprietary trading or owning interests in or sponsoring hedge funds or private equity funds (the Volcker Rule).

In part because not all of the regulations implementing the Dodd-Frank Act have yet been finalized, it is difficult to completely predict at this time what specific impact the Dodd-Frank Act and the final rules and regulations will have on community banks.

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However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense. Any additional changes in our regulation and oversight, whether in the form of new laws, rules and regulations, could make compliance more difficult or expensive or otherwise materially adversely affect our business, financial condition or prospects. The provisions of the Dodd-Frank Act and the subsequent exercise by regulators of their revised and expanded powers thereunder could materially and negatively impact the profitability of our business, the value of assets we hold or the collateral available for our loans, require changes to business practices or force us to discontinue businesses and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk.

Insurance of Deposit Accounts and Regulation by the FDIC

The FDIC is the Bank's principal federal bank regulator. As such, the FDIC is authorized to conduct examinations of and to require reporting by the Bank. The FDIC may prohibit the Bank from engaging in any activity determined by law, regulation or order to pose a serious risk to the institution, and may take a variety of enforcement actions in the event the Bank violates a law, regulation or order, engages in an unsafe or unsound practice or under certain other circumstances. The FDIC also has the authority to appoint itself as receiver of the Bank or to terminate the Bank's deposit insurance if it were to determine that the Bank has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The Bank is a member of the Deposit Insurance Fund (“DIF”) administered by the FDIC, which insures customer deposit accounts. Under the Dodd-Frank Act, the amount of federal deposit insurance coverage was permanently increased from $100,000 to $250,000, per depositor, for each account ownership category at each depository institution. This change made permanent the coverage increases that had been in effect since October 2008. The unlimited FDIC insurance for non-interest bearing transaction accounts that had been available since 2008 was discontinued as of December 31, 2012.

In order to maintain the DIF, member institutions, such as the Bank, are assessed insurance premiums. The Dodd-Frank Act required the FDIC to make numerous changes to the DIF and the manner in which assessments are calculated. The minimum ratio of assets in the DIF to the total of estimated insured deposits was increased from 1.15% to 1.35%, and the FDIC is given until September 30, 2020 to meet the reserve ratio. In December 2010, the FDIC adopted a final rule setting the reserve ratio of the DIF at 2.0%. As required by the Dodd-Frank Act, assessments are now based on an insured institution's average consolidated assets less tangible equity capital.

For the purpose of determining an institution's assessment rate, each institution is provided an assessment risk assignment, which is generally based on the risk that the institution presents to the DIF. Insured institutions with assets of less than $10 billion are placed in one of four risk categories. These risk categories are generally determined based on an institution's capital levels and its supervisory evaluation. These institutions generally have an assessment rate that can range from 2.5 to 45 basis points. However, the FDIC does have flexibility to adopt assessment rates without additional rule-making provided that the total base assessment rate increase or decrease does not exceed 2 basis points. In the future, if the reserve ratio reaches certain levels, these assessment rates will generally be lowered. As of December 31, 2014, the Bank's assessment rate was 7 basis points on average assets less average tangible equity capital.

In addition, all FDIC-insured institutions are required to pay a pro rata portion of the interest due on obligations issued by the Financing Corporation to fund the closing and disposal of failed thrift institutions by the Resolution Trust Corporation. The Financing Corporation rate is adjusted quarterly to reflect changes in assessment bases of the DIF. These assessments will continue until the Financing Corporation bonds mature in 2019. The annual rate for the first quarter of 2015 is 0.60 basis points.

Qualified Thrift Lender Test

A savings association can comply with the Qualified Thrift Lender test either by meeting the Qualified Thrift Lender test set forth in the HOLA and its implementing regulations or by qualifying as a domestic building and loan association as defined in Section 7701(a)(19) of the Internal Revenue Code of 1986 and implementing regulations.

To qualify under the HOLA test, the Bank is required to maintain at least 65% of its “portfolio assets” in “qualified thrift investments” in at least nine months of the most recent 12-month period. “Portfolio assets” are total assets less (1) specified liquid assets up to 20% of total assets, (2) intangibles, including goodwill, and (3) the value of the

property used to conduct business. “Qualified thrift investments” primarily consists of residential mortgages and related investments, including certain MBS, home equity loans, credit card loans, student loans and small business loans.
To qualify under the Internal Revenue Code test, a savings association must meet both a “business operations” test and a “60% of assets” test. The business operations test requires the business of a savings association to consist primarily of acquiring the savings of the public and investing in loans. The 60% of assets test requires that at least 60% of a savings association's assets

must consist of residential real property loans and certain other traditional thrift assets. While the Bank is eligible to qualify as a qualified thrift lender under the HOLA test, it is not clear due to statutory ambiguities that the Bank is eligible to qualify under the Internal Revenue Code test. As noted above, it is necessary for the Bank to qualify as a qualified thrift lender only under one of these two tests.

As of December 31, 2014, the Bank held approximately 99.7% of its portfolio assets in qualified thrift investments and had $2.88 billion of its portfolio assets in qualified thrift investments for each of the 12 months ending December 31, 2014. Therefore, the Bank qualified under the HOLA test. A savings association subsidiary of a savings and loan holding company that does not meet the Qualified Thrift Lender test must comply with the following restrictions on its operations:

- the association may not engage in any new activity or make any new investment, directly or indirectly, unless the activity or investment is also permissible for a national bank;
- the branching powers of the association are restricted to those of a national bank located in the association's home state; and
- payment of dividends by the association is subject to the rules regarding payment of dividends by a national bank and must be necessary for its parent company to meet its obligations and must receive regulatory approval.

Further, an institution which fails to comply with the qualified thrift lender test is also subject to possible agency enforcement action as a violation of law under the HOLA. In addition, if the institution does not requalify under HOLA test within three years after failing the test, the institution would be prohibited from engaging in any activity not permissible for a national bank and would have to repay any outstanding advances from the FHLB as promptly as possible. Within one year of the date that a savings association ceases to meet the Qualified Thrift Lender test, any company that controls the association must register as and be deemed to be a bank holding company subject to all of the provisions of the Bank Holding Company Act of 1956 and other statutes applicable to bank holding companies. There are certain limited exceptions to these requirements.

Capital and Prompt Corrective Action Requirements

Capital Requirements

Federally insured depository institutions, such as the Bank, are required to maintain minimum levels of regulatory capital. Prior to 2015, the FDIC regulations have recognized two types, or tiers, of capital: “core capital,” or Tier 1 capital, and “supplementary capital,” or Tier 2 capital. “Total capital” generally means the sum of Tier 1 capital and Tier 2 capital. Tier 1 capital generally includes common shareholders' equity and noncumulative perpetual preferred stock, less most intangible assets. Tier 2 capital, which is recognized up to 100% of Tier 1 capital for risk-based capital purposes (after any deductions for disallowed intangibles and disallowed deferred tax assets), includes such items as qualifying general loan loss reserves (up to 1.25% of risk-weighted assets), cumulative perpetual preferred stock, long-term preferred stock (original maturity of at least 20 years), certain perpetual preferred stock, hybrid capital instruments including mandatory convertible debt, term subordinated debt, intermediate-term preferred stock (original average maturity of at least five years) and net unrealized holding gains on equity securities (subject to certain limitations); provided, however, the amount of term subordinated debt and intermediate term preferred stock that may be included in Tier 2 capital for risk-based capital purposes is limited to 50.0% of Tier 1 capital.

Prior to 2015, the FDIC had measured a bank's capital using the (1) total risk-based capital ratio, (2) Tier 1 risk-based capital ratio and (3) Tier 1 capital leverage ratio. The risk-based measures are based on ratios of qualifying capital to risk-weighted assets. To determine risk-weighted assets, assets are placed in one of five categories and given a percentage weight based on the relative risk of that category. In addition, certain off-balance-sheet items are converted to balance-sheet credit equivalent amounts, and each amount is then assigned to one of the five categories. In evaluating the adequacy of a bank's capital, the FDIC may also consider other factors that may affect the bank's financial condition, such as interest rate risk exposure, liquidity, funding and market risks, the quality and level of earnings, concentration of credit risk, risks arising from nontraditional activities, loan and investment quality, the effectiveness of loan and investment policies, and management's ability to monitor and control financial operating risks. Under these capital rules, banks are required to have a total risk-based capital ratio of at least 8.00%, a Tier 1 risk-based capital ratio of at least 4.00% and Tier 1 capital leverage ratio generally of at least 4.00%.

In July 2013, federal banking regulators (including the FDIC and the FRB) adopted new capital rules (the “Rules”). The Rules apply to both depository institutions (such as the Bank) and their holding companies (such as the Company). The Rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as “Basel III”) as well as requirements contemplated by the Dodd-Frank Act.

The Rules apply to both the Company and the Bank beginning in 2015. In addition to the existing capital ratios, the Rules implement a new capital ratio of common equity Tier 1 capital to risk-based assets. Common equity Tier 1 capital generally consists of retained earnings and common stock instruments (subject to certain adjustments), as well as accumulated other comprehensive income ("AOCI") except to the extent that the Company and the Bank exercise a one-time irrevocable option to exclude certain components of AOCI. Both the Company and the Bank expect to elect this one-time option in 2015 to exclude certain components of AOCI. Both the Company and the Bank are required to have a common equity Tier 1 capital ratio of 4.5% as well as a Tier 1 leverage ratio of 4.0%, a Tier 1 risk-based ratio of 6.0% and a total risk-based ratio of 8.0%. In addition to the preceding requirements, both the Company and the Bank are required to establish a "conservation buffer," consisting of common equity Tier 1 capital, which is at least 2.5% above each of the preceding common equity Tier 1 capital ratio, the Tier 1 risk-based ratio and the total risk-based ratio. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to executive officers.

The Rules modify the manner in which certain capital elements are determined, including but not limited to, requiring certain deductions related to mortgage servicing rights and deferred tax assets. When the federal banking regulators initially proposed new capital rules in 2012, the rules would have phased out trust preferred securities as a component of Tier 1 capital. As finally adopted, however, the Rules permit holding companies with less than $15 billion in total assets as of December 31, 2009 (which includes the Company) to continue to include trust preferred securities issued prior to May 19, 2010 in Tier 1 capital, generally up to 25% of other Tier 1 capital.

The Rules make changes in the methods of calculating certain risk-based assets, which in turn affects the calculation of risk- based ratios. Higher or more sensitive risk weights are assigned to various categories of assets, among which are commercial real estate, credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or are nonaccrual, foreign exposures, certain corporate exposures, securitization exposures, equity exposures and in certain cases mortgage servicing rights and deferred tax assets.

Both the Company and the Bank are generally required to begin compliance with the Rules on January 1, 2015. The conservation buffer will be phased in beginning in 2016 and will take full effect on January 1, 2019. Certain calculations under the Rules will also have phase-in periods. We believe that the current capital levels of the Company and the Bank are in compliance with the standards under the Rules including the conservation buffer.

Prompt Corrective Action Regulations

Section 38 of the Federal Deposit Insurance Act establishes a framework of supervisory actions for insured depository institutions that are not adequately capitalized, also known as "prompt corrective action" regulations. All of the federal banking agencies have promulgated substantially similar regulations to implement a system of prompt corrective action. These regulations apply to the Bank but not the Company. The framework establishes five capital categories; prior to 2015, a bank was:

- "well capitalized" if it had a total risk-based capital ratio of 10.0% or more, a Tier 1 risk-based capital ratio of 6.0% or more, and a leverage capital ratio of 5.0% or more, and was not subject to any written agreement, order or capital directive to meet and maintain a specific capital level for any capital measure;
- "adequately capitalized" if it had a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more, and a leverage capital ratio of 4.0% or more;
- "undercapitalized" if it had a total risk-based capital ratio less than 8.0%, a Tier 1 risk-based capital ratio less than 4.0%, or a leverage capital ratio less than 4.0%;
- "significantly undercapitalized" if it had a total risk-based capital ratio less than 6.0%, a Tier 1 risk-based capital ratio less than 3.0%, or a leverage capital ratio less than 3.0%; and
- "critically undercapitalized" if it had a ratio of tangible equity to total assets equal to or less than 2.0%.

The Rules adopted by the banking regulators in July 2013 modified the prompt corrective action regulations by increasing some of the requirements for the capital categories and by adding a requirement for the common equity Tier 1 risk-based capital ratio. Accordingly, beginning in 2015, a bank is:

- "well capitalized" if it has a total risk-based capital ratio of 10.0% or more, a Tier 1 risk-based capital ratio of 8.0% or more, a common equity Tier 1 risk-based ratio of 6.5% or more, and a leverage capital ratio of 5.0% or more, and is not subject to any written agreement, order or capital directive to meet and maintain a specific capital level for any capital measure;

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- “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 6.0% or more, a common equity Tier 1 risk-based ratio of 4.5% or more, and a leverage capital ratio of 4.0% or more;
- “undercapitalized” if it has a total risk-based capital ratio less than 8.0%, a Tier 1 risk-based capital ratio less than 6.0%, a common equity risk-based ratio less than 4.5% or a leverage capital ratio less than 4.0%;
- “significantly undercapitalized” if it has a total risk-based capital ratio less than 6.0%, a Tier 1 risk-based capital ratio less than 4.0%, a common equity risk-based ratio less than 3.0% or a leverage capital ratio less than 3.0%; and
- “critically undercapitalized” if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

A bank that, based upon its capital levels, is classified as “well capitalized,” “adequately capitalized” or “undercapitalized” may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for a hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

At each successive lower capital category, an insured bank is subject to increasingly severe supervisory actions. These actions include, but are not limited to, restrictions on asset growth, interest rates paid on deposits, branching, allowable transactions with affiliates, ability to pay bonuses and raises to senior executives and pursuing new lines of business. Additionally, all “undercapitalized” banks are required to implement capital restoration plans to restore capital to at least the “adequately capitalized” level, and the FDIC is generally required to close “critically undercapitalized” banks within a 90-day period.

Limitations on Transactions with Affiliates

Transactions between the Bank and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of the Bank is any company or entity which controls, is controlled by or is under common control with the Bank but which is not a subsidiary of the Bank. The Company and its non-bank subsidiaries are affiliates of the Bank. Generally, Section 23A limits the extent to which the Bank or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10.0% of the Bank's capital stock and surplus, and imposes an aggregate limit on all such transactions with all affiliates in an amount equal to 20.0% of such capital stock and surplus. Section 23B applies to “covered transactions” as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least as favorable to the Bank, as those provided to a non-affiliate. The term “covered transaction” includes the making of loans to an affiliate, the purchase of or investment in the securities issued by an affiliate, the purchase of assets from an affiliate, the acceptance of securities issued by an affiliate as collateral security for a loan or extension of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, or certain transactions with an affiliate that involves the borrowing or lending of securities and certain derivative transactions with an affiliate.

In addition, Sections 22(g) and (h) of the Federal Reserve Act place restrictions on loans, derivatives, repurchase agreements and securities lending to executive officers, directors and principal shareholders of the Bank and its affiliates.

Standards for Safety and Soundness

The federal banking regulatory agencies have prescribed, by regulation, a set of guidelines for all insured depository institutions prescribing safety and soundness standards. These guidelines establish general standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings standards, compensation, fees and benefits. In general, the guidelines require appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines before capital becomes impaired. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal shareholder.

Each insured depository institution must implement a comprehensive written information security program that includes administrative, technical and physical safeguards appropriate to the institution's size and complexity and the nature and scope of its activities. The information security program also must be designed to ensure the security and confidentiality of customer information, protect against any unanticipated threats or hazards to the security or integrity of such information, protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer and ensure the proper disposal of customer and consumer information. Each insured depository institution must also develop and implement a risk-based response program to address incidents of unauthorized access to customer information in customer information systems. If the FDIC determines that the Bank fails to meet any standard prescribed by the guidelines, it may

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require the Bank to submit an acceptable plan to achieve compliance with the standard. The Bank maintains a program to meet the information security requirements and believes it is currently in compliance with this regulation.

Real Estate Lending Standards

FDIC regulations require the Bank to adopt and maintain written policies that establish appropriate limits and standards for real estate loans. These standards, which must be consistent with safe and sound banking practices, must establish loan portfolio diversification standards, prudent underwriting standards (including loan-to-value ratio limits) that are clear and measurable, loan administration procedures and documentation, approval and reporting requirements. The Bank is obligated to monitor conditions in its real estate markets to ensure that its standards continue to be appropriate for current market conditions. The Bank's board of directors is required to review and approve the Bank's standards at least annually.

The FDIC has published guidelines for compliance with these regulations, including supervisory limitations on loan-to-value ratios for different categories of real estate loans. Under the guidelines, the aggregate amount of all loans in excess of the supervisory loan-to-value ratios should not exceed 100.0% of total capital, and the total of all loans for commercial, agricultural, multifamily or other non-one-to-four family residential properties in excess of such ratios should not exceed 30.0% of total capital. Loans in excess of the supervisory loan-to-value ratio limitations must be identified in the Bank's records and reported at least quarterly to the Bank's board of directors.

The FDIC and the federal banking agencies have also issued guidance on sound risk management practices for concentrations in commercial real estate lending. The particular focus is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be sensitive to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is not to limit a bank's commercial real estate lending but to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations.

Risk Retention

The Dodd-Frank Act requires that, subject to certain exemptions, securitizers of mortgage and other asset-backed securities retain not less than five percent of the credit risk of the mortgages or other assets and that the securitizer not hedge or otherwise transfer the risk it is required to retain. In December 2014, the federal banking regulators, together with the SEC, the Federal Housing Finance Agency and the Department of Housing and Urban Development, published a final rule implementing this requirement. Generally, the final rule provides various ways in which the retention of risk requirement can be satisfied and also describes exemptions from the retention requirements for various types of assets, including mortgages. Compliance with the final rule with respect to residential mortgage securitizations is required beginning in December 2015 and in December 2016 for all other securitizations.

Volcker Rule

In December 2013, the FDIC, the FRB and various other federal agencies issued final rules to implement certain provisions of the Dodd-Frank Act commonly known as the “Volcker Rule.” Subject to certain exceptions, the final rules generally prohibit banks and affiliated companies from engaging in short-term proprietary trading of certain securities, derivatives, commodity futures and options on those instruments, for their own account. The final rules also impose restrictions on banks and their affiliates from acquiring or retaining an ownership interest in, sponsoring or having certain other relationships with hedge funds or private equity funds. Compliance with the rule will be required by July 21, 2015.

Activities and Investments of Insured State-Chartered Financial Institutions

Federal law generally prohibits FDIC-insured state banks from engaging as a principal in activities, and from making equity investments, other than those that are permissible for national banks. An insured state bank is not prohibited from, among other things, (1) acquiring or retaining a majority interest in certain subsidiaries, (2) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2.0% of the bank's total assets, (3) acquiring up to 10.0% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions and (4) acquiring or retaining the voting shares of a depository institution if certain requirements are met.

Washington State has enacted a law regarding financial institution parity. The law generally provides that Washington-chartered savings banks may exercise any of the powers of Washington-chartered commercial banks, national banks or federally-chartered savings banks, subject to the approval of the Director of the WDFI in certain situations.

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Environmental Issues Associated With Real Estate Lending

The Comprehensive Environmental Response, Compensation and Liability Act, or the CERCLA, is a federal statute that generally imposes strict liability on all prior and present “owners and operators” of sites containing hazardous waste. However, Congress has acted to protect secured creditors by providing that the term “owner and operator” excludes a person whose ownership is limited to protecting its security interest in the site. Since the enactment of the CERCLA, this “secured creditor” exemption has been the subject of judicial interpretations which have left open the possibility that lenders could be liable for cleanup costs on contaminated property that they hold as collateral for a loan. To the extent that legal uncertainty exists in this area, all creditors, including the Bank, that have made loans secured by properties with potential hazardous waste contamination (such as petroleum contamination) could be subject to liability for cleanup costs, which costs often substantially exceed the value of the collateral property.

Reserve Requirements

The Bank is subject to Federal Reserve regulations pursuant to which depositary institutions may be required to maintain non-interest-earning reserves against their deposit accounts and certain other liabilities. Currently, reserves must be maintained against transaction accounts (primarily negotiable order of withdrawal and regular checking accounts). The regulations generally required that in 2014 reserves be maintained in the amount of 3.0% of the aggregate of transaction accounts over $13.3 million up to $89.0 million and 10% of the accounts over $89.0 million. Net transaction accounts up to $13.3 million were exempt from reserve requirements. The regulations generally require that reserves be maintained in the amount of 3.0% of the aggregate of transaction accounts over $14.5 million up to $103.6 million in 2015 and 10% of the accounts over $103.6 million. Net transaction accounts up to $14.5 million are exempt from reserve requirements.

Federal Home Loan Bank System

The Federal Home Loan Bank system consists of twelve regional Federal Home Loan Banks. Among other benefits, each of these serves as a reserve or central bank for its members within its assigned region. Each of the Federal Home Loan Banks makes available loans or advances to its members in compliance with the policies and procedures established by its board of directors. The Bank is a member of the Federal Home Loan Bank of Seattle ("FHLB"). As a member, the Bank is required to own stock in the FHLB and currently owns $33.9 million of stock in the FHLB. The Federal Housing Finance Agency (the “Finance Agency”) is the primary regulator of the FHLB, and in August 2009 the Finance Agency classified the FHLB as undercapitalized. In October 2010, the FHLB entered into a Stipulation and Consent to The Issuance of a Consent Order with the Finance Agency, which sets forth requirements for capital management, asset composition and other operating and risk management improvements. In September 2012, the Finance Agency reclassified the FHLB as adequately capitalized but the FHLB remained subject to the Consent Order. On November 22, 2013, the Finance Agency issued an amended Consent Order, which modifies and supersedes the October 2010 Consent Order. The amended Consent Order acknowledges the FHLB’s fulfillment of many of the requirements set forth in the 2010 Consent Order and improvements in the FHLB’s financial performance, while continuing to impose certain restrictions on its ability to repurchase, redeem, and pay dividends on its capital stock. As such, Finance Agency approval or non-objection will continue to be required for all repurchases, redemptions, and dividend payments on FHLB capital stock.

In September 2014, the FHLB entered into a merger agreement with the Federal Home Loan Bank of Des Moines (the “Des Moines Bank”). If the merger agreement is consummated, the FHLB will merge with and into the Des Moines Bank, with the Des Moines Bank being the surviving entity. As a result, the Bank will become a member of the Des Moines Bank and its shares of FHLB stock will be converted into shares of stock of the Des Moines Bank.

Community Reinvestment Act of 1977

Banks are subject to the provisions of the CRA of 1977, which requires the appropriate federal bank regulatory agency to assess a bank's record in meeting the credit needs of the assessment areas serviced by the bank, including low and moderate income neighborhoods. The regulatory agency's assessment of the bank's record is made available to the public. Further, these assessments are considered by regulators when evaluating mergers, acquisitions and applications to open or relocate a branch or facility. The Bank currently has a rating of “Outstanding” under the CRA.

Dividends

Dividends from the Bank constitute an important source of funds for dividends that may be paid by the Company to shareholders. The amount of dividends payable by the Bank to the Company depends upon the Bank's earnings and capital position and is limited by federal and state laws. Under Washington law, the Bank may not declare or pay a cash dividend on its capital stock if this would cause its net worth to be reduced below the net worth requirements, if any, imposed by the WDFI. In addition, dividends on the Bank's capital stock may not be paid in an amount greater than its retained earnings without the approval of the WDFI.

The amount of dividends actually paid during any one period will be strongly affected by the Bank's policy of maintaining a strong capital position. Because the Bank is treated as a savings association subsidiary of a savings and loan holding company, it must give the Federal Reserve at least 30 days' advance notice of the proposed declaration of a dividend on its guaranty, permanent or other non-withdrawable stock. Federal law prohibits an insured depository institution from paying a cash dividend if this would cause the institution to be “undercapitalized,” as defined in the prompt corrective action regulations. Moreover, the federal bank regulatory agencies have the general authority to limit the dividends paid by insured banks if such payments are deemed to constitute an unsafe and unsound practice. New capital rules going into effect in 2015 will impose additional requirements on the Bank’s ability to pay dividends. See “- Capital and Prompt Corrective Action Requirements - New Capital Rules.”

Liquidity

The Bank is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation. See “Management's Discussion and Analysis - Liquidity Risk and Capital Resources.”

Compensation

The Bank is subject to regulation of its compensation practices. See “Regulation and Supervision - Regulation of the Company - Compensation Policies.”

Bank Secrecy Act and USA Patriot Act

The Company and the Bank are subject to the Bank Secrecy Act, as amended by the USA PATRIOT Act, which gives the federal government powers to address money laundering and terrorist threats through enhanced domestic security measures, expanded surveillance powers and mandatory transaction reporting obligations. By way of example, the Bank Secrecy Act imposes an affirmative obligation on the Bank to report currency transactions that exceed certain thresholds and to report other transactions determined to be suspicious.

Like all United States companies and individuals, the Company and the Bank are prohibited from transacting business with certain individuals and entities named on the Office of Foreign Asset Control's list of Specially Designated Nationals and Blocked Persons. Failure to comply may result in fines and other penalties. The Office of Foreign Asset Control (“OFAC”) has issued guidance directed at financial institutions in which it asserted that it may, in its discretion, examine institutions determined to be high-risk or to be lacking in their efforts to comply with these prohibitions.

The Bank maintains a program to meet the requirements of the Bank Secrecy Act, USA PATRIOT Act and OFAC and believes it is currently in compliance with these requirements.

Identity Theft

Section 315 of the Fair and Accurate Credit Transactions Act ("FACT Act") requires each financial institution or creditor to develop and implement a written Identity Theft Prevention Program to detect, prevent and mitigate identity theft “red flags” in connection with the opening of certain accounts or certain existing accounts.

The Bank maintains a program to meet the requirements of Section 315 of the FACT Act and believes it is currently in compliance with these requirements.

Consumer Protection Laws and Regulations

The Bank and its affiliates are subject to a broad array of federal and state consumer protection laws and regulations that govern almost every aspect of its business relationships with consumers. While this list is not exhaustive, these include the Truth-in-Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Secure and Fair Enforcement in Mortgage Licensing Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Service Members' Civil Relief Act, the Right to Financial Privacy Act, the Home Ownership and Equity Protection Act, the Consumer Leasing Act, the Fair Credit Billing Act, the Homeowners Protection Act, the Check Clearing for the 21st Century Act, laws governing flood insurance, laws governing consumer protections in connection with the sale of insurance, federal and state laws prohibiting unfair and deceptive business practices, foreclosure laws and various regulations that implement some or all of the foregoing. These laws and regulations mandate certain disclosure requirements and regulate

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the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages and the loss of certain contractual rights. The Bank has a compliance governance structure in place to help ensure its compliance with these requirements.

The Dodd-Frank Act established the CFPB as a new independent bureau that is responsible for regulating consumer financial products and services under federal consumer financial laws. The CFPB has broad rulemaking authority with respect to these laws and exclusive examination and primary enforcement authority with respect to banks with assets of more than $10 billion.

The Dodd-Frank Act also contains a variety of provisions intended to reform consumer mortgage practices. The provisions include (1) a requirement that lenders make a determination that at the time a residential mortgage loan is consummated the consumer has a reasonable ability to repay the loan and related costs, (2) a ban on loan originator compensation based on the interest rate or other terms of the loan (other than the amount of the principal), (3) a ban on prepayment penalties for certain types of loans, (4) bans on arbitration provisions in mortgage loans and (5) requirements for enhanced disclosures in connection with the making of a loan. The Dodd-Frank Act also imposes a variety of requirements on entities that service mortgage loans.

The Dodd-Frank Act contains provisions further regulating payment card transactions. The Dodd-Frank Act required the Federal Reserve to adopt regulations limiting any interchange fee for a debit transaction to an amount which is “reasonable and proportional” to the costs incurred by the issuer. The Federal Reserve has adopted final regulations limiting the amount of debit interchange fees that large bank issuers may charge or receive on their debit card transactions. There is an exemption from the rules for issuers with assets of less than $10 billion and the Federal Reserve has stated that it will monitor and report to Congress on the effectiveness of the exemption. Nevertheless, it is unclear whether such smaller issuers (which include the Bank) will, as a practical matter, be able to avoid the impact of the regulations.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") implemented a broad range of corporate governance and accounting measures to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of disclosures under federal securities laws. We are subject to Sarbanes-Oxley because we are required to file periodic reports with the SEC under the Securities Exchange Act of 1934. Among other things, Sarbanes-Oxley and/or its implementing regulations establishes membership requirements and additional responsibilities for our audit committee, imposes restrictions on the relationship between us and our outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposes additional responsibilities for our external financial statements on our chief executive officer and chief accounting officer, expands the disclosure requirements for our corporate insiders, requires our management to evaluate our disclosure controls and procedures and our internal control over financial reporting, and requires our independent registered public accounting firm to issue a report on our internal control over financial reporting.

Future Legislation or Regulation

In light of recent conditions in the United States economy and the financial services industry, the Obama administration, Congress, the regulators and various states continue to focus attention on the financial services industry. Additional proposals that affect the industry have been and will likely continue to be introduced. We cannot predict whether any of these proposals will be enacted or adopted or, if they are, the effect they would have on our business, our operations or our financial condition.

ITEM 1A RISK FACTORS

This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this report.

We are growing rapidly, and we may be unable to manage our growth properly.

In 2012, HomeStreet completed its initial public offering of common stock. At that time HomeStreet had been operating under regulatory orders that had been imposed during the financial crisis of 2007 through 2010 as a result of HomeStreet Bank having experienced operating losses, capital impairment, asset quality deterioration and a number of related operational and management issues. In early 2010 we began recruiting a new management team, and the recapitalization brought about by our initial public offering, together with aggressive management strategies, helped us substantially improve all aspects of our operations and financial condition. As a result of a combination of these factors, our regulators removed all extraordinary restrictions on our operations by early 2013. In November 2013 we completed the simultaneous acquisitions by merger of Fortune Bank, headquartered in Seattle, and Yakima National Bank, headquartered in Yakima, Washington. In December 2013 we completed the acquisition of two Seattle branches from AmericanWest Bank. In March 2015, we completed the acquisition by merger of Simplicity Bancorp and the merger of Simplicity Bank with and into HomeStreet Bank ("Simplicity Merger"). That merger represents our third whole-bank acquisition in less than two years. Simultaneously, we have grown our mortgage origination operations opportunistically but quickly, opening new offices in the San Francisco Bay and Los Angeles areas of California in 2013 and 2014, and further expanding our mortgage origination operations into Arizona beginning in the fourth quarter of 2014 while also continuing to grow those operations in the Pacific Northwest. We also expanded our residential construction lending activities, opening a new office in Salt Lake City, Utah and adding production personnel in Southern California during 2014.

At the time we completed our IPO, and after giving effect to the $77.6 million in net proceeds from that offering, based on December 31, 2011 balances, we had total assets of approximately $2.4 billion, total deposits of approximately $2.0 billion, and total loans of approximately $1.5 billion, and we had approximately 600 employees. At December 31, 2014, we had total assets of approximately $3.5 billion, total deposits of $2.4 billion, total loans of approximately $2.7 billion, and approximately 1,600 employees. As of December 31, 2014, Simplicity had total assets of approximately $863 million, total deposits of $656 million, and total loans of approximately $683 million. Further, unlike the Fortune Bank and Yakima National Bank acquisitions, which together resulted in only modest geographic expansion, the Simplicity Merger represents a substantial geographic expansion of our commercial and consumer banking operations. We have plans to continue growing strategically, and we may also grow opportunistically from time to time. Growth can present substantial demands on management personnel, line employees, and other aspects of a bank’s operations, and those challenges are particularly pronounced when growth occurs rapidly. We may face difficulties in managing that growth, and we may experience a variety of adverse consequences, including:

- Loss of or damage to key customer relationships;
- Distraction of management from ordinary course operations;
- Loss of key employees or significant numbers of employees;
- The potential of litigation from prior employers relating to the portability of their employees;
- Costs associated with opening new offices to accommodate our growth in employees;
- Increased costs related to hiring, training and providing initial compensation to new employees, which may not be recouped if those employees do not remain with us long enough to be profitable;
- Challenges in complying with legal and regulatory requirements in new jurisdictions;
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- Inadequacies in our computer systems, accounting policies and procedures, and management personnel (some of which may be difficult to detect until other problems become manifest);
- Challenges integrating different systems, practices, and customer relationships;
- An inability to attract and retain personnel whose experience and (in certain circumstances) business relationships promote the achievement of our strategic goals; and
- Increasing volatility in our operating results as we progress through these initiatives.

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The integration of Simplicity into HomeStreet following the Simplicity Merger, as well as any future acquisitions, could consume significant resources, present significant challenges in integration and may not be successful.

In March 2015, we completed the Simplicity Merger and are working to integrate the Simplicity operations into HomeStreet's operations. There are certain risks related to that integration, and similar risks may arise if we seek out other acquisitions in the near future as we look for ways to continue to grow our business and our market share. Any future acquisition we may undertake may involve numerous risks related to the investigation and consideration of the potential acquisition and the costs of undertaking such a transaction, and both the Simplicity integration and integration into HomeStreet or HomeStreet Bank of any other assets or entities we may acquire in the future involve inherent risks, including risks that arise after the transaction is completed. These risks include:

- Diversion of management's attention from normal daily operations of the business;
- Costs incurred in the process of vetting potential acquisition candidates which we may not recoup;
- Difficulties in integrating the operations, technologies, and personnel of the acquired companies;
- Difficulties in implementing, upgrading and maintaining our internal controls over financial reporting and our disclosure controls and procedures;
- Inability to maintain the key business relationships and the reputations of acquired businesses;
- Entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;
- Potential responsibility for the liabilities of acquired businesses;
- Inability to maintain our internal standards, controls, procedures and policies at the acquired companies or businesses; and
- Potential loss of key employees of the acquired companies.

Difficulties in pursuing or integrating any new acquisitions may increase our costs and adversely impact our financial condition and results of operations. Further, even if we successfully address these factors and are successful in closing the transaction and integrating the systems together, we may nonetheless experience customer losses, or we may fail to grow the acquired businesses as we intend.

Fluctuations in interest rates could adversely affect the value of our assets and reduce our net interest income and noninterest income, thereby adversely affecting our earnings and profitability.

Interest rates may be affected by many factors beyond our control, including general and economic conditions and the monetary and fiscal policies of various governmental and regulatory authorities. For example, increases in interest rates in early 2014 reduced our mortgage revenues in large part by drastically reducing the market for refinancings, which negatively impacted our noninterest income and, to a lesser extent, our net interest income, as well as demand for our residential loan products and the revenue realized on the sale of loans in the first half of 2014. Our earnings are also dependent on the difference between the interest earned on loans and investments and the interest paid on deposits and borrowings. Changes in market interest rates impact the rates earned on loans and investment securities and the rates paid on deposits and borrowings and may negatively impact our ability to attract deposits, make loans and achieve satisfactory interest rate spreads, which could adversely affect our financial condition or results of operations. In addition, changes to market interest rates may impact the level of loans, deposits and investments and the credit quality of existing loans.

In addition, our securities portfolio includes securities that are insured or guaranteed by U.S. government agencies or government-sponsored enterprises and other securities that are sensitive to interest rate fluctuations. The unrealized gains or losses in our available-for-sale portfolio are reported as a separate component of shareholders' equity until realized upon sale. Future interest rate fluctuations may impact the value of these securities and as a result, shareholders' equity, causing material fluctuations from quarter to quarter. Failure to hold our securities until maturity or until market conditions are favorable for a sale could adversely affect our financial condition.

A significant portion of our noninterest income is derived from originating residential mortgage loans and selling them into the secondary market. That business has benefited from a long period of historically low interest rates. To the extent interest rates rise again, particularly if they rise substantially, we may experience another reduction in mortgage financing of new home purchases and refinancing. These factors have negatively affected our mortgage loan origination volume and our noninterest income in the past and may do so again in the future.

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We have recently identified certain deficiencies in our internal controls over financial reporting, and those deficiencies or others that we have not discovered may result in our inability to maintain control over our assets or to identify and accurately report our financial condition, results of operations, or cash flows.

Our internal controls over financial reporting include those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Each year, our management, under the supervision of the Chief Executive Officer and the Chief Accounting Officer, conducts an evaluation of the effectiveness of our internal control over financial reporting. Based on this evaluation, our management has concluded that our internal controls over financial reporting was not effective as of December 31, 2014, because of a material weakness in our internal controls related to certain new back office systems, primarily relating to accounts payable processing and payroll processing. Implementation of key systems requires that management perform a thorough risk assessment to adequately assess risk at an appropriate level of detail to allow for (i) the design of controls with the appropriate precision and responsiveness to address those risks, (ii) the timely and effective implementation of controls, including evidence of operating effectiveness, and (iii) effective monitoring of the controls. Management concluded that its risk assessment related to these changes was not comprehensive enough and that sufficient documentation was not maintained. In each of these cases, management determined that no material loss occurred, and that we did not have an actual misstatement of our financial statements. However, management also noted that in the absence of specific management attention, we could have experienced a material loss or could have made a material error in the reporting of our results of operations for the fourth quarter of 2014. Management thus determined that these potential outcomes reflect a material weakness in our internal controls over financial reporting, and that, as a result, our internal controls over financial reporting were not effective as of December 31, 2014.

These deficiencies are discussed in greater detail under Item 9A, "Internal Control over Financial Reporting," and led management to conclude that as of December 31, 2014, our internal controls over financial reporting were not effective. Management has identified certain remedial measures that we believe will resolve these deficiencies. However, if these measures are not effective, or if our internal controls over financial reporting are subject to additional defects we have not identified, we may be unable to maintain adequate control over our assets, or we may experience material errors in recording our assets, liabilities and results of operations. Further, we reported an unrelated material weakness in our internal controls over financial reporting following the end of our third fiscal quarter of 2014. Repeated or continuing deficiencies may cause investors to question the reliability of our internal controls or our financial statements, and may result in an erosion of confidence in our management.

Current economic conditions continue to pose significant challenges for us and could adversely affect our financial condition and results of operations.

We generate revenue from the interest and fees we charge on the loans and other products and services we sell, and a substantial amount of our revenue and earnings comes from the net interest and noninterest income that we earn from our mortgage banking and commercial lending businesses. Our operations have been, and will continue to be, materially affected by the state of the U.S. economy, particularly unemployment levels and home prices. Although the U.S. economy has continued to gradually improve from the recessionary levels of 2008 and early 2009, economic growth has been slow and uneven.

A prolonged period of slow growth in the U.S. economy, or any deterioration in general economic conditions and/or the financial markets resulting from these factors, or any other events or factors that may disrupt or dampen the economic recovery, could materially adversely affect our financial results and condition. If economic conditions do not continue to improve or if the economy worsens and unemployment rises, which also would likely result in a decrease in consumer and business confidence and spending, the demand for our credit products, including our mortgages, may fall, reducing our net interest and noninterest income and our earnings.

In addition, financial institutions continue to be affected by changing conditions in the real estate and financial markets, along with an arduous and changing regulatory climate in which regulations passed in response to conditions and events during the economic downturn continue to be implemented. Recent improvements in the housing market may not continue, and a return to a recessionary economy could result in financial stress on our borrowers that may result in volatility in home prices, increased

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foreclosures and significant write-downs of asset values, all of which would adversely affect our financial condition and results of operations.

In particular, we may face risks related to market conditions that may negatively impact our business opportunities and plans, such as:

- Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, resulting in increased delinquencies and default rates on loans and other credit facilities;
- Regulatory scrutiny of the industry could further increase, leading to stricter regulation of our industry that could lead to a higher cost of compliance, limit our ability to pursue business opportunities and increase our exposure to the judicial system and the plaintiff's bar;
- The models we use to assess the creditworthiness of our customers may prove less reliable than we had anticipated in predicting future behaviors which may impair our ability to make good underwriting decisions;
- If our forecasts of economic conditions and other economic predictions are not accurate, we may face challenges in accurately estimating the ability of our borrowers to repay their loans;
- Further erosion in the fiscal condition of the U.S. Treasury may lead to new taxes limiting the ability of the Company to pursue growth and return profits to shareholders; and
- Future political developments and fiscal policy decisions may create uncertainty in the marketplace.

If recovery from the economic recession slows or if we experience another recessionary dip, our ability to access capital and our business, financial condition and results of operations may be adversely impacted.

Any restructuring or replacement of Fannie Mae and Freddie Mac and changes in existing government-sponsored and federal mortgage programs could adversely affect our business.

We originate and purchase, sell and thereafter service single family and multifamily mortgages under the Fannie Mae, and to a lesser extent the Freddie Mac single family purchase programs and the Fannie Mae multifamily DUS program. In 2008, Fannie Mae and Freddie Mac were placed into conservatorship, and since then Congress, various executive branch agencies and certain large private investors in Fannie Mae and Freddie Mac have offered a wide range of proposals aimed at restructuring these agencies. While the Obama administration and certain members of Congress have called for scaling back the role of the U.S. government in, and promoting the return of private capital to, the mortgage markets and the reduction of the role of Fannie Mae and Freddie Mac in the mortgage markets by, among other things, reducing conforming loan limits, increasing guarantee fees and requiring larger down payments by borrowers with the ultimate goal of winding down Fannie Mae and Freddie Mac, others have focused on ways to bring additional private capital into the system in order to reduce taxpayer risk. We expect that Congress will continue to hold hearings and consider legislation on the future status of Fannie Mae and Freddie Mac, including proposals that would result in Fannie Mae's liquidation or dissolution.

However, we cannot be certain if or when Fannie Mae and Freddie Mac ultimately will be restructured or wound down, if or when additional reform of the housing finance market will be implemented or what the future role of the U.S. government will be in the mortgage market, and, accordingly, we will not be able to determine the impact that any such reform may have on us until a definitive reform plan is adopted. However, any restructuring or replacement of Fannie Mae and Freddie Mac that restricts the current loan purchase programs of those entities may have a material adverse effect on our business and results of operations. Moreover, we have recorded on our balance sheet an intangible asset (mortgage servicing rights, or MSRs) relating to our right to service single and multifamily loans sold to Fannie Mae and Freddie Mac. That MSR asset was valued at $123.3 million at December 31, 2014. Changes in the policies and operations of Fannie Mae and Freddie Mac or any replacement for or successor to those entities that adversely affect our single family residential loan and DUS mortgage servicing assets may require us to record impairment charges to the value of these assets, and significant impairment charges could be material and adversely affect our business.

In addition, our ability to generate income through mortgage sales to institutional investors depends in part on programs sponsored by Fannie Mae, Freddie Mac and Ginnie Mae, which facilitate the issuance of mortgage-backed securities in the secondary market. Any discontinuation of, or significant reduction in, the operation of those programs could have a material adverse effect on our loan origination and mortgage sales as well as our results of operations. Also, any significant adverse change in the level of activity in the secondary market or the underwriting criteria of these entities could negatively impact our results of business, operations and cash flows.

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We are subject to more stringent capital requirements under Basel III.

As of January 1, 2015, we are subject to new rules relating to capital standards requirements, including requirements contemplated by Section 171 of the Dodd-Frank Act as well as certain standards initially adopted by the Basel Committee on Banking Supervision, which standards are commonly referred to as Basel III. A substantial portion of these rules applies to both the Company and the Bank, including a requirement that both the Company and the Bank have a common equity Tier 1 capital ratio of 4.5%, a Tier 1 leverage ratio of 4.0%, a Tier 1 risk-based ratio of 6.0% and a total risk-based ratio of 8.0%. In addition, beginning in 2016, both the Company and the Bank will be required to establish a "conservation buffer", consisting of common equity Tier 1 capital, equal to 2.5%, which means in effect that, once the conservation buffer is fully phased in, in order to prevent certain regulatory restrictions, the common equity Tier 1 capital ratio requirement will be 7.0%, the Tier 1 risk-based ratio requirement will be 8.5% and the total risk-based ratio requirement will be 10.5%. Any institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to executive officers. The requirement for a conservation buffer will be phased in beginning in 2016 and will take full effect on January 1, 2019.

Beginning in 2015, additional prompt corrective action rules will apply to the Bank, including higher and new ratio requirements for the Bank to be considered well-capitalized. The new rules also modify the manner for determining when certain capital elements are included in the ratio calculations. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, banking organizations that are not required to use advanced approaches, including the Company and the Bank, may make a one-time permanent election to continue to exclude these items. The Company and Bank expect to make this election in 2015 in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Company's securities portfolio.

In addition, deductions include, for example, the requirement that mortgage servicing rights, certain deferred tax assets not dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from the new common equity Tier 1 capital to the extent that any one such category exceeds 10% of new common equity Tier 1 capital, or all such categories in the aggregate exceed 15% of new common equity Tier 1 capital. Maintaining higher capital levels may result in lower profits for the Company as we will not be able to grow our lending as quickly as we might otherwise be able to do if we were to maintain lower capital levels. See "Regulation and Supervision of Home Street Bank - Capital and Prompt Corrective Action Requirements - New Capital Regulations" in Item 1 of this Form 10-K for the year ended December 31, 2014.

The sale of approximately 24% of our MSR portfolio in the second quarter of 2014 was consummated in part to facilitate balance sheet and capital management in preparation for Basel III. The application of more stringent capital requirements could, among other things, result in lower returns on invested capital and result in regulatory actions if we were to be unable to comply with such requirements.

We are subject to extensive regulation that may restrict our activities, including declaring cash dividends or capital distributions, and imposes financial requirements or limitations on the conduct of our business.

Our operations are subject to extensive regulation by federal, state and local governmental authorities, including the FDIC, the Washington Department of Financial Institutions and the Federal Reserve, and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules and regulations to which we are subject are evolving and change frequently. Changes to those laws, rules and regulations are also sometimes retroactively applied. Examination findings by the regulatory agencies may result in adverse consequences to the Company or the Bank. We have, in the past, been subject to specific regulatory orders that constrained our business and required us to take measures that investors may have deemed undesirable, and we may again in the future be subject to such orders if banking regulators were to determine that our operations require such restrictions. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the authority to restrict our operations, adversely reclassify our assets, determine the level of deposit premiums assessed and require us to increase our allowance for loan losses.

The Dodd-Frank Act has increased our costs of operations and may have a material negative effect on us.

The Dodd-Frank Act significantly changed the laws as they apply to financial institutions and revised and expanded the rulemaking, supervisory and enforcement authority of federal banking regulators. It is also having a material impact on our relationships with current and future customers.

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Some of these changes were effective immediately, although others are still being phased in gradually. In addition, the statute in many instances calls for regulatory rulemaking to implement its provisions. While many of the provisions are now being implemented, such as the Basel III capital standards, not all of the regulations called for by Dodd-Frank have been completed or are in effect, so the precise contours of the law and its effects on us cannot yet be fully understood. The provisions of the Dodd-Frank Act and the subsequent exercise by regulators of their revised and expanded powers thereunder could materially and negatively impact the profitability of our business, the value of assets we hold or the collateral available for our loans, require changes to business practices or force us to discontinue businesses and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk. For example, the Dodd-Frank Act imposes a requirement that private securitizers of mortgage and other asset backed securities retain, subject to certain exemptions, not less than five percent of the credit risk of the mortgages or other assets backing the securities. The regulatory agencies published the final Risk Retention rules in December 2014; compliance is required beginning in December 2015 for residential mortgage-backed securitizations and December 2016 for all other securitization types. See "Regulation and Supervision" in Item 1 of this Form 10-K for the year ended December 31, 2014.

New federal and state legislation, case law or regulatory action may negatively impact our business.

Enacted legislation, including the Dodd-Frank Act, as well as future federal and state legislation, case law and regulations could require us to revise our operations and change certain business practices, impose additional costs, reduce our revenue and earnings and otherwise adversely impact our business, financial condition and results of operations. For instance,

- Recent legislation and court decisions with precedential value could allow judges to modify the terms of residential mortgages in bankruptcy proceedings and could hinder our ability to foreclose promptly on defaulted mortgage loans or expand assignee liability for certain violations in the mortgage loan origination process, any or all of which could adversely affect our business or result in our being held responsible for violations in the mortgage loan origination process.
- Congress and various regulatory authorities have proposed programs that would require a reduction in principal balances of "underwater" residential mortgages, which if implemented would tend to reduce loan servicing income and which might adversely affect the carrying values of portfolio loans.

These or other judicial decisions or legislative actions, if upheld or implemented, may limit our ability to take actions that may be essential to preserve the value of the mortgage loans we service or hold for investment. Any restriction on our ability to foreclose on a loan, any requirement that we forego a portion of the amount otherwise due on a loan or any requirement that we modify any original loan terms may require us to advance principal, interest, tax and insurance payments, which would negatively impact our business, financial condition, liquidity and results of operations. Given the relatively high percentage of our business that derives from originating residential mortgages, any such actions are likely to have a significant impact on our business, and the effects we experience will likely be disproportionately high in comparison to financial institutions whose residential mortgage lending is more attenuated.

In addition, while these legislative and regulatory proposals and courts decisions generally have focused primarily, if not exclusively, on residential mortgage origination and servicing, other laws and regulations may be enacted that affect the manner in which we do business and the products and services that we provide, restrict our ability to grow through acquisition, restrict our ability to compete in our current business or expand into any new business, and impose additional fees, assessments or taxes on us or increase our regulatory oversight.

Policies and regulations enacted by CFPB may negatively impact our residential mortgage loan business and compliance risk.

Our consumer business, including our mortgage, credit card, and other consumer lending and non-lending businesses, may be adversely affected by the policies enacted or regulations adopted by the Consumer Financial Protection Bureau (CFPB) which under the Dodd-Frank Act has broad rulemaking authority over consumer financial products and services. For example, in January 2014 new federal regulations promulgated by the CFPB took effect which impact how we originate and service residential mortgage loans. Those regulations, among other things, require mortgage lenders to assess and document a borrower’s ability to repay their mortgage loan. The regulations provide borrowers the ability to challenge foreclosures and sue for damages based on allegations that the lender failed to meet the standard for determining the borrower’s ability to repay their loan. While the regulations include presumptions in favor of the lender based on certain loan underwriting criteria, it is uncertain how these presumptions will be construed and applied by courts in the event of litigation. The ultimate impact of these new regulations on the lender’s enforcement of its loan documents in the event of a loan default, and the cost and expense

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of doing so, is uncertain, but may be significant. In addition, the secondary market demand for loans that do not fall within the presumptively safest category of a “qualified mortgage” as defined by the CFPB is uncertain. The 2014 regulations also require changes to certain loan servicing procedures and practices, which result in increased foreclosure costs and longer foreclosure timelines in the event of loan default, and failure to comply with the new servicing rules may result in additional litigation and compliance risk. On November 20, 2014, the CFPB released its Final Integrated Disclosure Rule (“Rule”) that will become effective on August 1, 2015. Among other things, the new rule requires lenders to combine the initial Good Faith Estimate and Initial Truth in Lending (“TIL”) disclosures into a single new Loan Estimate disclosure and the HUD-1 and Final TIL disclosures into a single new Closing Disclosure. The definition of an application and timing requirements will also change, and a new Closing Disclosure waiting period has been added. These changes, along with other changes required by the Rule, will require significant systems modifications, process and procedures changes and training. Failure to comply with these new requirements may result in penalties for disclosure violations under the Real Estate Settlement Procedures Act (“RESPA”) and the Truth In Lending Act (“TILA”).

In addition, the CFPB recently proposed additional rules under the Home Mortgage Disclosure Act (“HMDA”) that are intended to improve information reported about the residential mortgage market and increase disclosure about consumer access to mortgage credit. As drafted, the proposed updates to the HMDA increase the types of dwelling-secured loans that would be subject to the disclosure requirements of the rule and expand the categories of information that financial institutions such as the Bank would be required to report with respect to such loans and such borrowers, including potentially sensitive customer information. If implemented, these changes would increase our compliance costs due to the need for additional resources to meet the enhanced disclosure requirements, including additional personnel and training costs as well as informational systems to allow the Bank to properly capture and report the additional mandated information. The anticipated volume of new data that would be required to be reported under the updated rules would also cause the Bank to face an increased risk of errors in the information. More importantly, because of the sensitive nature of some of the additional customer information to be included in such reports, the Bank would face a higher potential for a security breach resulting in the disclosure of sensitive customer information in the event the HMDA reporting files were obtained by an unauthorized party. The comment period for these proposed rules closed on October 29, 2014 and the final rules have not yet been released.

While the full impact of CFPB's activities on our business is still unknown, we anticipate that the proposed rule change under the HMDA and other CFPB actions that may follow may increase our compliance costs and require changes in our business practices as a result of new regulations and requirements and could limit the products and services we are able to provide to customers. We are unable to predict whether U.S. federal, state or local authorities, or other pertinent bodies, will enact legislation, laws, rules, regulations, handbooks, guidelines or similar provisions that will affect our business or require changes in our practices in the future, and any such changes could adversely affect our cost of doing business and profitability.

Our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and we use estimates in determining the fair value of certain of our assets, which estimates may prove to be imprecise and result in significant changes in valuation.

A portion of our assets are carried on the balance sheet at fair value, including investment securities available for sale, mortgage servicing rights related to single family loans and single family loans held for sale. Generally, for assets that are reported at fair value, we use quoted market prices or internal valuation models that utilize observable market data inputs to estimate their fair value. In certain cases, observable market prices and data may not be readily available or their availability may be diminished due to market conditions. We use financial models to value certain of these assets. These models are complex and use asset-specific collateral data and market inputs for interest rates. Although we have processes and procedures in place governing internal valuation models and their testing and calibration, such assumptions are complex as we must make judgments about the effect of matters that are inherently uncertain.

Different assumptions could result in significant changes in valuation, which in turn could affect earnings or result in significant changes in the dollar amount of assets reported on the balance sheet.

If we fail to maintain effective systems of internal and disclosure control, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm our business and the trading price of our securities.

Effective internal and disclosure controls are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. As part of our ongoing monitoring of internal control from time to time we have discovered deficiencies in our internal control as defined under standards adopted by the Public Company Accounting Oversight Board, or PCAOB, that have required remediation. Under the PCAOB standards, a “material weakness” is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material

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misstatement of the annual or interim financial statements will not be prevented or detected. A “significant deficiency” is a control deficiency or combination of control deficiencies, that adversely affect a company’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of a company’s annual or interim financial statements that is more than inconsequential will not be prevented or detected.

To support our growth initiatives and to create operating efficiencies the company has implemented, and will continue to implement, new systems and processes. If our project management processes are not sound and adequate resources are not deployed to these implementations we may experience internal control lapses that could expose the company to operating losses.

If we discover additional deficiencies in our internal controls, we may also identify defects in our disclosure controls and procedures that require remediation. If we discover additional deficiencies, we will take affirmative steps to improve our internal and disclosure controls. However, there is no assurance that we will be successful. Any failure to maintain effective controls or timely effect any necessary improvement of our internal and disclosure controls could harm operating results or cause us to fail to meet our reporting obligations. Ineffective internal and disclosure controls, including the deficiencies identified in this report, could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our securities.

HomeStreet, Inc. primarily relies on dividends from the Bank and payment of dividends by the Bank may be limited by applicable laws and regulations.

HomeStreet, Inc. is a separate legal entity from the Bank, and although we may receive some dividends from HomeStreet Capital Corporation, the primary source of our funds from which we service our debt, pay any dividends that we may declare to our shareholders and otherwise satisfy our obligations is dividends from the Bank. The availability of dividends from the Bank is limited by various statutes and regulations, as well as by our policy of retaining a significant portion of our earnings to support the Bank's operations. New capital rules impose more stringent capital requirements to maintain “well capitalized” status which may additionally impact the Bank’s ability to pay dividends to the Company. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Capital Management - New Capital Regulations” as well as “Regulation of Home Street Bank - Capital and Prompt Corrective Action Requirements - New Capital Rules” in Item 1 of this Form 10-K. If the Bank cannot pay dividends to us, we may be limited in our ability to service our debts, fund the Company's operations and acquisition plans and pay dividends to the Company's shareholders. While the Company has made special dividend distributions to its public shareholders in prior quarters, the Company has not adopted a dividend policy and the board of directors determined that it is in the best interests of the shareholders not to declare a dividend to be paid in the fourth quarter of 2014. As such, our dividends are not regular and are subject to restriction due to cash flow limitations, capital requirements, capital needs of the business or other factors.

We cannot assure you that we will remain profitable.

We have sustained significant losses in the past and our profitability has declined in recent quarters. We cannot guarantee that we will remain profitable or be able to maintain the level of profit we are currently experiencing. Many factors determine whether or not we will be profitable, and our ability to remain profitable is threatened by a myriad of issues, including:

- Increases in interest rates may limit our ability to make loans, decrease our net interest income and noninterest income, reduce demand for loans, increase the cost of deposits and otherwise negatively impact our financial situation;
-

Volatility in mortgage markets, which is driven by factors outside of our control such as interest rate changes, housing inventory and general economic conditions, may negatively impact our ability to originate loans and change the fair value of our existing loans and servicing rights;

- Changes in regulations may negatively impact the Company or the Bank and may limit our ability to offer certain products or services or may increase our costs of compliance;
- Increased costs from growth through acquisition could exceed the income growth anticipated from these opportunities, especially in the short term as these acquisitions are integrated into our business;
- Changes in government-sponsored enterprises and their ability to insure or to buy our loans in the secondary market may result in significant changes in our ability to recognize income on sale of our loans to third parties;
- Competition in the mortgage market industry may drive down the interest rates we are able to offer on our mortgages, which will negatively impact our net interest income;

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- Changes in the cost structures and fees of government-sponsored enterprises to whom we sell many of these loans may compress our margins and reduce our net income and profitability; and
- Our hedging strategies to offset risks related to interest rate changes may not prove to be successful and may result in unanticipated losses for the Company.

These and other factors may limit our ability to generate revenue in excess of our costs, which in turn may result in a lower rate of profitability or even substantial losses for the Company.

Federal, state and local consumer protection laws may restrict our ability to offer and/ or increase our risk of liability with respect to certain products and services and could increase our cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain practices considered “predatory” or “unfair and deceptive”. These laws prohibit practices such as steering borrowers away from more affordable products, failing to disclose key features, limitations, or costs related to products and services, selling unnecessary insurance to borrowers, repeatedly refinancing loans, imposing excessive fees for overdrafts, and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans or engage in deceptive practices, but these laws and regulations create the potential for liability with respect to our lending, servicing, loan investment and deposit taking activities. As we offer products and services to customers in additional states, we may become subject to additional state and local laws designed to protect consumers. The additional laws and regulations may increase our cost of doing business, and ultimately may prevent us from making certain loans, offering certain products, and may cause us to reduce the average percentage rate or the points and fees on loans and other products and services that we do provide.

The significant concentration of real estate secured loans in our portfolio has had and may continue to have a negative impact on our asset quality and profitability.

Substantially all of our loans are secured by real property. Our real estate secured lending is generally sensitive to national, regional and local economic conditions, making loss levels difficult to predict. Declines in real estate sales and prices, significant increases in interest rates, and a degeneration in prevailing economic conditions may result in higher than expected loan delinquencies, foreclosures, problem loans, OREO, net charge-offs and provisions for credit and OREO losses. Although real estate prices are stable in the markets in which we operate, if market values decline, the collateral for our loans may provide less security and our ability to recover the principal, interest and costs due on defaulted loans by selling the underlying real estate will be diminished, leaving us more likely to suffer additional losses on defaulted loans. Such declines may have a greater effect on our earnings and capital than on the earnings and capital of financial institutions whose loan portfolios are more geographically diversified.

Worsening conditions in the real estate market and higher than normal delinquency and default rates on loans could cause other adverse consequences for us, including:

- The reduction of cash flows and capital resources, as we are required to make cash advances to meet contractual obligations to investors, process foreclosures, and maintain, repair and market foreclosed properties;
- Declining mortgage servicing fee revenues because we recognize these revenues only upon collection;
- Increasing loan servicing costs;
- Declining fair value on our mortgage servicing rights; and
- Declining fair values and liquidity of securities held in our investment portfolio that are collateralized by mortgage obligations.

Our allowance for loan losses may prove inadequate or we may be negatively affected by credit risk exposures. Future additions to our allowance for loan losses will reduce our earnings.

Our business depends on the creditworthiness of our customers. As with most financial institutions, we maintain an allowance for loan losses to provide for defaults and nonperformance, which represents management's best estimate of probable incurred losses inherent in the loan portfolio. Management's estimate is the result of our continuing evaluation of specific credit risks and loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, industry concentrations and other factors that may indicate future loan losses. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and judgment and requires us to make estimates of current credit risks and future trends, all of which may undergo material changes. Generally, our nonperforming loans and

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OREO reflect operating difficulties of individual borrowers and weaknesses in the economies of the markets we serve. This allowance may not be adequate to cover actual losses, and future provisions for losses could materially and adversely affect our financial condition, results of operations and cash flows.
In addition, as a result of our acquisitions of Simplicity Bank on March 1, 2015 and Fortune Bank, Yakima National Bank and two branches of AmericanWest Bank in the second half of 2013, we have added the loans previously held by the acquired companies or related to the acquired branches to our books. Any future acquisitions we may make will have a similar result. Although we review loan quality as part of our due diligence in considering any acquisition, the addition of such loans may increase our credit risk exposure, requiring an increase in our allowance for loan losses or we may experience adverse effects to our financial condition, results of operations and cash flows stemming from losses on those additional loans.

Our real estate lending also exposes us to environmental liabilities.

In the course of our business, it is necessary to foreclose and take title to real estate, which could subject us to environmental liabilities with respect to these properties. Hazardous substances or waste, contaminants, pollutants or sources thereof may be discovered on properties during our ownership or after a sale to a third party. We could be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances or chemical releases at such properties. The costs associated with investigation or remediation activities could be substantial and could substantially exceed the value of the real property. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. We may be unable to recover costs from any third party. These occurrences may materially reduce the value of the affected property, and we may find it difficult or impossible to use or sell the property prior to or following any environmental remediation. If we ever become subject to significant environmental liabilities, our business, financial condition and results of operations could be materially and adversely affected.

A failure in or breach of our security systems or infrastructure, or those of our third party vendors and other service providers, resulting from cyber-attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

Information security risks for financial institutions have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. Those parties also may attempt to fraudulently induce employees, customers, or other users of our systems to disclose confidential information in order to gain access to our data or that of our customers. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks, either managed directly by us or through our data processing vendors. In addition, to access our products and services, our customers may use personal smartphones, tablet PCs, and other mobile devices that are beyond our control systems. Although we believe we have robust information security procedures and controls, we are heavily reliant on our third party vendors, and our vendors’ or our own technologies, systems, networks and our customers' devices may become the target of cyber-attacks, computer viruses, malicious code, unauthorized access, hackers or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of Company or our customers' confidential, proprietary and other information, or otherwise disrupt the Company's or its customers' or other third parties' business operations.

Third parties with which we do business or that facilitate our business activities, including exchanges, clearing houses, financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. In addition, some of our primary third party service providers may be subject to enhanced regulatory scrutiny due to regulatory findings during examinations of such service provider(s) conducted by federal regulators. While we have and will subject such vendor(s) to higher scrutiny and monitor any corrective measures that the vendor(s) are taking or would undertake, we are not able to fully mitigate any risk which could result from a breach or other operational failure caused by this, or any other vendor’s breach.

To date we are not aware of any material losses relating to cyber-attacks or other information security breaches, but there can be no assurance that we will not suffer such attacks and losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our plans to continue to implement our Internet banking and mobile banking channel, our expanding operations and the outsourcing of a significant portion of our business operations. As a result, cybersecurity and the continued development and enhancement of our controls, processes and practices

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designed to protect customer information, our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for the Company. As cyber threats continue to evolve, we may be required to expend significant additional resources to insure, to continue to modify or enhance our protective measures or to investigate and remediate important information security vulnerabilities, however, our measures may be insufficient to prevent physical .and electronic break-ins, denial of service and other cyber-attacks or security breaches.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber-attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, financial losses, the inability of our customers to transact business with us, violations of applicable privacy and other laws, regulatory fines, penalties or intervention, additional regulatory scrutiny, reputational damage, litigation, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially and adversely affect our results of operations or financial condition.

The network and computer systems on which we depend could fail or experience security breaches.

Our computer systems could be vulnerable to unforeseen problems. Because we conduct a part of our business over the Internet and outsource several critical functions to third parties, operations will depend on our ability, as well as the ability of third-party service providers, to protect computer systems and network infrastructure against damage from fire, power loss, telecommunications failure, physical break-ins or similar catastrophic events. Any damage or failure that causes interruptions in operations may compromise our ability to perform critical functions in a timely manner and could have a material adverse effect on our business, financial condition and results of operations as well as our reputation and customer or vendor relationships.

In addition, a significant barrier to online financial transactions is the secure transmission of confidential information over public networks. Our Internet banking system relies on encryption and authentication technology to provide the security and authentication necessary to effect secure transmission of confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms our third-party service providers use to protect customer transaction data. If any such compromise of security were to occur, it could have a material adverse effect on our business, financial condition and results of operations.

The failure to protect our customers' confidential information and privacy could adversely affect our business.

We are subject to state and federal privacy regulations and confidentiality obligations that, among other things restrict the use and dissemination of, and access to, the information that we produce, store or maintain in the course of our business. We also have contractual obligations to protect certain confidential information we obtain from our existing vendors and customers. These obligations generally include protecting such confidential information in the same manner and to the same extent as we protect our own confidential information, and in some instances may impose indemnity obligations on us relating to unlawful or unauthorized disclosure of any such information.
The actions we may take in order to promote compliance with these obligations vary by business segment and may change over time, but may include, among other things:

- Training and educating our employees and independent contractors regarding our obligations relating to confidential information;
- Monitoring changes in state or federal privacy and compliance requirements;
- Drafting and enforcing appropriate contractual provisions into any contract that raises proprietary and confidentiality issues;
- Maintaining secure storage facilities and protocols for tangible records;
- Physically and technologically securing access to electronic information; and
- In the event of a security breach, providing credit monitoring or other services to affected customers.

If we do not properly comply with privacy regulations and protect confidential information, we could experience adverse consequences, including regulatory sanctions, penalties or fines, increased compliance costs, litigation and damage to our reputation, which in turn could result in decreased revenues and loss of customers, all of which would have a material adverse effect on our business, financial condition and results of operations.

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Our operations could be interrupted if our third-party service and technology providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend, and will continue to depend, to a significant extent, on a number of relationships with third-party service and technology providers. Specifically, we receive core systems processing, essential web hosting and other Internet systems and deposit and other processing services from third-party service providers. If these third-party service providers, or if any parties to whom our third party service providers have subcontracted services, experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted and our operating expenses may be materially increased. If an interruption were to continue for a significant period of time, our business financial condition and results of operations could be materially adversely affected. Additionally, if our third-party service and technology providers, including our mortgage loan origination technology provider, fail to update their systems or services in a timely manner to reflect new or changing regulation, our ability to meet regulatory requirements may be impacted and may expose us to heightened regulatory scrutiny and the potential for payment of monetary penalties.

We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many national vendors provide turn-key services to community banks, such as Internet banking and remote deposit capture that allow smaller banks to compete with institutions that have substantially greater resources to invest in technological improvements. We may not be able, however, to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

We may be required to recognize impairment with respect to investment securities, including the FHLB stock we hold.

Our securities portfolio currently includes securities with unrecognized losses. We may continue to observe declines in the fair market value of these securities. We evaluate the securities portfolio for any other than temporary impairment each reporting period. In addition, as a condition of membership in the FHLB, we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB. Our FHLB stock is carried at cost and is subject to recoverability testing under applicable accounting standards. Future negative changes to the financial condition of the FHLB may require us to recognize an impairment charge with respect to such holdings. The FHLB is currently subject to a Consent Order issued by its primary regulator, the Federal Housing Finance Agency. See “Regulation and Supervision” in Item 1 of this Form 10-K for the year ended December 31, 2014.

A change in federal monetary policy could adversely impact our mortgage banking revenues.

The Federal Reserve is responsible for regulating the supply of money in the United States, and as a result its monetary policies strongly influence our costs of funds for lending and investing as well as the rate of return we are able to earn on those loans and investments, both of which impact our net interest income and net interest margin. The Federal Reserve Board's interest rate policies can also materially affect the value of financial instruments we hold, including debt securities and mortgage servicing rights, or MSRs. These monetary policies can also negatively impact our borrowers, which in turn may increase the risk that they will be unable to pay their loans according to the terms or be unable to pay their loans at all. We have no control over the monetary policies of the Federal Reserve Board and cannot predict when changes are expected or what the magnitude of such changes may be.

For example, as a result of the Federal Reserve Board's concerns regarding continued slow economic growth, the Federal Reserve Board, in 2008 implemented its standing monetary policy known as “quantitative easing,” a program involving the purchase of mortgage backed securities and United States Treasury securities, the volume of which was aligned with specific economic targets or measures intended to bolster the U.S. economy. Although the Federal Reserve Board has ended quantitative easing, it still holds the securities purchased during the program and, if economic conditions worsened, could revive that program.

Because a substantial portion of our revenues and our net income historically have been, and in the foreseeable future are expected to be, derived from gain on the origination and sale of mortgage loans and on the continuing servicing of those loans, the Federal Reserve Board's monetary policies may have had the effect of supporting higher revenues than might otherwise be available. If the rebound in employment and real wages is not adequate to offset the termination of the program, or if the

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Federal Reserve begins selling off the securities it has accumulated, we may see a reduction in mortgage originations throughout the United States, and may see a corresponding rise in interest rates, which could reduce our mortgage origination revenues and in turn have a material adverse impact upon our business.

A substantial portion of our revenue is derived from residential mortgage lending which is a market sector that experiences significant volatility.

A substantial portion of our consolidated net revenues (net interest income plus noninterest income) are derived from originating and selling residential mortgages. Residential mortgage lending in general has experienced substantial volatility in recent periods. An increase in interest rates in the second quarter of 2013 resulted in a significant adverse impact on our business and financial results due primarily to a related decrease in volume of loan originations, especially refinancings. The Federal Reserve has indicated that interest rates may rise again as early as June 2015. Any such increase in interest rates may materially and adversely affect our future loan origination volume, margins, and the value of the collateral securing our outstanding loans, may increase rates of borrower default, and may otherwise adversely affect our business. Additionally, in recent periods we have experienced very low levels of homes available for sale in many of the markets in which we operate. The lack of housing inventory has had a downward impact on the volume of mortgage loans that we originate. Further, it has resulted in elevated costs, as a significant amount of loan processing and underwriting that we perform are to qualifying borrowers for mortgage loan transactions that never materialize. The lack of inventory of homes for sale may continue to have an adverse impact on mortgage loan volumes into the foreseeable future.

We may incur losses due to changes in prepayment rates.

Our mortgage servicing rights carry interest rate risk because the total amount of servicing fees earned, as well as changes in fair-market value, fluctuate based on expected loan prepayments (affecting the expected average life of a portfolio of residential mortgage servicing rights). The rate of prepayment of residential mortgage loans may be influenced by changing national and regional economic trends, such as recessions or depressed real estate markets, as well as the difference between interest rates on existing residential mortgage loans relative to prevailing residential mortgage rates. Changes in prepayment rates are therefore difficult for us to predict. An increase in the general level of interest rates may adversely affect the ability of some borrowers to pay the interest and principal of their obligations. During periods of declining interest rates, many residential borrowers refinance their mortgage loans. The loan administration fee income (related to the residential mortgage loan servicing rights corresponding to a mortgage loan) decreases as mortgage loans are prepaid. Consequently, the fair value of portfolios of residential mortgage loan servicing rights tend to decrease during periods of declining interest rates, because greater prepayments can be expected and, as a result, the amount of loan administration income received also decreases.

We may incur significant losses as a result of ineffective hedging of interest rate risk related to our loans sold with a reservation of servicing rights.

Both the value our single family mortgage servicing rights, or MSRs, and the value of our single family loans held for sale changes with fluctuations in interest rates, among other things, reflecting the changing expectations of mortgage prepayment activity. To mitigate potential losses of fair value of single family loans held for sale and MSRs related to changes in interest rates, we actively hedge this risk with financial derivative instruments. Hedging is a complex process, requiring sophisticated models, experienced and skilled personnel and continual monitoring. Changes in the value of our hedging instruments may not correlate with changes in the value of our single family loans held for sale and MSRs, and we could incur a net valuation loss as a result of our hedging activities. Following the expansion of our single family mortgage operations in early 2012 through the addition of a significant number of single family mortgage origination personnel, the volume of our single family loans held for sale and MSRs has increased. The increase in volume in turn increases our exposure to the risks associated with the impact of interest rate fluctuations on single family loans held for sale and MSRs.

Changes in fee structures by third party loan purchasers and mortgage insurers may decrease our loan production volume and the margin we can recognize on conforming home loans, and may adversely impact our results of operations.

Certain third party loan purchasers revised their fee structures in the third quarter of 2013 and increased the costs of doing business with them. For example, certain purchasers of conforming loans, including Fannie Mae and Freddie Mac, raised costs of guarantee fees and other required fees and payments. These changes increased the cost of mortgages to consumers and the cost of selling conforming loans to third party loan purchasers which in turn decreased our margin and negatively impacted our profitability. Additionally, the FHA raised costs for premiums and extended the period for which private mortgage insurance is required on a loan purchased by them. Additional changes in the future from third party loan purchasers may have a negative impact on our ability to originate loans to be sold because of the increased costs of such loans and may decrease our profitability with respect to loans held for sale. In addition, any significant adverse change in the level of activity in the secondary market or the underwriting criteria of these third party loan purchasers could negatively impact our results of business, operations and cash flows.

If we breach any of the representations or warranties we make to a purchaser or securitizer of our mortgage loans or MSRs, we may be liable to the purchaser or securitizer for certain costs and damages.

When we sell or securitize mortgage loans in the ordinary course of business, we are required to make certain representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. Our agreements require us to repurchase mortgage loans if we have breached any of these representations or warranties, in which case we may be required to repurchase such loan and record a loss upon repurchase and/or bear any subsequent loss on the loan. We may not have any remedies available to us against a third party for such losses, or the remedies available to us may not be as broad as the remedies available to the purchaser of the mortgage loan against us. In addition, if there are remedies against a third party available to us, we face further risk that such third party may not have the financial capacity to perform remedies that otherwise may be available to us. Therefore, if a purchaser enforces remedies against us, we may not be able to recover our losses from a third party and may be required to bear the full amount of the related loss.

If repurchase and indemnity demands increase on loans or MSRs that we sell from our portfolios, our liquidity, results of operations and financial condition will be adversely affected.

If we breach any representations or warranties or fail to follow guidelines when originating a FHA/HUD-insured loan or a VA-guaranteed loan, we may lose the insurance or guarantee on the loan and suffer losses, pay penalties, and/or be subjected to litigation from the federal government.

We originate and purchase, sell and thereafter service single family loans that are insured by FHA/HUD or guaranteed by the VA. We certify to the FHA/HUD and the VA that the loans meet their requirements and guidelines. The FHA/HUD and VA audit loans that are insured or guaranteed under their programs, including audits of our processes and procedures as well as individual loan documentation. Violations of guidelines can result in monetary penalties or require us to provide indemnifications against loss or loans declared ineligible for their programs. In the past, monetary penalties and losses from indemnifications have not created material losses to the Bank. As a result of the housing crisis, the FHA/HUD has stepped up enforcement initiatives. In addition to regular FHA/HUD audits, HUD's Inspector General has become active in enforcing FHA regulations with respect to individual loans and has partnered with the Department of Justice ("DOJ") in filing lawsuits against lenders for systemic violations. The penalties resulting from such lawsuits can be much more severe, since systemic violations can be applied to groups of loans and penalties may be subject to treble damages. The DOJ has used the Federal False Claims Act and other federal laws and regulations in prosecuting these lawsuits. Because of our significant origination of FHA/HUD insured and VA guaranteed loans, if the DOJ were to find potential violations by the Bank, we could be subject to material monetary penalties and/or losses, and may even be subject to lawsuits alleging systemic violations which could result in treble damages.

We may face risk of loss if we purchase loans from a seller that fails to satisfy its indemnification obligations.

We generally receive representations and warranties from the originators and sellers from whom we purchase loans and servicing rights such that if a loan defaults and there has been a breach of such representations and warranties, we may be able to pursue a remedy against the seller of the loan for the unpaid principal and interest on the defaulted loan. However, if the originator and/or seller breach such representations and warranties and does not have the financial capacity to pay the related damages, we may be subject to the risk of loss for such loan as the originator or seller may not be able to pay such damages or repurchase loans when called upon by us to do so. Currently, we only purchase loans from WMS Series LLC, an affiliated business arrangement with certain Windermere real estate brokerage franchise owners.

Some provisions of our articles of incorporation and bylaws and certain provisions of Washington law may deter takeover attempts, which may limit the opportunity of our shareholders to sell their shares at a favorable price.

Some provisions of our articles of incorporation and bylaws may have the effect of deterring or delaying attempts by our shareholders to remove or replace management, to commence proxy contests, or to effect changes in control. These provisions include:

- A classified board of directors so that only approximately one third of our board of directors is elected each year;
- Elimination of cumulative voting in the election of directors;
- Procedures for advance notification of shareholder nominations and proposals;
- The ability of our board of directors to amend our bylaws without shareholder approval; and

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- The ability of our board of directors to issue shares of preferred stock without shareholder approval upon the terms and conditions and with the rights, privileges and preferences as the board of directors may determine.

In addition, as a Washington corporation, we are subject to Washington law which imposes restrictions on some transactions between a corporation and certain significant shareholders. These provisions, alone or together, could have the effect of deterring or delaying changes in incumbent management, proxy contests or changes in control.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

We lease principal offices, which are located in office space in downtown Seattle at 601 Union Street, Suite 2000, Seattle, WA 98101. This office lease provides sufficient space to conduct the management of our business. In addition, we currently lease space for all 94 of our office locations. We own several properties where our retail branches are or will be located including properties in Selah, Washington; Yakima, Washington; Riverside, California; an owned building on ground lease in Issaquah, Washington; as well as two other properties under contract to purchase in Kennewick, Washington and Tacoma, Washington. Our branches include separate lending and retail banking facilities, as well as combined facilities, primarily located in the Pacific Northwest, California and Hawaii.

ITEM 3 LEGAL PROCEEDINGS

Because the nature of our business involves the collection of numerous accounts, the validity of liens and compliance with various state and federal lending laws, we are subject to various legal proceedings in the ordinary course of our business related to foreclosures, bankruptcies, condemnation and quiet title actions and alleged statutory and regulatory violations. We are also subject to legal proceedings in the ordinary course of business related to employment matters. We do not expect that these proceedings, taken as a whole, will have a material adverse effect on our business, financial position or our results of operations. There are currently no matters that, in the opinion of management, would have a material adverse effect on our consolidated financial position, results of operation or liquidity, or for which there would be a reasonable possibility of such a loss based on information known at this time.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5 MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock began trading on the Nasdaq stock market on February 10, 2012 under the symbol “HMST.” Prior to that date, our common stock was not publicly traded. The following table sets forth, for the periods indicated, the high and low reported sales prices per share of the common stock as reported on the Nasdaq Global Select Market, our principal trading market.

	High	Low	Special Cash Dividends Declared
For the year ended December 31, 2014			
First quarter ended March 31	$20.91	$17.02	$0.11
Second quarter ended June 30	19.74	16.51	—
Third quarter ended September 30	19.21	16.90	—
Fourth quarter ended December 31	17.60	15.95	—
For the year ended December 31, 2013			
First quarter ended March 31	$28.73	$21.80	$—
Second quarter ended June 30	24.69	19.66	0.11
Third quarter ended September 30	23.17	18.97	0.11
Fourth quarter ended December 31	21.25	18.48	0.11

As of March 10, 2015, there were 2,692 shareholders of record of our common stock.

Dividend Policy

The Company declared a special cash dividend of $0.11 per share in each of the quarters ended June 30, 2013, September 30, 2013, December 31, 2013 and March 31, 2014.

The amount and timing of future dividends have not been determined. The payment of dividends will depend upon a number of factors, including regulatory capital requirements, the Company’s and the Bank’s liquidity, financial condition and results of operations, strategic growth plans, tax considerations, statutory and regulatory limitations and general economic conditions. The Company's ability to pay dividends to shareholders is significantly dependent on the Bank's ability to pay dividends to the Company, which is limited to the extent necessary for the Bank to meet the regulatory requirements of a “well-capitalized” bank or other formal or informal guidance communicated by our principal regulators. New capital rules implemented on January 1, 2015 have imposed more stringent requirements on the ability of the Bank to maintain “well-capitalized” status and to pay dividends to the Company. See “Regulation of Home Street Bank - Capital and Prompt Corrective Action Requirements - New Capital Rules.”

For the foregoing reasons, there can be no assurance that we will pay any further special dividends in any future period.

Sales of Unregistered Securities

Not applicable.

Stock Repurchases in the Fourth Quarter

Not applicable.

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Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of December 31, 2014, including the HomeStreet, Inc. 2014 Equity Incentive Plan (the “2014 Plan”), HomeStreet, Inc. 2010 Equity Incentive Plan (the “2010 Plan”) and the retention grants made in 2010 outside of the 2010 Plan but subject to the terms and conditions of that plan.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights		(b) Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights		(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))	
Plans approved by shareholders	685,790	(1)	$12.45	(2)	798,990	(3)(4)
Plans not approved by shareholders (5)	15,600	(5)	$0.97		N/A	
Total	701,390		$12.15		798,990	

(1) Consists of 591,699 shares subject to option grants awarded pursuant to the 2010 Plan, 35,766 shares subject to Restricted Stock Units awarded under the 2014 Plan and 58,325 shares issuable under Performance Share Units awarded under the 2014 Plan, assuming maximum performance goals are met under such awards, resulting in the issuance of the maximum number of shares allowed under those awards.

(2) Shares issued on vesting of Restricted Stock Units and Performance Stock Units under the 2014 Plan are done without payment by the participant of any additional consideration and therefore have been excluded from this calculation. The weighted average exercise price reflects only the exercise price of the options issued under the 2010 Plan that are still outstanding as of the date of his table.

(3) Consists of shares remaining available for issuance under the 2014 Plan.

(4) The 2014 Plan was approved by our shareholders at our last annual meeting and became effective immediately following that meeting on May 29, 2014. The 2014 Plan replaced both the 2010 Plan and the 2011 Plan, which were terminated at that time. While the terms of the 2010 Plan remains in effect for any awards issued under that plan that are still outstanding, new awards may not be granted under the 2010 Plan and the 100,752 shares remaining available for issuance at the time of its termination were added to the pool of shares available for issuance under the 2014 Plan. No awards remain outstanding under the 2011 Plan, and the 148,905 shares remaining available for issuance at the time of termination of that plan were also added to the shares available for issuance under the 2014 Plan.

(5) Consists of retention equity awards granted in 2010 outside of the 2010 Plan but subject to its terms and conditions.

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Stock Performance Graph

This performance graph shall not be deemed "soliciting material" or to be "filed" with the SEC for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of HomeStreet, Inc. under the Securities Act of 1933, as amended, or the Exchange Act.
The following graph shows a comparison from February 10, 2012 (the date our common stock commenced trading on the Nasdaq Stock Market) through December 31, 2014 of the cumulative total return for our common stock, the KBW Bank Index (BKX) and the Russell 2000 (RUT) Index. The graph assumes that $100 was invested at the market close on February 10, 2012 in the common stock of HomeStreet, Inc., the KBW Bank Index and the Russell 2000 Index and data for the KBW Bank Index and the Russell 2000 Index assumes reinvestments of dividends. The stock price performance of the following graph is not necessarily indicative of future stock price performance.

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ITEM 6 SELECTED FINANCIAL DATA

The data set forth below should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Consolidated Financial Condition and Results of Operations,” and the Consolidated Financial Statements and Notes thereto appearing at Item 8 of this report.

The following table sets forth selected historical consolidated financial and other data for us at and for each of the periods ended as described below. The selected historical consolidated financial data as of December 31, 2014 and 2013 and for each of the years ended December 31, 2014, 2013 and 2012 have been derived from, and should be read together with, our audited consolidated financial statements and related notes included elsewhere in this Form 10-K. The selected historical consolidated financial data as of December 31, 2012, 2011 and 2010 and for each of the years ended December 31, 2011 and 2010 have been derived from our audited consolidated financial statements for those years, which are not included in this Form 10-K. You should read the summary selected historical consolidated financial and other data presented below in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and the notes thereto, which are included elsewhere in this Form 10-K. We have prepared our unaudited information on the same basis as our audited consolidated financial statements and have included, in our opinion, all adjustments that we consider necessary for a fair presentation of the financial information set forth in that information.

	At or for the Year Ended December 31,				
(dollars in thousands, except share data)	2014	2013	2012	2011	2010
Income statement data (for the period ended):					
Net interest income	$98,669	$74,444	$60,743	$48,494	$39,276
Provision for credit losses	(1,000)	900	11,500	3,300	37,300
Noninterest income	185,657	190,745	238,020	97,205	90,474
Noninterest expense	252,011	229,495	183,591	126,494	126,000
Income (loss) before income taxes	33,315	34,794	103,672	15,905	(33,550)
Income tax expense (benefit)	11,056	10,985	21,546	(214)	697
Net income (loss)	$22,259	$23,809	$82,126	$16,119	$(34,247)
Basic income (loss) per share[(1)]	$1.50	$1.65	$6.17	$2.98	$(6.34)
Diluted income (loss) per share [(1)]	$1.49	$1.61	$5.98	$2.80	$(6.34)
Common shares outstanding [(1)]	14,856,611	14,799,991	14,382,638	5,403,498	5,403,498
Weighted average number of shares outstanding:					
Basic	14,800,689	14,412,059	13,312,939	5,403,498	5,403,498
Diluted	14,961,081	14,798,168	13,739,398	5,748,342	5,403,498
Book value per share	$20.34	$17.97	$18.34	$15.99	$10.88
Dividends per share	$0.11	$0.33	$—	$—	$—
Financial position (at year end):					
Cash and cash equivalents	$30,502	$33,908	$25,285	$263,302	$72,639
Investment securities	455,332	498,816	416,517	329,242	313,715
Loans held for sale	621,235	279,941	620,799	150,409	212,602
Loans held for investment, net	2,099,129	1,871,813	1,308,974	1,300,873	1,538,521
Mortgage servicing rights	123,324	162,463	95,493	77,281	87,232
Other real estate owned	9,448	12,911	23,941	38,572	170,455
Total assets	3,535,090	3,066,054	2,631,230	2,264,957	2,485,697
Deposits	2,445,430	2,210,821	1,976,835	2,009,755	2,129,742
Federal Home Loan Bank advances	597,590	446,590	259,090	57,919	165,869

Federal funds purchased and securities sold under agreements to repurchase	50,000	—	—	—	—
Total shareholders' equity	$302,238	$265,926	$263,762	$86,407	$58,789

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(dollars in thousands, except share data)	At or for the Year Ended December 31, 2014		2013		2012		2011		2010	
Financial position (averages):										
Investment securities	$459,060		$515,000		$410,819		$306,813		$457,930	
Loans held for investment	1,890,537		1,496,146		1,303,010		1,477,976		1,868,035	
Total interest earning assets	2,869,414		2,422,136		2,167,363		2,069,858		2,642,693	
Total interest-bearing deposits	1,883,622		1,661,568		1,644,859		1,814,464		2,071,237	
Federal Home Loan Bank advances	431,623		293,871		93,325		93,755		382,083	
Total interest-bearing liabilities	2,386,537		2,020,613		1,817,847		1,970,725		2,522,767	
Shareholders’ equity	$289,420		$249,081		$211,329		$68,537		$89,267	
Financial performance:										
Return on average shareholders' equity (2)	7.69	%	9.56	%	38.86	%	23.52	%	(38.00	)%
Return on average total assets	0.69	%	0.88	%	3.42	%	0.70	%	(1.19	)%
Net interest margin (3)	3.51	%	3.17	% (4)	2.89	%	2.36	%	1.50	%
Efficiency ratio (5)	88.63	%	86.54	%	61.45	%	86.82	%	97.24	%
Credit quality:										
Allowance for credit losses	$22,524		$24,089		$27,751		$42,800		$64,566	
Allowance for loan losses/total loans	1.04	%	1.26	%	2.06	%	3.18	%	4.00	%
Allowance for loan losses/nonaccrual loans	137.51	%	93.00	%	92.20	%	55.81	%	56.69	%
Total nonaccrual loans (6)	$16,014		$25,707		$29,892		$76,484		$113,210	
Nonaccrual loans/total loans	0.75	%	1.36	%	2.24	%	5.69	%	7.06	%
Other real estate owned	$9,448		$12,911		$23,941		$38,572		$170,455	
Total nonperforming assets	$25,462		$38,618		$53,833		$115,056		$283,665	
Nonperforming assets/total assets	0.72	%	1.26	%	2.05	%	5.08	%	11.41	%
Net charge-offs	$565		$4,562		$26,549		$25,066		$83,156	
Regulatory capital ratios for the bank:										
Tier 1 leverage capital (to average assets)	9.38	%	9.96	%	11.78	%	6.04	%	4.52	%
Tier 1 risk-based capital (to risk-weighted assets)	13.10	%	14.12	%	18.05	%	9.88	%	6.88	%
Total risk-based capital (to risk-weighted assets)	14.03	%	15.28	%	19.31	%	11.15	%	8.16	%
SUPPLEMENTAL DATA:										
Loans serviced for others:										
Single family	$11,216,208		$11,795,621		$8,870,688		$6,885,285		$6,343,158	
Multifamily	752,640		720,429		727,118		758,535		776,671	
Other	82,354		95,673		53,235		56,785		58,765	
Total loans serviced for others	$12,051,202		$12,611,723		$9,651,041		$7,700,605		$7,178,594	
Loan origination activity:										
Single family	$4,697,767		$4,852,879		$4,901,073		$1,721,264		$2,069,144	
Other	967,500		603,271		255,435		150,401		120,058	
Total loan origination activity	$5,665,267		$5,456,150		$5,156,508		$1,871,665		$2,189,202	

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(1) Share and per share data shown after giving effect to the 2-for-1 forward stock splits effective March 6, 2012 and November 5, 2012 , as well as the 1-for-2.5 reverse stock split effective July 19, 2011.
(2) Net earnings (loss) available to common shareholders divided by average common shareholders' equity.
(3) Net interest income divided by total average earning assets on a tax equivalent basis.
(4) Net interest margin for the year ended December 31, 2013 included $1.4 million in interest expense related to the correction of the cumulative effect of an error in prior years, resulting from the under accrual of interest due on the TruPS for which the Company had deferred the payment of interest. Excluding the impact of the prior period interest expense correction, the net interest margin was 3.23% for the year ended December 31, 2013.
(5) The efficiency ratio is noninterest expense divided by total revenue (net interest income and noninterest income).
(6) Generally, loans are placed on nonaccrual status when they are 90 or more days past due.

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ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the "Selected Consolidated Financial Data" and the Consolidated Financial Statements and the related Notes included in Items 6 and 8 of this Form 10-K. The following discussion contains statements using the words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will" and "would" and similar expressions (or the negative of these terms) generally identify forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company and are subject to risks and uncertainties, including, but not limited to, those discussed below and elsewhere in this Form 10-K, particularly in Item 1A "Risk Factors" that could cause actual results to differ significantly from those projected. Although we believe that expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We do not intend to update any of the forward-looking statements after the date of this Form 10-K 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-K.

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 annual report on Form 10-K.

Management's Overview of 2014 Financial Performance

HomeStreet is a diversified financial services company founded in 1921 and headquartered in Seattle, Washington, serving customers primarily in the Pacific Northwest, California and Hawaii. HomeStreet, Inc. is principally engaged in real estate lending, including mortgage banking activities, and commercial and consumer banking. Our primary subsidiaries are HomeStreet Bank and HomeStreet Capital Corporation. The Bank is a Washington state-chartered savings bank that provides mortgage and commercial loans, deposit products and services, non-deposit investment products, private banking and cash management services. Our primary loan products include single family residential mortgages, loans secured by commercial real estate, construction loans for residential and commercial real estate projects, commercial business loans and agricultural loans. HomeStreet Capital Corporation, a Washington corporation, originates, sells and services multifamily mortgage loans under the Fannie Mae Delegated Underwriting and Servicing Program ("DUS®")[1] in conjunction with HomeStreet Bank. Doing business as HomeStreet Insurance Agency, we provide insurance products and services for consumers and businesses. We also offer single family home loans through our partial ownership in an affiliated business arrangement with WMS Series LLC, whose businesses are known as Windermere Mortgage Services and Penrith Home Loans.

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 earn noninterest income from the origination, sale and servicing of loans and from fees earned on deposit services and investment and insurance sales.

At December 31, 2014, we had total assets of $3.54 billion, net loans held for investment of $2.10 billion, deposits of $2.45 billion and shareholders' equity of $302.2 million. At December 31, 2013, we had total assets of $3.07 billion, net loans held for investment of $1.87 billion, deposits of $2.21 billion and shareholders' equity of $265.9 million.

In 2014, we continued to execute our strategy of diversifying earnings by expanding the commercial and consumer banking business; growing our mortgage banking market share in existing and new markets; growing and improving the quality of our deposits; and bolstering our processing, compliance and risk management capabilities. Despite substantial growth in home loan centers and mortgage production personnel, our production volume was less than expected due in part to macroeconomic forces and substantial volatility in our single family residential mortgage lending markets caused by a sharp drop in refinance activity since mid-2013 and by very low inventory of homes for sale in most of our lending markets. With the decrease in interest rates in recent months, we have experienced a stronger refinance and purchase mortgage market. However, the lack of housing inventory had the effect of dramatically reducing mortgage loan production compared to what it otherwise may have been through the end of 2014. Further, it resulted in elevated costs, as a significant amount of loan processing and underwriting resources were devoted to qualifying borrowers for mortgage loan transactions that were never consummated. However, we do not anticipate the lack of inventory of homes for sale will continue to have a significant impact on our mortgage loan origination volume in the first quarter of 2015.

Results for 2014 reflect the growth of our mortgage banking business and investments made to expand our commercial and consumer banking business. During 2014, we increased our lending capacity by adding loan origination and operations

(1) DUS® is a registered trademark of Fannie Mae.

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personnel in single family lending, commercial real estate lending, and commercial business lending, and opened 11 mortgage loan origination offices and three de novo retail deposit branches.

Consolidated Financial Performance

	Year Ended December 31,		
(in thousands, except per share data and ratios)	2014	2013	2012
Selected statement of operations data			
Total net revenue[1]	$284,326	$265,189	$298,763
Total noninterest expense	252,011	229,495	183,591
Provision (reversal of reserve) for credit losses	(1,000)	900	11,500
Income tax expense	11,056	10,985	21,546
Net income	22,259	23,809	82,126
Financial performance			
Diluted income per share	$1.49	$1.61	$5.98
Return on average shareholders' equity	7.69%	9.56%	38.86%
Return on average total assets	0.69%	0.88%	3.42%
Net interest margin	3.51%	3.17%[2]	2.89%
Capital ratios (Bank only)			
Tier 1 leverage capital (to average assets)	9.38%	9.96%	11.78%
Tier 1 risk-based capital (to risk-weighted assets)	13.10%	14.12%	18.05%
Total risk-based capital (to risk-weighted assets)	14.03%	15.28%	19.31%

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

(2) Net interest margin for the year ended December 31, 2013 included $1.4 million in interest expense related to the correction of the cumulative effect of an error in prior years, resulting from the under accrual of interest due on the Trust Preferred Securities ("TruPS") for which the Company had deferred the payment of interest. Excluding the impact of the prior period interest expense correction, the net interest margin was 3.23% for the year ended December 31, 2013.

For 2014, we reported net income of $22.3 million, or $1.49 per diluted share, compared to $23.8 million, or $1.61 per diluted share, for 2013. Net interest margin was 3.51% for 2014, compared to 3.17% for 2013. Return on average equity was 7.69% for 2014, compared to 9.56% for 2013, while the return on average assets was 0.69% for 2014, compared to 0.88% for 2013.

Commercial and Consumer Banking Segment Results

Commercial and Consumer Banking segment net income increased to $14.7 million for the year ended December 31, 2014 from $6.0 million for the year ended December 31, 2013, primarily due to increased net interest income, reflecting higher average balances of portfolio loans and lower provision for credit losses due to improvement in our loan credit quality.

Commercial and Consumer Banking segment net interest income was $82.0 million for the year ended December 31, 2014, an increase of $22.8 million, or 38.6%, from $59.2 million for the year ended December 31, 2013, primarily due to higher average balances of and higher yields on portfolio loans, as well as improved composition of deposit balances. The continued improvement in the composition of deposits was primarily the result of our successful efforts to attract transaction and savings deposit balances through effective brand marketing.

In recognition of our improving credit trends and lower charge-offs, we recorded a $1.0 million reversal to the provision for loan losses for the year ended December 31, 2014, compared to a provision for loan losses of $900 thousand for the year ended December 31, 2013. Net charge-offs were $565 thousand in 2014, compared to $4.6 million in 2013. Overall, the allowance for loan losses (which excludes the allowance for unfunded commitments) was 1.04% of loans held for investment at December 31, 2014, compared to 1.26% at December 31, 2013, which primarily reflected the improved credit quality of the Company's loan portfolio. Excluding acquired loans, the allowance for loan losses as a percentage of total loans was 1.10% at December 31, 2014, compared to 1.40% of total loans at December 31, 2013. Nonperforming assets of $25.5 million, or 0.72%

of total assets at December 31, 2014, were down significantly from December 31, 2013 when nonperforming assets were $38.6 million, or 1.26% of total assets.

Mortgage Banking Segment Results

Mortgage Banking segment net income was $7.5 million for the year ended December 31, 2014, compared to net income of $17.8 million for the year ended December 31, 2013. The decrease in net income was primarily the result of lower gain on sale margins.

Mortgage Banking noninterest income of $167.0 million for the year ended December 31, 2014 decreased $8.7 million, or 4.9%, from $175.7 million for the year ended December 31, 2013, primarily due to lower gain on sale margins on our mortgage loan production. Our single family mortgage interest rate lock commitments of $4.34 billion in 2014 increased 11.2%, compared to $3.91 billion in the 2013. However, we experienced lower gain on sale margins on our interest rate lock commitments during 2014 compared to 2013. Rising mortgage interest rates beginning in the second quarter of 2013 caused a significant decrease in refinancing activity that was only partially offset by a slightly stronger purchase mortgage market. At the same time, the mortgage market became substantially more competitive as lenders tried to secure a reliable flow of production through competitive pricing. Partially offsetting these decreases was increases to noninterest income due to increases in the fair value of MSRs resulting from slower than expected long-term prepayment speeds.

Mortgage Banking noninterest expense of $172.2 million for the year ended December 31, 2014 increased $8.8 million, or 5.4%, from $163.4 million for the year ended December 31, 2013, primarily due to increased salaries and related costs, as well as occupancy and information services expenses related to the addition of approximately 84 mortgage originators and mortgage fulfillment personnel as we grew our single family mortgage lending network.

Regulatory Matters

The Bank remains well-capitalized, with Tier 1 leverage and total risk-based capital ratios at December 31, 2014 of 9.38% and 14.03%, respectively, compared with 9.96% and 15.28% at December 31, 2013.

On January 1, 2015, the Company and the Bank became subject to new capital standards commonly referred to as “Basel III” which raised our minimum capital requirements. For more on the Basel III requirements as they apply to us, please see “Capital Management – New Capital Regulations" within the Liquidity and Capital Resources section of this Form 10-K. In preparation for the higher capital targets under these new regulatory requirements and to better diversify our balance sheet and improve our risk profile, we sold single family mortgage loans that previously were held for investment and sold single family mortgage servicing rights during the first half of 2014.

Recent Developments

On March 1, 2015, the Company completed its acquisition of Simplicity Bancorp, Inc., a Maryland corporation (“Simplicity”) and Simplicity’s wholly owned subsidiary, Simplicity Bank. The acquisition was accomplished by the merger of Simplicity with and into HomeStreet, Inc. with HomeStreet, Inc. as the surviving corporation, followed by the merger of Simplicity Bank with and into HomeStreet Bank with HomeStreet Bank as the surviving subsidiary. The results of operations of Simplicity will be included in the consolidated results of operations from the date of acquisition. The merger represents a significant expansion of HomeStreet’s commercial and consumer banking activities in Southern California.

Under the terms of the 100% stock agreement, Simplicity stockholders received one share of HomeStreet common stock for each share owned of Simplicity common stock.

As a result of the March 1, 2015 merger with Simplicity Bank, we expect an improvement in the capital ratios of the Company and the Bank under the new Basel III capital rules compared to what they otherwise may have been.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with the accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expense in the financial statements. Various elements of our accounting policies, by their nature, involve the application of highly sensitive and judgmental estimates and assumptions. Some of these policies and estimates relate to matters that are highly complex and contain inherent uncertainties. It is possible that, in some instances,

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different estimates and assumptions could reasonably have been made and used by management, instead of those we applied, which might have produced different results that could have had a material effect on the financial statements.

We have identified the following accounting policies and estimates that, due to the inherent judgments and assumptions and the potential sensitivity of the financial statements to those judgments and assumptions, are critical to an understanding of our financial statements. We believe that the judgments, estimates and assumptions used in the preparation of the Company's financial statements are appropriate. For a further description of our accounting policies, see Note 1–Summary of Significant Accounting Policies in the financial statements included in this Form 10-K.

Allowance for Loan Losses

The allowance for loan losses represents management’s estimate of incurred credit losses inherent within our loan portfolio. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan losses in those future periods.

We employ a disciplined process and methodology to establish our allowance for loan losses that has two basic components: first, an asset-specific component involving the identification of impaired loans and the measurement of impairment for each individual loan identified; and second, a formula-based component for estimating probable principal losses for all other loans.

An asset-specific allowance for impaired loans is established based on the amount of impairment calculated on those loans and charging off amounts determined to be uncollectible. A loan is considered impaired when it is probable that all contractual principal and interest payments due will not be collected substantially in accordance with the terms of the loan agreement. Factors we consider in determining whether a loan is impaired include payment status, collateral value, borrower financial condition, guarantor support and the probability of collecting scheduled principal and interest payments when due.

When a loan is identified as impaired, impairment is measured as the difference between the recorded investment in the loan and the present value of expected future cash flows discounted at the loan’s effective interest rate or based on the loan’s observable market price. For impaired collateral-dependent loans, impairment is measured as the difference between the recorded investment in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with our appraisal policy, the fair value of impaired collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers, which generally are updated every twelve months. We require an independent third-party appraisal at least annually for substandard loans and other real estate owned ("OREO"). Once a third-party appraisal is six months old, or if our chief appraiser determines that market conditions, changes to the property, changes in intended use of the property or other factors indicate that an appraisal is no longer reliable, we perform an internal collateral valuation to assess whether a change in collateral value requires an additional adjustment to carrying value. A collateral valuation is a restricted-use report prepared by our internal appraisal staff in accordance with our appraisal policy. Upon the receipt of an updated appraisal or collateral valuation, loan impairments are remeasured and recorded. If the calculated impairment is determined to be permanent, fixed or nonrecoverable, the impairment will be charged off. Loans designated as impaired are generally placed on nonaccrual and remain in that status until all principal and interest payments are current and the prospects for future payments in accordance with the loan agreement are reasonably assured, at which point the loan is returned to accrual status. See "Credit Risk Management – Asset Quality and Nonperforming Assets” discussions within Management's Discussion and Analysis of this Form 10-K.

In estimating the formula-based component of the allowance for loan losses, loans are segregated into loan classes. Loans are designated into loan classes based on loans pooled by product types and similar risk characteristics or areas of risk concentration. Credit loss assumptions are estimated using a model that categorizes loan pools based on loan type and asset quality rating ("AQR") or delinquency bucket. This model calculates an expected loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by AQR or delinquency buckets using one-year analysis periods, and the potential severity of loss, based on the aggregate net lifetime losses incurred per loan class.

The formula-based component of the allowance for loan losses also considers qualitative factors for each loan class, including the following changes in:

- lending policies and procedures;
- international, national, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;

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- the nature of the loan portfolio, including the terms of the loans;
- the experience, ability and depth of the lending management and other relevant staff;
- the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- the quality of our loan review and process;
- the value of underlying collateral for collateral-dependent loans;
- the existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

Qualitative factors are expressed in basis points and are adjusted downward or upward based on management's judgment as to the potential loss impact of each qualitative factor to a particular loan pool at the date of the analysis.

The provision for loan losses recorded through earnings is based on management's assessment of the amount necessary to maintain the allowance for loan losses at a level appropriate to cover probable incurred losses inherent within the loans held for investment portfolio. The amount of provision and the corresponding level of allowance for loan losses are based on our evaluation of the collectability of the loan portfolio based on historical loss experience and other significant qualitative factors.

The allowance for loan losses, as reported in our consolidated statements of financial condition, is adjusted by a provision for loan losses, which is recognized in earnings, and reduced by the charge-off of loan amounts, net of recoveries. For further information on the allowance for loan losses, see Note 5–Loans and Credit Quality in the notes to the financial statements of this Form 10-K.

Fair Value of Financial Instruments, Single Family MSRs and OREO

A portion of our assets are carried at fair value, including single family mortgage servicing rights, single family loans held for sale, interest rate lock commitments, investment securities available for sale and derivatives used in our hedging programs. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value is based on quoted market prices, when available. If a quoted price for an asset or liability is not available, the Company uses valuation models to estimate its 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. We believe our 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.

A three-level valuation hierarchy has been established under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820 for disclosure of fair value measurements. The valuation hierarchy is based on the observability of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The levels are defined as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability for substantially the full term of the financial instrument.

- Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Company’s assumptions of what market participants would use in pricing the asset or liability.

Significant judgment is required to determine whether certain assets and liabilities measured at fair value are included in Level 2 or Level 3. When making this judgment, we consider all available information, including observable market data, indications

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of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs used. The classification of Level 2 or Level 3 is based upon the specific facts and circumstances of each instrument or instrument category and judgments are made regarding the significance of the Level 3 inputs to an instrument's fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3.

As of December 31, 2014, our Level 3 recurring fair value measurements consisted of single family MSRs and interest rate lock commitments.

On a quarterly basis, our 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, at least annually ALCO obtains an independent review of the MSR valuation process and procedures, including a review of the model architecture and the valuation assumptions. We obtain an MSR valuation from an independent valuation firm monthly to assist with the validation of our fair value estimate and the reasonableness of the assumptions used in measuring fair value.

In addition to the recurring fair value measurements, from time to time the Company may have certain nonrecurring fair value measurements. These fair value measurements usually result from the application of lower of cost or fair value accounting or impairment of individual assets. As of December 31, 2014 and 2013, the Company's Level 3 nonrecurring fair value measurements were based on the appraised value of collateral used as the basis for the valuation of collateral dependent loans held for investment and OREO.

Real estate valuations are overseen by our appraisal department, which is independent of our lending and credit administration functions. The appraisal department maintains the appraisal policy and recommends changes to the policy subject to approval by the Credit Committee of the Company's Board of Directors and Company's Loan Committee (the "Loan Committee"), established by the Credit Committee of the Company's Board of Directors and comprised of certain of the Company's management. Appraisals are prepared by independent third-party appraisers and our internal appraisers. Appraisals are reviewed either by our in-house appraisal staff or by independent and qualified third-party appraisers.

For further information on the fair value of financial instruments, single family MSRs and OREO, see Note 1–Summary of Significant Accounting Policies, Note 12–Mortgage Banking Operations and Note 17–Fair Value Measurements in the notes to the financial statements of this Form 10-K.

Income Taxes

In establishing an income tax provision, we must make judgments and interpretations about the application of inherently complex tax laws. We must also make estimates about when in the future certain items will affect taxable income. Our interpretations may be subject to review during examination by taxing authorities and disputes may arise over the respective tax positions. We monitor tax authorities and revise our estimates of accrued income taxes due to changes in income tax laws and their interpretation by the courts and regulatory authorities on a quarterly basis. Revisions of our estimate of accrued income taxes also may result from our own income tax planning and strategies and from the resolution of income tax controversies. Such revisions in our estimates may be material to our operating results for any given reporting period.

Income taxes are accounted for using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, a deferred tax asset or liability is determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent it is believed that these assets will more likely than not be realized. In making such determination, management considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. After reviewing and weighing all of the positive and negative evidence, if the positive evidence outweighs the negative evidence, then the Company does not record a valuation allowance for deferred tax assets. If the negative evidence outweighs the positive evidence, then a valuation allowance for all or a portion of the deferred tax assets is recorded.

The Company recognizes interest and penalties related to unrecognized tax benefits as income tax expense in the consolidated statements of operations. Accrued interest and penalties are included within the related tax liability line in the consolidated statements of financial condition. For further information regarding income taxes, see Note 14–Income Taxes to the financial statements of this Form 10-K.

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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:

	Year Ended December 31,							
	2014				2013			
(in thousands)	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Assets								
Interest-earning assets [1]								
Cash and cash equivalents	$31,137	$58	0.18	%	$29,861	$73	0.24	%
Investment securities	459,060	12,945	2.82		515,000	14,608	2.84	
Loans held for sale	488,680	18,569	3.80		381,129	14,180	3.72	
Loans held for investment	1,890,537	81,659	4.32		1,496,146	62,384	4.17	
Total interest-earning assets	2,869,414	113,231	3.95		2,422,136	91,245	3.77	
Noninterest-earning assets [2]	335,037				296,078			
Total assets	$3,204,451				$2,718,214			
Liabilities and shareholders' equity								
Deposits								
Interest-bearing demand accounts	$270,634	$939	0.35	%	$238,552	$925	0.38	%
Savings accounts	173,678	937	0.54		122,602	545	0.44	
Money market accounts	980,045	4,361	0.45		810,666	3,899	0.48	
Certificate accounts	459,265	3,195	0.70		489,748	5,053	1.03	
Total interest-bearing deposits	1,883,622	9,432	0.50		1,661,568	10,422	0.64	
Federal Home Loan Bank advances	431,623	1,990	0.46		293,871	1,532	0.52	
Securities sold under agreements to repurchase	8,977	22	0.25		2,721	11	0.40	
Long-term debt	62,315	1,121	1.80		62,349	2,546 [3]	4.03	
Other borrowings	—	49	—		104	20	19.23	
Total interest-bearing liabilities	2,386,537	12,614	0.53		2,020,613	14,531	0.72	
Noninterest-bearing liabilities	528,494				448,520			
Total liabilities	2,915,031				2,469,133			
Shareholders' equity	289,420				249,081			
Total liabilities and shareholders' equity	$3,204,451				$2,718,214			
Net interest income [4]		$100,617				$76,714		
Net interest spread			3.42	%			3.05	%
Impact of noninterest-bearing sources			0.09	%			0.12	%
Net interest margin			3.51	%			3.17	%

(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) Interest expense for the year ended December 31, 2013 included $1.4 million recorded in the first quarter of 2013 related to the correction of the cumulative effect of an error in prior years, resulting from the under accrual of interest due on our Trust Preferred Securities for which the Company had deferred payment of interest. Excluding the impact of the prior period interest expense correction, the net interest margin was 3.23%.

(4) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of $1.9 million and $2.3 million for the years ended 2014 and 2013, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

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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 unpaid interest receivable against interest income and amortization of any net deferred fees is suspended. 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 $2.8 million and $4.6 million for the years ended December 31, 2014 and 2013, respectively.

Rate and Volume Analysis

The following table presents the extent to which changes in interest rates and changes in the volume of our interest-earning assets and interest-bearing liabilities have affected our interest income and interest expense, excluding interest income from nonaccrual loans. Information is provided in each category with respect to: (1) changes attributable to changes in volume (changes in volume multiplied by prior rate), (2) changes attributable to changes in rate (changes in rate multiplied by prior volume), (3) changes attributable to changes in rate and volume (change in rate multiplied by change in volume), which were allocated in proportion to the percentage change in average volume and average rate and included in the relevant column and (4) the net change.

(in thousands)	Year Ended December 31, 2014 vs. 2013 Increase (Decrease) Due to Rate	Volume	Total Change
Assets			
Interest-earning assets			
Cash and cash equivalents	$(19)	$3	$(16)
Investment securities	(75)	(1,588)	(1,663)
Loans held for sale	388	4,002	4,390
Loans held for investment	2,829	16,446	19,275
Total interest-earning assets	3,123	18,863	21,986
Liabilities			
Deposits			
Interest-bearing demand accounts	(112)	125	13
Savings accounts	165	227	392
Money market accounts	(352)	815	463
Certificate accounts	(1,544)	(314)	(1,858)
Total interest-bearing deposits	(1,843)	853	(990)
Federal Home Loan Bank advances	(260)	718	458
Securities sold under agreements to repurchase	(14)	25	11
Long-term debt	(1,424)	(1)	(1,425)
Other borrowings	29	—	29
Total interest-bearing liabilities	(3,512)	1,595	(1,917)
Total changes in net interest income	$6,635	$17,268	$23,903

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Net Income

For the year ended 2014, we reported net income of $22.3 million, a decrease of $1.6 million, or 6.5%, compared to net income of $23.8 million in 2013. The decrease to net income in 2014 mainly resulted from a $22.5 million, or 9.8%, increase in noninterest expense compared to 2013, primarily due to increased salaries and related costs and increased information services costs as we continued to grow our business and market share in 2014. This decrease to net income was largely offset by a $24.2 million, or 32.5%, increase in net interest income in 2014 as a result of higher average balances of loans held for investment.

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 ("TruPS") and advances from the Federal Home Loan Bank of Seattle ("FHLB").

Net interest income on a tax equivalent basis was $100.6 million for the year ended December 31, 2014, an increase of $23.9 million, or 31.2%, from $76.7 million for the year ended December 31, 2013. During 2014, total interest income increased $22.0 million from 2013, while total interest expense decreased $1.9 million from 2013. The net interest margin for the year ended December 31, 2014 improved to 3.51% from 3.17% in 2013. Total average interest-earning assets increased in 2014 primarily as a result of growth in new portfolio loan originations, partially offset by a decrease in investment securities. Total average interest-bearing deposit balances increased from 2013 mostly as a result of an increase in transaction and savings deposits. The improvement in our net interest income and net interest margin in large part reflected the execution of our deposit product and pricing strategies, as growth in transaction and savings account balances partially offset maturities of higher yielding certificates of deposit. Additionally, we increased our net interest income through increased commercial portfolio lending as we continued to grow our Commercial and Consumer Banking segment.

Total average interest-earning assets increased in 2014, primarily as a result of growth in average loans held for investment, both from originations and from the fourth quarter 2013 acquisitions. Total average interest-bearing deposit balances increased from the prior periods primarily due to acquisition-related and organic growth in transaction and savings deposits.

Total interest income on a tax equivalent basis of $113.2 million in 2014 increased $22.0 million, or 24.1%, from $91.2 million in 2013, primarily resulting from higher average balances of loans held for investment, which increased $394.4 million, or 26.4%, from 2013. These increases were partially offset by a decrease in the average balance of investment securities, which decreased $55.9 million, or 10.9%, from 2013.

Total interest expense of $12.6 million in 2014 decreased $1.9 million, or 13.2%, from $14.5 million in 2013. This decrease was primarily due to a 33 basis point decline in the average interest rates paid on the average balances of certificates of deposit, partially offset by an increase in lower cost transaction and savings deposits as we expand our deposit branch network. Included in interest expense for 2013 was expense of $1.4 million related to the correction of the cumulative effect of an immaterial error in prior years, resulting from the under accrual of interest due on the TruPS for which the Company had deferred the payment of interest.

Provision for Loan Losses

Management believes that the Company’s allowance for loan losses is at a level appropriate to cover estimated incurred losses inherent within the loans held for investment portfolio. Our credit risk profile has improved since

December 31, 2013 as illustrated by the credit trends below.

In recognition of our improving credit trends and lower charge-offs, we recorded a reversal of provision for credit losses of $1.0 million in 2014, compared to a provision for credit losses of $900 thousand in 2013. Nonaccrual loans declined to $16.0 million at December 31, 2014, a decrease of $9.7 million, or 37.7%, from $25.7 million at December 31, 2013. Nonaccrual loans as a percentage of total loans was 0.75% at December 31, 2014, compared to 1.36% at December 31, 2013. Loan delinquencies also decreased, with total loans past due decreasing to 2.99% of loans held for investment at December 31, 2014, compared to 4.44% at December 31, 2013. Overall, the allowance for credit losses decreased to $22.5 million, or 1.06% of loans held for investment at December 31, 2014, down from $24.1 million, or 1.27% of total loans held for investment at December 31, 2013.

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Net charge-offs of $565 thousand for 2014 were down $4.0 million, or 87.6%, from net charge-offs of $4.6 million for 2013. For a more detailed discussion on our allowance for loan losses and related provision for loan losses, see "-Credit Risk Management" in this Form 10-K.

Noninterest Income

Noninterest income was $185.7 million for the year ended December 31, 2014, a decrease of $5.1 million, or 2.7%, from noninterest income of $190.7 million for 2013. Our noninterest income is heavily dependent upon our single family mortgage banking activities, which are comprised of mortgage origination and sale and mortgage servicing activities. The level of our mortgage banking activity fluctuates and is influenced by mortgage interest rates, the economy, employment, and housing supply and affordability, among other factors. The decrease in noninterest income in 2014 compared to 2013 was primarily the result of a $20.6 million decrease in net gain on mortgage loan origination and sale activities, partially offset by a $17.0 million increase in mortgage servicing income. Our single family mortgage interest rate lock commitments of $4.34 billion in 2014 increased 11.2%, compared to $3.91 billion in the 2013. However, we experienced lower gain on sale margins on our interest rate lock commitments during 2014 compared to 2013. Included in noninterest income for the year ended 2014 were a $4.7 million pre-tax net increase in mortgage servicing income resulting from the sale of MSRs and a $4.6 million pre-tax gain on single family mortgage origination and sale activities from the sale of loans that were originally held for investment. No similar transactions occurred in the year ended 2013.

Noninterest income consisted of the following:

(in thousands)	Year Ended December 31, 2014	2013	Dollar Change	Percentage Change
Net gain on mortgage loan origination and sale activities [1]	$144,122 [2]	$164,712	$(20,590)	(13)%
Mortgage servicing income	34,092 [3]	17,073	17,019	100
Income from WMS Series LLC	101	704	(603)	(86)
Loss on debt extinguishment	(573)	—	(573)	NM
Depositor and other retail banking fees	3,572	3,172	400	13
Insurance agency commissions	1,153	864	289	33
Gain on sale of investment securities available for sale	2,358	1,772	586	33
Other	832	2,448	(1,616)	(66)
Total noninterest income	$185,657	$190,745	$(5,088)	(3)%

NM=Not meaningful

(1) Single family and multifamily mortgage banking activities.

(2) Includes $4.6 million in pre-tax gain during 2014 from the sale of loans that were originally held for investment.

(3) Includes pre-tax income of $4.7 million, net of transaction costs, resulting from the sale of single family MSRs during 2014.

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

Net gain on mortgage loan origination and sale activities consisted of the following:

(in thousands)	Year Ended December 31, 2014	2013	Dollar Change	Percentage Change
Single family:				
Servicing value and secondary market gains (1)	$109,063	$128,391	$(19,328)	(15)%
Loan origination and funding fees	25,572	30,051	(4,479)	(15)
Total single family	134,635	158,442	(23,807)	(15)
Multifamily	4,723	5,306	(583)	(11)
Other	4,764 (2)	964	3,800	NM
Net gain on mortgage loan origination and sale activities	$144,122	$164,712	$(20,590)	(13)%

NM=Not meaningful

(1) Comprised of gains and losses on interest rate lock commitments (which considers the value of 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 $4.6 million in pre-tax gain during 2014 from the sale of loans that were originally held for investment.

Net gain on mortgage loan origination and sale activities was $144.1 million in 2014, a decrease of $20.6 million, or 12.5%, from $164.7 million in 2013. This decrease predominantly reflected substantially lower gain margins on interest rate lock commitments. Single family mortgage interest rate lock commitments increased 11.2% mainly due to the expansion of our mortgage lending operations, as we added approximately 84 mortgage origination and support personnel during 2014. Included in net gain on mortgage loan origination and sale activities for 2014 was a $4.6 million pre-tax gain on single family mortgage origination and sale activities from the sale of loans that were originally held for investment. No similar transactions occurred in 2013.

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

(in thousands)	Year Ended December 31, 2014	2013	Dollar Change	Percentage Change
Single family mortgage closed loan volume (1)	$4,400,617	$4,459,649	$(59,032)	(1)%
Single family mortgage interest rate lock commitments (1)	$4,344,248	$3,907,274	$436,974	11%

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

During 2014, single family closed loan production decreased 1.3%, and single family interest rate lock commitments increased 11.2% from 2013. The increase in interest rate lock commitments was mainly a result of the expansion of our mortgage lending operations.

The Company records a liability for estimated mortgage repurchase losses, which has the effect of reducing net gain on mortgage loan origination and sale activities. The following table presents the effect of changes in the Company's mortgage repurchase liability within the respective line items of net gain on mortgage loan origination and sale activities. For further information on the Company's mortgage repurchase liability, see Note 13, Commitments, Guarantees and Contingencies to the financial statements of this Form 10-K.

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(in thousands)	Year Ended December 31, 2014	2013
Effect of changes to the mortgage repurchase liability recorded in net gain on mortgage loan origination and sale activities:		
New loan sales [1]	$(1,570)	$(1,828)
Other changes in estimated repurchase losses [2]	140	—
	$(1,430)	$(1,828)

(1) Represents the estimated fair value of the repurchase or indemnity obligation recognized as a reduction of proceeds on new loan sales.
(2) Represents changes in estimated probable future repurchase losses on previously sold loans.

Mortgage servicing income consisted of the following:

(in thousands)	Year Ended December 31, 2014	2013	Dollar Change	Percent Change
Servicing income, net:				
Servicing fees and other	$37,818	$34,173	$3,645	11 %
Changes in fair value of MSRs due to modeled amortization [1]	(26,112)	(24,321)	(1,791)	7
Amortization	(1,712)	(1,803)	91	(5)
	9,994	8,049	1,945	24 %
Risk management:				
Changes in fair value of MSRs due to changes in model inputs and/or assumptions [2]	(15,629) [3]	29,456	(45,085)	(153)%
Net (loss) gain from derivatives economically hedging MSRs	39,727	(20,432)	60,159	(294)
	24,098	9,024	15,074	167
Mortgage servicing income	$34,092	$17,073	$17,019	100 %

(1) Represents changes due to collection/realization of expected cash flows and curtailments.
(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.
(3) Includes pre-tax income of $4.7 million, net of brokerage fees and prepayment reserves, resulting from the sale of single family MSRs during 2014.

For the year ended December 31, 2014, mortgage servicing income of $34.1 million increased $17.0 million from $17.1 million in 2013, primarily due to MSR sales, a lower housing turnover rate and improved MSR risk management results.

MSR risk management results represent changes in the fair value of single family MSRs due to changes in model inputs and assumptions net of the gain/(loss) from derivatives economically hedging MSRs. The fair value of MSRs is sensitive to changes in interest rates, primarily due to the effect on prepayment speeds. MSRs typically decrease in value when interest rates decline because declining interest rates tend to increase mortgage prepayment speeds and therefore reduce the expected life of the net servicing cash flows of the MSR asset. Certain other changes in MSR fair value relate to factors other than interest rate changes and are generally not within the scope of the Company's MSR economic hedging strategy. These factors may include but are not limited to the impact of changes to the housing price index, the level of home sales activity, changes to mortgage spreads, valuation discount rates, costs to service and policy changes by U.S. government agencies.

The net performance of our MSR risk management activities for 2014 was a gain of $24.1 million, compared to a gain of $9.0 million in 2013. The higher hedging gain in 2014 largely reflected higher sensitivity to interest rates for the Company's MSRs, which led the Company to increase the notional amount of derivative instruments used to economically hedge MSRs. The higher notional amount of derivative instruments, along with a steeper yield curve, resulted in higher net gains from MSR risk management, which positively impacted mortgage servicing income. In addition, MSR risk management results for 2014 reflected the impact on the fair value of MSRs of changes in model inputs and assumptions related to historically low long-term prepayment speeds (lower housing turnover rate) experienced throughout 2014.

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Mortgage servicing fees collected in 2014 were $37.8 million, an increase of $3.6 million, or 10.7%, from $34.2 million in 2013 primarily as a result of the higher average balances of the loans serviced for others portfolio during 2014. On June 30, 2014, we sold the rights to service $2.96 billion of single family mortgage loans, resulting in a loans serviced for others portfolio of $11.22 billion at December 31, 2014, compared to $11.80 billion at December 31, 2013. Mortgage servicing fees collected were negatively impacted in the short term because the balance of the loans serviced for others portfolio was reduced as a consequence of this sale.

Income from WMS Series LLC in 2014 was $101 thousand, compared to $704 thousand in 2013. The decrease in 2014 was primarily due to a 17.0% decrease in interest rate lock commitments and a 29.3% decrease in closed loan volume, which were $455.2 million and $491.3 million in 2014, respectively, compared to $548.7 million and $694.4 million in 2013.

Loss on debt extinguishment. We recorded a loss on debt extinguishment of $573 thousand in 2014 resulting from the retirement of certain TruPS that we acquired from our 2013 acquisition of Yakima National Bank compared to no loss in 2013.

Depositor and other retail banking fees for 2014 were relatively consistent with 2013 results. The following table presents the composition of depositor and other retail banking fees for the periods indicated.

	Year Ended December 31,		Dollar	Percent
(in thousands)	2014	2013	Change	Change
Monthly maintenance and deposit-related fees	$1,632	$1,568	$64	4 %
Debit Card/ATM fees	1,898	1,523	375	25
Other fees	42	81	(39)	(48)
Total depositor and other retail banking fees	$3,572	$3,172	$400	13 %

Noninterest Expense

Noninterest expense was $252.0 million in 2014, an increase of $22.5 million, or 9.8%, from $229.5 million in 2013. Included in noninterest expense were acquisition-related expenses of $3.1 million and $4.5 million in 2014 and 2013, respectively. The increase in noninterest expense was primarily the result of a $13.9 million increase in salaries and related costs and a $4.8 million increase in occupancy costs, primarily a result of the integration of our acquisitions, and a 7.3% growth in personnel in connection with our continued expansion of our mortgage banking and commercial and consumer banking businesses. These additions to personnel were partially offset by attrition and position eliminations in mortgage production, mortgage operations, and in commercial lending and administration. We eliminated some positions between the fourth quarter of 2013 and through most of 2014 in response to a slowdown in mortgage activity as well as the integration of our acquisitions and we expect such eliminations to improve efficiency and performance. Also contributing to increased noninterest expense was a $5.6 million increase in information services costs resulting from system upgrades and implementation. These increases in noninterest expense were partially offset by significantly lower net cost of operation and sale of other real estate owned ("OREO"), which was a gain of $470 thousand in 2014, a decrease of $2.3 million from OREO expense of $1.8 million in 2013.

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Noninterest expense consisted of the following:

(in thousands)	Year Ended December 31, 2014	2013	Dollar Change	Percentage Change
Noninterest expense				
Salaries and related costs	$163,387	$149,440	$13,947	9 %
General and administrative	42,833	40,366	2,467	6
Legal	2,071	2,552	(481)	(19)
Consulting	3,224	5,637	(2,413)	(43)
Federal Deposit Insurance Corporation assessments	2,316	1,433	883	62
Occupancy	18,598	13,765	4,833	35
Information services	20,052	14,491	5,561	38
Net cost of operation and sale of other real estate owned	(470)	1,811	(2,281)	(126)
Total noninterest expense	$252,011	$229,495	$22,516	10 %

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

Salaries and related costs were $163.4 million in 2014, an increase of $13.9 million, or 9.3%, from $149.4 million in 2013. The increase primarily resulted from a 7.3% net increase in full-time equivalent employees at December 31, 2014 compared to December 31, 2013, as well as a 1.7% increase in commissions and incentives paid to employees for 2014 due to the overall growth in our mortgage lending and commercial and consumer business lines.

General and administrative expense was $42.8 million in 2014, an increase of $2.5 million, or 6.1%, from $40.4 million in 2013. These expenses include general office and equipment expense, marketing, taxes and insurance. The increase in general and administrative expense in 2014 was primarily due to Company growth and increased marketing expenses.

Consulting expense was $3.2 million in 2014, a decrease of $2.4 million, or 42.8%, from $5.6 million in 2013, primarily due to less acquisition-related activities in 2014 compared to 2013.

Occupancy expense was $18.6 million in 2014, an increase of $4.8 million, or 35.1%, from $13.8 million in 2013 as we grew our mortgage banking business and consumer and commercial customer base with the opening of 11 new mortgage loan origination offices and three de novo retail deposit branches in 2014. Additionally, we added six retail deposit branches through acquisitions during the fourth quarter of 2013.

Information services expense was $20.1 million in 2014, an increase of $5.6 million, or 38.4%, from $14.5 million in 2013. This increase was primarily due to company-wide systems and tools upgrades and a 7.3% increase in headcount.

Net cost of operation and sale of other real estate owned was a gain of $470 thousand in 2014, improved by $2.3 million from expense of $1.8 million in 2013. OREO valuation adjustments were $69 thousand for 2014, compared to valuation adjustments of $603 thousand in 2013. Valuation adjustments to OREO balances declined with the reduction in the net balance of OREO properties in 2014. Lower balances of OREO properties also resulted in decreased maintenance expenses.

Income Tax Expense

The Company’s income tax expense for 2014 was $11.1 million, representing an effective tax rate of 33.2%. In 2013, the Company’s tax expense was $11.0 million, representing an effective tax rate of 31.6%. The effective rate rose from 2013 to 2014 due to tax exempt interest income constituting a smaller portion of total income, the adoption of new accounting standards for investments in low income housing partnerships, higher levels of permanently capitalized transaction costs related to mergers and acquisitions, and increases to taxable income in higher state tax jurisdictions. The 2014 effective tax rate of 33.2% differed from the federal statutory rate of 35.0% due to the impact of tax exempt interest income, the impact of investments in low income housing tax credit partnerships, permanently capitalized transaction costs related to the acquisition of Simplicity, and the impact of state taxes.

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Capital Expenditures

During 2014, our net expenditures for property and equipment were $19.9 million, compared to net expenditures of $22.8 million during 2013, as we continued to implement our strategic initiatives regarding the expansion of our mortgage banking and commercial and consumer businesses.

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Comparison of the year ended 2013 to the year ended 2012

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, for years ended December 31, 2013 and 2012 were as follows:

	Year Ended December 31,							
	2013				2012			
(in thousands)	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Assets								
Interest-earning assets [1]								
Cash and cash equivalents	$29,861	$73	0.24	%	$94,478	$231	0.24	%
Investment securities	515,000	14,608	2.84		410,819	11,040	2.69	
Loans held for sale	381,129	14,180	3.72		359,056	12,719	3.56	
Loans held for investment	1,496,146	62,384	4.17		1,303,010	58,490	4.49	
Total interest-earning assets	2,422,136	91,245	3.77		2,167,363	82,480	3.81	
Noninterest-earning assets [2]	296,078				236,497			
Total assets	$2,718,214				$2,403,860			
Liabilities and shareholders' equity								
Deposits								
Interest-bearing demand accounts	$238,552	$925	0.38	%	$151,029	$498	0.33	%
Savings accounts	122,602	545	0.44		90,246	395	0.44	
Money market accounts	810,666	3,899	0.48		613,546	3,243	0.53	
Certificate accounts	489,748	5,053	1.03		790,038	12,605	1.60	
Deposits	1,661,568	10,422	0.64		1,644,859	16,741	1.02	
Federal Home Loan Bank advances	293,871	1,532	0.52		93,325	1,788	1.91	
Securities sold under agreements to repurchase	2,721	11	0.40		17,806	70	0.39	
Long-term debt	62,349	2,546 [3]	4.03		61,857	1,333	2.16	
Other borrowings	104	20	19.23		—	16	—	
Total interest-bearing liabilities	2,020,613	14,531	0.72		1,817,847	19,948	1.10	
Other noninterest-bearing liabilities	448,520				374,684			
Total liabilities	2,469,133				2,192,531			
Shareholders' equity	249,081				211,329			
Total liabilities and shareholders' equity	$2,718,214				$2,403,860			
Net interest income [4]		$76,714				$62,532		
Net interest spread			3.05	%			2.71	%
Impact of noninterest-bearing sources			0.12	%			0.18	%
Net interest margin			3.17	%			2.89	%

(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.
(3) Interest expense for the year ended December 31, 2013 included $1.4 million recorded in the first quarter of 2013 related to the correction of the cumulative effect of an error in prior years, resulting from the under accrual of interest due on our Trust Preferred Securities for which the Company had deferred payment of interest. Excluding the impact of the prior period interest expense correction, the net interest margin was 3.23%.
(4) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of $2.3 million and $1.8 million for the years ended 2013 and 2012, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

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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 unpaid interest receivable against interest income and amortization of any net deferred fees is suspended. 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 $4.6 million and $6.2 million for the years ended December 31, 2013 and 2012, respectively.

Rate and Volume Analysis

The following table presents the extent to which changes in interest rates and changes in the volume of our interest-earning assets and interest-bearing liabilities affected our interest income and interest expense, excluding interest income from nonaccrual loans. Information is provided in each category with respect to: (1) changes attributable to changes in volume (changes in volume multiplied by prior rate), (2) changes attributable to changes in rate (changes in rate multiplied by prior volume), (3) changes attributable to changes in rate and volume (change in rate multiplied by change in volume), which were allocated in proportion to the percentage change in average volume and average rate and included in the relevant column and (4) the net change.

	Year Ended December 31, 2013 vs. 2012 Increase (Decrease) Due to		
(in thousands)	Rate	Volume	Total Change
Assets			
Interest-earning assets			
Cash & cash equivalents	$—	$(158)	$(158)
Investment securities	762	2,806	3,568
Loans held for sale	675	786	1,461
Loans held for investment	(4,775)	8,669	3,894
Total interest-earning assets	(3,338)	12,103	8,765
Liabilities			
Deposits			
Interest-bearing demand accounts	129	298	427
Savings accounts	8	142	150
Money market accounts	(386)	1,042	656
Certificate accounts	(1,819)	(5,970)	(7,789)
Total interest-bearing deposits	(2,068)	(4,488)	(6,556)
Federal Home Loan Bank advances	(4,079)	3,823	(256)
Securities sold under agreements to repurchase	(1)	(58)	(59)
Long-term debt	1,203	10	1,213
Other borrowings	—	241	241
Total interest-bearing liabilities	(4,945)	(472)	(5,417)
Total changes in net interest income	$1,607	$12,575	$14,182

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Net Income

For the year ended 2013, we reported net income of $23.8 million, a decrease of $58.3 million, or 71.0%, compared to net income of $82.1 million in 2012. The decline in net income in 2013 mainly resulted from a $47.3 million, or 19.9%, decrease in noninterest income compared to 2012, primarily due to a significantly lower gain on mortgage loan origination and sale activities resulting from a decline in single family mortgage loan production compared to the record production that the Company experienced in 2012. This decrease was partially offset by a $13.7 million increase in net interest income in 2013 mainly due to improved deposit product and pricing strategies that included reducing our higher-cost deposits and converting customers with maturing certificates of deposit to transaction and savings deposits. Additionally, we experienced a $45.9 million, or 25.0%, increase in noninterest expense as we continued to grow our business and market share in 2013 both organically and through acquisitions.

Net Interest Income

Net interest income on a tax equivalent basis was $76.7 million for the year ended December 31, 2013, an increase of $14.2 million, or 23%, from $62.5 million for the year ended December 31, 2012. During 2013, total interest income increased $8.8 million from 2012, while total interest expense decreased $5.4 million from 2012. The net interest margin for the year ended December 31, 2013 improved to 3.17% from 2.89% in 2012. Total average interest-earning assets increased in 2013 primarily as a result of growth in the investment securities portfolio and new portfolio loan originations, partially offset by a decrease in cash and cash equivalents mainly used to fund these investments. Total average interest-bearing deposit balances decreased from 2012 mostly as a result of a reduction in higher-cost retail certificates of deposits, partially offset by an increase in transaction and savings deposits. The improvement in our net interest income and net interest margin from 2012 to 2013 in large part reflected the execution of our deposit product and pricing strategies, as growth in transaction and savings account balances partially offset maturities of higher yielding certificates of deposit. Additionally, we increased our net interest income through increased commercial portfolio lending as we continued to grow our Commercial and Consumer Banking segment.

Total interest income on a tax equivalent basis of $91.2 million in 2013 increased $8.8 million, or 10.6%, from $82.5 million in 2012, primarily driven by higher average balances of portfolio loans and investment securities. Average balance of loans held for investment increased by $193.1 million, or 14.8%, and the average balance of investment securities increased $104.2 million, or 25.4%, from 2012 to 2013. We re-balanced our investment securities in 2013 with a shift toward higher-yielding municipal securities, which resulted in an increase in yield on investment securities of 15 basis points. These increases were partially offset by a decrease in the average balance of cash and cash equivalents, which decreased $64.6 million, or 68.4%, compared to 2012 and a lower yield on average loans held for investment, which decreased 32 basis points during 2013.

Total interest expense of $14.5 million in 2013 decreased $5.4 million, or 27%, from $19.9 million in 2012. This decrease was primarily due to a $300.3 million, or 38.0%, reduction in the average balance of higher-yielding certificates of deposit, partially offset by an increase in lower cost transaction and savings deposits as we expand our deposit branch network. Also contributing to the decrease in interest expense was the restructuring of FHLB advances. We prepaid certain long-term FHLB advances and used short-term FHLB advances in 2013 to meet short-term mortgage origination and sales funding needs, which contributed to a 139 basis point decline in interest cost on FHLB advances.

Provision for Loan Losses

Provision for credit losses was $900 thousand in 2013, compared to $11.5 million in 2012, reflecting the improved credit quality of the Company's loan portfolio from 2012. Nonaccrual loans declined to $25.7 million at December 31, 2013, a decrease of $4.2 million, or 14.0%, from $29.9 million at December 31, 2012. Nonaccrual loans as a percentage of total loans was 1.36% at December 31, 2013, compared to 2.24% at December 31, 2012. Criticized/classified loans declined to 5.01% of total loans at December 31, 2013 from 11.08% of total loans at December 31, 2012. Loan delinquencies also decreased, with total loans past due decreasing to 4.44% of loans held for investment at December 31, 2013, compared to 6.58% at December 31, 2012. Overall, the allowance for credit losses decreased to $24.1 million, or 1.27% of loans held for investment at December 31, 2013, down from $27.8 million, or 2.07% of total loans held for investment at December 31, 2012.

Net charge-offs of $4.6 million for 2013 were down $22.0 million, or 82.8%, from net charge-offs of $26.5 million for 2012. Net charge-offs during 2012 included an $11.8 million charge-off related to the settlement of collection litigation and resolution of certain related nonperforming construction/land development loans with aggregate carrying values of $26.6 million.

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Noninterest Income

Noninterest income was $190.7 million for the year ended December 31, 2013, a decrease of $47.3 million, or 19.9%, from noninterest income of $238.0 million for 2012. The decrease in noninterest income in 2013 compared to 2012 was primarily the result of lower net gain on mortgage loan origination and sale activities, mostly related to substantially lower refinancing activities that resulted mainly from increased mortgage interest rates, partially offset by growth in 2013 in our purchase mortgage transactions and the expansion of our mortgage lending operations.

Noninterest income consisted of the following:

(in thousands)	Year Ended December 31, 2013	2012	Dollar Change	Percentage Change
Net gain on mortgage loan origination and sale activities [1]	$ 164,712	$ 210,564	$ (45,852)	(22)%
Mortgage servicing income	17,073	16,121	952	6
Income from WMS Series LLC	704	4,264	(3,560)	(83)
Gain (loss) on debt extinguishment	—	(939)	939	(100)
Depositor and other retail banking fees	3,172	3,062	110	4
Insurance agency commissions	864	743	121	16
Gain on investment securities available for sale	1,772	1,490	282	19
Other	2,448	2,715	(267)	(10)
Total noninterest income	$ 190,745	$ 238,020	$ (47,275)	(20)%

(1) Single family and multifamily mortgage banking activities.

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

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

(in thousands)	Year Ended December 31, 2013	2012	Dollar Change	Percentage Change
Single family				
Servicing value and secondary market gains [1]	$ 128,391	175,655	$ (47,264)	(27)%
Loan origination and funding fees	30,051	30,037	14	—
Total single family	158,442	205,692	(47,250)	(23)
Multifamily	5,306	4,872	434	9
Other	964	—	964	NM
Net gain on mortgage loan origination and sale activities	$ 164,712	$ 210,564	$ (45,852)	(22)%

NM=Not meaningful

(1) Comprised of gains and losses on interest rate lock commitments (which considers the value of 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.

Net gain on mortgage loan origination and sale activities was $164.7 million in 2013, a decrease of $45.9 million, or 21.8%, from $210.6 million in 2012. This decrease predominantly reflected lower secondary market gains on our interest rate lock commitments. Interest rate lock commitments declined in 2013 mainly due to the rise in mortgage interest rates beginning in the second quarter of that year, causing a significant decrease in refinancing activity that was only partially offset by a slightly stronger purchase mortgage market. This impact was partially mitigated by the expansion of our mortgage lending operations as we added approximately 120 mortgage origination and support personnel during 2013.

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

(in thousands)	Year Ended December 31, 2013	2012	Dollar Change	Percentage Change
Single family mortgage closed loan volume [1]	$4,459,649	$4,668,167	$(208,518)	(4)%
Single family mortgage interest rate lock commitments [1]	$3,907,274	$4,786,667	$(879,393)	(18)%

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

During 2013, single family closed loan production decreased 4.5% and single family interest rate lock commitments decreased 18.4% from 2012 mainly as a result of higher mortgage interest rates during 2013. Our production mix continued to shift from the refinance mortgage market to the purchase mortgage market during 2013.

The Company records a liability for estimated mortgage repurchase losses, which has the effect of reducing net gain on mortgage loan origination and sale activities. The following table presents the effect of changes in the Company's mortgage repurchase liability within the respective line items of net gain on mortgage loan origination and sale activities. For further information on the Company's mortgage repurchase liability, see Note 13, Commitments, Guarantees and Contingencies to the financial statements of this Form 10-K.

(in thousands)	Year Ended December 31, 2013	2012
Effect of changes to the mortgage repurchase liability recorded in net gain on mortgage loan origination and sale activities:		
New loan sales [1]	$(1,828)	$(1,348)
Other changes in estimated repurchase losses [2]	—	(2,969)
	$(1,828)	$(4,317)

(1) Represents the estimated fair value of the repurchase or indemnity obligation recognized as a reduction of proceeds on new loan sales.
(2) Represents changes in estimated probable future repurchase losses on previously sold loans.

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Mortgage servicing income consisted of the following.

(in thousands)	Year Ended December 31, 2013	2012	Dollar Change	Percent Change
Servicing income, net:				
Servicing fees and other	$34,173	$27,833	$6,340	23 %
Changes in fair value of MSRs due to modeled amortization (1)	(24,321)	(26,706)	2,385	(9)
Amortization	(1,803)	(2,014)	211	(10)
	8,049	(887)	8,936	(1,007)
Risk management:				
Changes in fair value of MSRs due to changes in model inputs and/or assumptions (2)	29,456	(4,974)	34,430	(692)
Net gain from derivatives economically hedging MSRs	(20,432)	21,982	(42,414)	(193)
	9,024	17,008	(7,984)	(47)
Mortgage servicing income	$17,073	$16,121	$952	6 %

NM = not meaningful

(1) Represents changes due to collection/realization of expected cash flows and curtailments.
(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.

For the year ended December 31, 2013, mortgage servicing income of $17.1 million decreased $1.0 million from $16.1 million in 2012, primarily due to increased servicing fees collected during 2013 on the Company's single family mortgage servicing. This increase was partially offset by lower MSR risk management results, which represents changes in the fair value of single family MSRs due to changes in model inputs and assumptions net of the gain/(loss) from derivatives economically hedging MSRs.

The net performance of our MSR risk management activities for 2013 was a gain of $9.0 million, compared to a gain of $17.0 million in 2012. The lower gain in 2013 largely reflected lower sensitivity to interest rates for the Company's MSRs, which led the Company to reduce the notional amount of derivative instruments used to economically hedge MSRs. The lower notional amount of derivative instruments, along with a flatter yield curve, resulted in lower net gains from MSR risk management, which negatively impacted mortgage servicing income. In addition, MSR risk management results for 2013 reflected the impact on the fair value of MSRs of changes in model inputs and assumptions related to factors other than interest rate changes, such as higher expected home values which generally lead to higher projected prepayment speeds, and a decline in income from MSR risk management activities in 2013.

Mortgage servicing fees collected in 2013 were $34.2 million, an increase of $6.3 million, or 22.8%, from $27.8 million in 2012 primarily as a result of the increase in the loans serviced for others portfolio. Our loans serviced for others portfolio increased to $12.61 billion at December 31, 2013 from $9.65 billion at December 31, 2012.

Income from WMS Series LLC in 2013 was $704 thousand, compared to $4.3 million in 2012. The decrease in 2013 was primarily due to a 33.6% decrease in interest rate lock commitments and a 25.5% decrease in closed loan volume, which were
$548.7 million and $694.4 million in 2013, respectively, compared to $825.8 million and $932.4 million in 2012.

Loss on debt extinguishment. We recorded no loss on debt extinguishment in 2013, compared to a loss of $939 thousand in 2012, primarily as a result of a prepayment fee for the early retirement of $25.5 million of long-term FHLB advances. This prepayment resulted in reduced interest expense in 2013 as we replaced high-cost, long-term FHLB advances with other lower-cost, short-term borrowings.

Depositor and other retail banking fees for 2013 were relatively consistent with 2012 results. The following table presents the composition of depositor and other retail banking fees for the periods indicated.

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(in thousands)	Year Ended December 31, 2013	2012	Dollar Change	Percent Change
Monthly maintenance and deposit-related fees	$1,568	$1,569	$(1)	— %
Debit Card/ATM fees	1,523	1,396	127	9
Other fees	81	97	(16)	(16)
Total depositor and other retail banking fees	$3,172	$3,062	$110	4 %

Insurance agency commissions increased to $864 thousand from $743 thousand in 2012. This increase in commissions primarily resulted from increased personal and casualty insurance line sales.

Gain on investment securities available for sale was $1.8 million in 2013, compared to $1.5 million in 2012, as the Company re-balanced its portfolio and provided liquidity for the growth in lending volumes.

Other income was $2.4 million in 2013, relatively consistent with $2.7 million in 2012.

Noninterest Expense

Noninterest expense was $229.5 million in 2013, an increase of $45.9 million, or 25.0%, from $183.6 million in 2012. Included in noninterest expense in 2013 were acquisition-related expenses of $4.5 million. The increase in noninterest expense was primarily the result of a $29.6 million increase in salaries and related costs and a $12.5 million increase in general and administrative expenses resulting from a 37% growth in personnel in 2013 in connection with our continued expansion of our mortgage banking and commercial and consumer businesses. These additions to personnel were partially offset by attrition and position eliminations in the same year in mortgage production, mortgage operations, and in commercial lending and administration. Position eliminations in 2013 were in response to a slowdown in mortgage activity and the integration of our acquisitions and were intended to improve efficiency and performance. These increases in noninterest expense were partially offset by significantly lower other real estate owned ("OREO") expenses, which were $1.8 million in 2013, a decrease of $8.3 million from OREO expense of $10.1 million in 2012.

Noninterest expense consisted of the following:

(in thousands)	Year Ended December 31, 2013	2012	Dollar Change	Percentage Change
Noninterest expense				
Salaries and related costs	$149,440	$119,829	$29,611	25 %
General and administrative	40,366	27,838	12,528	45
Legal	2,552	1,796	756	42
Consulting	5,637	3,037	2,600	86
Federal Deposit Insurance Corporation assessments	1,433	3,554	(2,121)	(60)
Occupancy	13,765	8,585	5,180	60
Information services	14,491	8,867	5,624	63
Net cost of operation and sale of other real estate owned	1,811	10,085	(8,274)	(82)
Total noninterest expense	$229,495	$183,591	$45,904	25 %

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

Salaries and related costs were $149.4 million in 2013, an increase of $29.6 million, or 24.7%, from $119.8 million in 2012. The increase primarily resulted from a 36.7% increase in full-time equivalent employees at December 31, 2013 compared to December 31, 2012, as well as commissions and incentives paid to employees for 2013 due to the overall growth in our mortgage lending and commercial and consumer business lines.

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General and administrative expense was $40.4 million in 2013, an increase of $12.5 million, or 45.0%, from $27.8 million in 2012. These expenses include general office and equipment expense, marketing, taxes and insurance. The increase in general and administrative expense in 2013 was primarily due to Company growth and increased marketing expenses.

Consulting expense was $5.6 million in 2013, an increase of $2.6 million, or 85.6%, from $3.0 million in 2012, primarily due to acquisition-related activities.

FDIC assessments were $1.4 million in 2013, a decrease of $2.1 million, or 59.7%, from $3.6 million in 2012, primarily due to an improvement in the Company's risk category.

Occupancy expense was $13.8 million in 2013, an increase of $5.2 million, or 60.3%, from $8.6 million in 2012 as we grew our mortgage banking business and consumer and commercial customer base with the opening of 19 new mortgage loan origination offices, two commercial lending offices and two de novo retail deposit branches in 2013. Additionally, we added six retail deposit branches through acquisitions during the fourth quarter of 2013.

Information services expense was $14.5 million in 2013, an increase of $5.6 million, or 63.4%, from $8.9 million in 2012. This increase was primarily due to company-wide systems and tools upgrades and a 36.7% increase in headcount.

Net cost of operation and sale of other real estate owned was $1.8 million in 2013, a decrease of $8.3 million from $10.1 million in 2012. OREO valuation adjustments were $603 thousand for 2013, compared to valuation adjustments of $12.2 million in 2012. Valuation adjustments to OREO balances declined with the reduction in the net balance of OREO properties in 2013. Lower balances of OREO properties also resulted in decreased maintenance expenses.

Income Tax Expense

The Company's income tax expense was $11.0 million for the year ended December 31, 2013, compared to $21.5 million for the year ended December 31, 2012. The Company's 2013 tax expense is based on the annual effective income tax rate plus discrete benefits recognized during the year. The Company's annual effective income tax rate for the year was 31.6%, compared to an annual effective income tax rate of 20.8% for 2012. The lower effective income tax rate in 2012 primarily reflected the benefit of a full reversal of deferred tax asset valuation allowances during 2012.

Capital Expenditures

During 2013, our net expenditures for property and equipment were $22.8 million, compared to net expenditures of $11.4 million during 2012, as we continued to implement our strategic initiatives regarding the expansion of our mortgage banking and commercial and consumer businesses.

Review of Financial Condition – Comparison of December 31, 2014 to December 31, 2013

Total assets were $3.54 billion at December 31, 2014 and $3.07 billion at December 31, 2013. The increase in total assets was primarily due to a $341.3 million increase in loans held for sale and a $227.3 million increase in portfolio loans, partially offset by a $43.5 million decrease in investment securities.

Cash and cash equivalents was $30.5 million at December 31, 2014, compared to $33.9 million at December 31, 2013, a decrease of $3.4 million, or 10.0%.

Investment securities was $455.3 million at December 31, 2014, compared to $498.8 million at December 31, 2013, a decrease of $43.5 million, or 8.7%. The lower balance of our investment securities portfolio reflected management's decision to change the composition of the overall asset mix by selling certain residential mortgage-backed securities and adding corporate debt securities to the Company's portfolio. With the Company's improved credit position and excess capital, the investment in corporate debt securities provided diversification in the Company's investment securities portfolio with minimal additional credit risk.

We primarily hold investment securities for liquidity purposes, while also creating a relatively stable source of interest income. We designated substantially all securities as available for sale. We held securities having a carrying value of $28.0 million, which were designated as held to maturity.

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

	At December 31,			
	2014		2013	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Mortgage-backed securities:				
Residential	$107,624	$107,280	$137,602	$133,910
Commercial	13,030	13,671	13,391	13,433
Municipal bonds	119,744	122,334	136,937	130,850
Collateralized mortgage obligations:				
Residential	44,254	43,166	93,112	90,327
Commercial	20,775	20,486	17,333	16,845
Corporate debt securities	80,214	79,400	75,542	68,866
U.S. Treasury securities	40,976	40,989	27,478	27,452
Total available for sale	$426,617	$427,326	$501,395	$481,683

Mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO") represent securities issued by government sponsored entities ("GSEs"). Each of the MBS and CMO securities in our investment portfolio are guaranteed by Fannie Mae, Ginnie Mae or Freddie Mac. Municipal bonds are comprised of general obligation bonds (i.e., backed by the general credit of the issuer) and revenue bonds (i.e., backed by revenues from the specific project being financed) issued by various municipalities. As of December 31, 2014 and 2013, 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 December 31, 2014 and 2013, substantially all securities held by the Company had ratings available by external ratings agencies.

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

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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 December 31, 2014														
	Within one year			After one year through five years			After five years through ten years			After ten years			Total		
(in thousands)	Fair Value	Weighted Average Yield		Fair Value	Weighted Average Yield		Fair Value	Weighted Average Yield		Fair Value	Weighted Average Yield		Fair Value	Weighted Average Yield	
Mortgage-backed securities:															
Residential	$—	—	%	$—	—	%	$6,949	1.72	%	$100,331	1.75	%	$107,280	1.75	%
Commercial	—	—		—	—		—	—		13,671	4.75		13,671	4.75	
Municipal bonds	—	—		604	4.10		23,465	3.55		98,265	4.21		122,334	4.09	
Collateralized mortgage obligations:															
Residential	—	—		—	—		—	—		43,166	1.84		43,166	1.84	
Commercial	—	—		—	—		9,776	1.96		10,710	1.99		20,486	1.97	
Corporate debt securities	—	—		9,000	2.21		38,487	3.35		31,913	3.73		79,400	3.37	
U.S. Treasury securities	25,998	0.28		14,991	0.46		—	—		—	—		40,989	0.35	
Total available for sale	$25,998	0.28	%	$24,595	1.19	%	$78,677	3.09	%	$298,056	2.92	%	$427,326	2.69	%

	At December 31, 2013														
	Within one year			After one year Through five years			After five years through ten years			After ten years			Total		
(in thousands)	Fair Value	Weighted average yield		Fair value	Weighted average yield		Fair value	Weighted average yield		Fair value	Weighted average yield		Fair value	Weighted average yield	
Mortgage-backed securities:															
Residential	$—	—	%	$—	—	%	$10,581	1.63	%	$123,329	1.82	%	$133,910	1.81	%
Commercial	—	—		—	—		—	—		13,433	4.51		13,433	4.51	
Municipal bonds	—	—		—	—		19,598	3.51		111,252	4.29		130,850	4.17	
Collateralized mortgage obligations:															
Residential	—	—		—	—		19,987	2.31		70,340	2.17		90,327	2.20	
Commercial	—	—		—	—		5,270	1.90		11,575	1.42		16,845	1.57	
Corporate debt securities	—	—		—	—		32,848	3.31		36,018	3.75		68,866	3.54	
U.S. Treasury securities	1,001	0.18		26,451	0.30		—	—		—	—		27,452	0.29	
	$1,001	0.18	%	$26,451	0.30	%	$88,284	2.84	%	$365,947	2.92	%	$481,683	2.75	%

Total available
for sale

Each of the MBS and CMO securities in our investment portfolio are guaranteed by Fannie Mae, Ginnie Mae or Freddie Mac. Investments in these instruments involve a risk that actual prepayments will vary from the estimated prepayments over the life of the security. This may require adjustments to the amortization of premium or accretion of discount relating to such instruments, thereby changing the net yield on such securities. At December 31, 2014, the aggregate net premium associated with our MBS portfolio was $10.5 million, or 7.7%, of the aggregate unpaid principal balance, compared with $10.5 million or 8.7% at December 31, 2013. The aggregate net premium associated with our CMO portfolio as of December 31, 2014 was $3.1 million, or 5.0%, of the aggregate unpaid principal balance, compared with $6.4 million or 6.1% at December 31, 2013. There is also reinvestment risk associated with the cash flows from such securities and the market value of such securities may be adversely affected by changes in interest rates.

Management monitors the portfolio of securities classified as available for sale for impairment, which may result from credit deterioration of the issuer, changes in market interest rates relative to the rate of the instrument or changes in prepayment speeds. We evaluate each investment security on a quarterly basis to assess if impairment is considered other than temporary. In conducting this evaluation, management considers many factors, including but not limited to whether we expect to recover the entire amortized cost basis of the security in light of adverse changes in expected future cash flows, the length of time the security has been impaired and the severity of the unrealized loss. We also consider whether we intend to sell the security (or whether we will be required to sell the security) prior to recovery of its amortized cost basis, which may be at maturity.

Based on this evaluation, management concluded that unrealized losses as of December 31, 2014 were the result of changes in interest rates. Management does not intend to sell such securities nor is it likely it will be required to sell such securities prior to recovery of the securities' amortized cost basis. Accordingly, none of the unrealized losses as of December 31, 2014 were considered other than temporary.

Loans held for sale were $621.2 million at December 31, 2014, compared to $279.9 million as of December 31, 2013, a increase of $341.3 million, or 121.9%. Loans held for sale include single family and multifamily residential loans, typically sold within 30 days of closing the loan. The increase in the loans held for sale balance is primarily due to increased single family mortgage closed loan volume during December 2014.

Loans held for investment, net were $2.10 billion at December 31, 2014, compared to $1.87 billion as of December 31, 2013, an increase of $227.3 million, or 12.1%. Our single family loan portfolio decreased by $8.2 million from December 31, 2013, primarily due to the net transfer of $217.8 million of single family mortgage loans out of the portfolio and into loans held for sale during 2014, largely offset by increased originations of mortgages that exceed conventional conforming loan limits. Our commercial construction loan balances increased $237.5 million from December 31, 2013 primarily as a result of the organic growth of our commercial lending business. At December 31, 2014, commercial construction loan balances were comprised of $143.2 million of multifamily construction, $104.7 million of residential construction, $60.8 million of commercial real estate construction and $59.3 million of single family/one-step construction. At December 31, 2013, we had balances comprised of $23.6 million of multifamily construction, $49.6 million of residential construction, $23.1 million of commercial real estate construction and $34.2 million of single family/one-step construction.

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The following table details the composition of our loans held for investment portfolio by dollar amount and as a percentage of our total loan portfolio.

	At December 31,									
	2014		2013		2012		2011		2010	
(in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Consumer loans:										
Single family	$896,665	42.2 %	$904,913	47.7 %	$673,865	50.3 %	$496,934	36.9 %	$526,462	32.7 %
Home equity	135,598	6.4	135,650	7.1	136,746	10.2	158,936	11.8	181,537	11.3
	1,032,263	48.6	1,040,563	54.8	810,611	60.5	655,870	48.7	707,999	44.0
Commercial loans:										
Commercial real estate [1]	523,464	24.6	477,642	25.1	361,879	27.0	402,139	29.8	426,879	26.6
Multifamily	55,088	2.6	79,216	4.2	17,012	1.3	56,379	4.2	104,497	6.5
Construction/ land development	367,934	17.3	130,465	6.9	71,033	5.3	173,405	12.9	285,131	17.7
Commercial business	147,449	6.9	171,054	9.0	79,576	5.9	59,831	4.4	82,959	5.2
	1,093,935	51.4	858,377	45.2	529,500	39.5	691,754	51.3	899,466	56.0
	2,126,198	100.0%	1,898,940	100.0%	1,340,111	100.0%	1,347,624	100.0%	1,607,465	100.0%
Net deferred loan fees, costs and discounts	(5,048)		(3,219)		(3,576)		(4,062)		(4,767)	
	2,121,150		1,895,721		1,336,535		1,343,562		1,602,698	
Allowance for loan losses	(22,021)		(23,908)		(27,561)		(42,689)		(64,177)	
	$2,099,129		$1,871,813		$1,308,974		$1,300,873		$1,538,521	

(1) December 31, 2014, 2013 and 2012 balances comprised of $143.8 million, $156.7 million and $94.9 million of owner-occupied loans, respectively, and $379.6 million, $320.9 million and $267.0 million of non-owner-occupied loans, respectively.

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The following table shows the composition of the loan portfolio by fixed-rate and adjustable-rate loans.

(in thousands)	At December 31, 2014 Amount	Percent	2013 Amount	Percent
Adjustable-rate loans				
Single family	$576,295	27.1 %	$508,232	26.8 %
Commercial	345,307	16.2	293,548	15.5
Multifamily	45,957	2.2	69,439	3.7
Construction/land development, net (1)	226,635	10.7	70,028	3.7
Commercial business	95,484	4.5	117,718	6.2
Home equity	69,500	3.3	79,447	4.2
Total adjustable-rate loans	1,359,178	63.9	1,138,412	59.9
Fixed-rate loans				
Single family	320,370	15.1	396,681	20.9
Commercial	178,157	8.4	184,094	9.7
Multifamily	9,131	0.4	9,777	0.5
Construction/land development, net (1)	141,299	6.6	60,437	3.2
Commercial business	51,965	2.4	53,336	2.8
Home equity	66,098	3.1	56,203	3.0
Total fixed-rate loans	767,020	36.1	760,528	40.1
Total loans held for investment	2,126,198	100.0 %	1,898,940	100.0 %
Less:				
Net deferred loan fees, costs and discounts	(5,048)		(3,219)	
Allowance for loan losses	(22,021)		(23,908)	
Loans held for investment, net	$2,099,129		$1,871,813	

(1) Construction/land development is presented net of the undisbursed portion of the loan commitment.

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The following tables show the contractual maturity of our loan portfolio by loan type.

	December 31, 2014				Loans due after one year by rate characteristic	
(in thousands)	Within one year	After one year through five years	After five years	Total	Fixed-rate	Adjustable-rate
Consumer:						
Single family	$1,335	$12,401	$882,929	$896,665	$319,055	$576,275
Home equity	344	3,371	131,883	135,598	65,921	69,333
Total consumer	1,679	15,772	1,014,812	1,032,263	384,976	645,608
Commercial:						
Commercial real estate	40,482	150,001	332,981	523,464	154,001	328,981
Multifamily	6,008	4,051	45,029	55,088	5,692	43,388
Construction/land development	181,327	156,605	30,002	367,934	62,176	124,431
Commercial business	80,406	43,061	23,982	147,449	44,709	22,334
Total commercial	308,223	353,718	431,994	1,093,935	266,578	519,134
Total loans held for investment	$309,902	$369,490	$1,446,806	$2,126,198	$651,554	$1,164,742

	December 31, 2013				Loans due after one year by rate characteristic	
(in thousands)	Within one year	After one year through five years	After five years	Total	Fixed-rate	Adjustable-rate
Consumer:						
Single family	$2,117	$11,889	$890,907	$904,913	$396,580	$506,215
Home equity	1,001	3,231	131,418	135,650	56,107	78,542
Total consumer	3,118	15,120	1,022,325	1,040,563	452,687	584,757
Commercial:						
Commercial real estate	21,265	107,259	349,118	477,642	177,567	278,810
Multifamily	—	4,255	74,961	79,216	9,777	69,439
Construction/land development	75,019	45,404	10,042	130,465	24,259	31,187
Commercial business	99,374	46,030	25,650	171,054	43,016	28,661
Total commercial	195,658	202,948	459,771	858,377	254,619	408,097
Total loans held for investment	$198,776	$218,068	$1,482,096	$1,898,940	$707,306	$992,854

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The following table presents the loan portfolio by loan type and region as of December 31, 2014.

(in thousands)	Washington Puget Sound King (1)	Snohomish(3)	Pierce (1)	Thurston(3)	Vancouver & Other (2)(3)	Central & Eastern WA(2)(3)	Kitsap/Jefferson/Clallam (1)	Idaho Boise (2)
Consumer:								
Single family	$348,256	$ 84,611	$44,517	$16,407	$53,970	$35,990	$ 11,426	$15,816
Home equity	55,404	14,859	9,242	4,168	8,899	3,326	5,289	149
	403,660	99,470	53,759	20,575	62,869	39,316	16,715	15,965
Commercial:								
Commercial real estate	231,981	57,506	27,130	49,479	2,754	58,065	14,002	657
Multifamily	21,371	1,217	16,893	520	—	5,766	—	—
Construction/land development	153,496	34,932	43,864	9,590	22,106	25,955	873	9,546
Commercial business	94,081	7,605	5,328	12	93	31,751	1,354	—
	500,929	101,260	93,215	59,601	24,953	121,537	16,229	10,203
Total loans	$904,589	$ 200,730	$146,974	$80,176	$87,822	$160,853	$ 32,944	$26,168

(in thousands)	Oregon Portland (2)(3)	Eugene/Bend (2)(3)	Salem (2)	Hawaii	Utah	California	Other (4)	Total
Consumer:								
Single family	$69,162	$ 20,029	$11,128	$39,582	$933	$140,539	$4,299	$896,665
Home equity	12,723	2,938	3,428	8,228	—	6,445	500	135,598
	81,885	22,967	14,556	47,810	933	146,984	4,799	1,032,263
Commercial:								
Commercial real estate	46,010	19,342	6,585	—	—	—	9,953	523,464
Multifamily	1,758	7,563	—	—	—	—	—	55,088
Construction/land development	22,320	5,356	2,345	5,308	11,812	20,431	—	367,934
Commercial business	4,468	97	—	—	—	—	2,660	147,449
	74,556	32,358	8,930	5,308	11,812	20,431	12,613	1,093,935
Total loans	$156,441	$ 55,325	$23,486	$53,118	$12,745	$167,415	$17,412	$2,126,198

(1) Refers to a specific county.
(2) Refers to a specific city.
(3) Also includes surrounding counties.
(4) Includes Alaska, Florida, Arizona and Colorado.

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The following table presents the loan portfolio by loan type and region as of December 31, 2013.

(in thousands)	Washington Puget Sound King [(1)]	Snohomish[(3)]	Pierce [(1)]	Thurston[(3)]	Vancouver & Other [(2)(3)]	Spokane [(2)(3)]	Kitsap/Jefferson/Clallam [(1)]
Consumer:							
Single family	$464,120	$89,921	$51,267	$17,703	$41,348	$30,883	$ 14,192
Home equity	56,491	15,722	10,406	4,557	8,706	3,957	5,211
	520,611	105,643	61,673	22,260	50,054	34,840	19,403
Commercial:							
Commercial real estate	238,663	54,068	22,007	23,987	624	56,673	6,942
Multifamily	25,342	3,183	16,729	515	—	12,497	—
Construction/land development	60,547	11,825	11,532	5,449	13,185	16,729	269
Commercial business	122,396	1,248	7,702	—	149	31,973	1,293
	446,948	70,324	57,970	29,951	13,958	117,872	8,504
Total loans	$967,559	$175,967	$119,643	$52,211	$64,012	$152,712	$ 27,907

(in thousands)	Idaho Boise [(2)]	Oregon Portland [(2)(3)]	Bend [(2)(3)]	Salem [(2)]	Hawaii	Other [(4)]	Total
Consumer:							
Single family	$12,001	$67,387	$19,246	$12,656	$38,832	$45,357	$904,913
Home equity	91	13,348	3,257	4,218	8,678	1,008	135,650
	12,092	80,735	22,503	16,874	47,510	46,365	1,040,563
Commercial:							
Commercial real estate	589	50,261	8,009	6,725	—	9,094	477,642
Multifamily	—	13,282	7,668	—	—	—	79,216
Construction/land development	2,331	3,813	3,272	—	1,513	—	130,465
Commercial business	—	2,318	47	—	3	3,925	171,054
	2,920	69,674	18,996	6,725	1,516	13,019	858,377
Total loans	$15,012	$150,409	$41,499	$23,599	$49,026	$59,384	$1,898,940

(1) Refers to a specific county.
(2) Refers to a specific city.
(3) Also includes surrounding counties.
(4) Includes California, Alaska and Florida.

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The following table presents the loan portfolio by loan type and year of origination.

	December 31, 2014						
(in thousands)	Prior to 2006	2006-2008	2009-2011	2012	2013	2014	Total
Consumer							
Single family	$36,109	$174,541	$128,376	$88,167	$151,352	$318,120	$896,665
Home equity	26,632	70,654	3,351	1,846	14,934	18,181	135,598
	62,741	245,195	131,727	90,013	166,286	336,301	1,032,263
Commercial							
Commercial real estate	25,583	182,498	30,479	60,050	122,347	102,507	523,464
Multifamily	5,572	6,515	1,730	—	35,959	5,312	55,088
Construction/land development	—	7,834	157	17,396	94,075	248,472	367,934
Commercial business	15,232	15,360	27,284	18,703	31,145	39,725	147,449
	46,387	212,207	59,650	96,149	283,526	396,016	1,093,935
Total loans	$109,128	$457,402	$191,377	$186,162	$449,812	$732,317	$2,126,198

The following table presents the loan portfolio by loan type and year of origination.

	December 31, 2013						
(in thousands)	Prior to 2000	2000-2004	2005-2008	2009-2010	2011-2012	2013	Total
Consumer							
Single family	$7,236	$25,471	$195,559	$136,240	$168,885	$371,522	$904,913
Home equity	3	17,919	93,304	4,819	2,704	16,901	135,650
	7,239	43,390	288,863	141,059	171,589	388,423	1,040,563
Commercial							
Commercial real estate	361	10,041	205,754	20,263	109,308	131,915	477,642
Multifamily	—	63	12,199	1,115	5,416	60,423	79,216
Construction/land development	—	—	14,155	411	19,789	96,110	130,465
Commercial business	52	892	29,980	14,493	43,110	82,527	171,054
	413	10,996	262,088	36,282	177,623	370,975	858,377
Total loans	$7,652	$54,386	$550,951	$177,341	$349,212	$759,398	$1,898,940

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The following table presents loan origination and loan sale volumes.

(in thousands)	Year Ended December 31, 2014	2013	2012
Loans originated			
Real estate			
Single family			
Originated by HomeStreet	$4,208,736	$4,160,435	$3,968,696
Originated by WMS Series LLC	489,031	692,444	932,377
Single family	4,697,767	4,852,879	4,901,073
Multifamily	152,280	90,967	115,274
Commercial real estate	57,025	129,531	49,982
Construction/land development	595,034	255,314	54,187
Total real estate	5,502,106	5,328,691	5,120,516
Commercial business	142,602	109,735	35,606
Home equity	20,559	17,724	386
Total loans originated	$5,665,267	$5,456,150	$5,156,508
Loans sold			
Single family	$3,979,398	$4,733,473	$4,170,840
Multifamily	141,859	104,016	118,805
Total loans sold	$4,121,257	$4,837,489	$4,289,645

Other real estate owned was $9.4 million at December 31, 2014, compared to $12.9 million at December 31, 2013, a decrease of $3.5 million, or 26.8%. This decrease was predominantly due to sales of OREO properties, which totaled $7.5 million and loss provision of $69 thousand for 2014, partially offset by additions to the OREO assets of $4.1 million.

FHLB Stock was $33.9 million at December 31, 2014, compared to $35.3 million at December 31, 2013. FHLB stock is carried at par value and can only be purchased or redeemed at par value in transactions between the FHLB and its member institutions. Both cash and stock dividends received on FHLB stock are reported in earnings.

On November 6, 2009, the FHLB’s regulator defined its capital classification as undercapitalized. Under the Federal Housing Finance Agency (the "Finance Agency") regulations, a FHLB that fails to meet any regulatory capital requirement may not declare a dividend or redeem or repurchase capital stock. In September 2012, the Finance Agency reclassified the FHLB as adequately capitalized but the FHLB remained subject to a consent order. On November 22, 2013, the Finance Agency issued an amended consent order, which modified and superseded the October 2010 consent order. The amended consent order acknowledges the FHLB’s fulfillment of many of the requirements set forth in the 2010 consent order and improvements in the FHLB’s financial performance, while continuing to impose certain restrictions on its ability to repurchase, redeem, and pay dividends on its capital stock. As such, Finance Agency approval or non-objection will continue to be required for all repurchases, redemptions, and dividend payments on capital stock.

In September 2014, the FHLB entered into a merger agreement with the Federal Home Loan Bank of Des Moines (the “Des Moines Bank”). If the merger agreement is consummated, the FHLB will merge with and into the Des Moines Bank, with the Des Moines Bank being the surviving entity. As a result, the Bank will become a member of the Des Moines Bank and its shares of FHLB stock will be converted into shares of stock of the Des Moines Bank.

Management periodically evaluates FHLB stock for other-than-temporary impairment based on its assessment of ultimate recoverability of par value, rather than recognizing temporary declines in value. The determination of whether the decline affects the ultimate recoverability is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB and (4) the liquidity position of the FHLB. The FHLB continues to benefit from a superior credit rating from Standard & Poor’s, which allows the FHLB to secure funding for its activities at attractive rates and terms, further supporting

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continued access to liquidity. Based on its evaluation, management determined there is no other-than-temporary impairment on the FHLB stock investment as of December 31, 2014 or December 31, 2013.

Accounts receivable and other assets was $105.0 million at December 31, 2014, compared to $122.2 million at December 31, 2013, a decrease of $17.2 million, or 14.1%, primarily attributable to the collection of federal income tax receivable during 2014. The income tax receivable balance was $29.6 million at December 31, 2013.

Deposits

Deposits were $2.45 billion at December 31, 2014, compared to $2.21 billion at December 31, 2013, an increase of $234.6 million, or 10.6%. This increase was primarily attributable to the organic growth of our deposit branch network. During 2014, the Company increased the balances of transaction and savings deposits by $183.0 million, or 11.9%, to $1.72 billion at December 31, 2014 from $1.54 billion at December 31, 2013. Partially offsetting the increased transaction and savings deposits was the managed reduction of certificates of deposit balances, which decreased $19.9 million, or 3.9%, to $494.5 million at December 31, 2014 from $514.4 million at December 31, 2013. This improvement in the composition of deposits was partially the result of our successful efforts to attract transaction and savings deposit balances through effective brand marketing.

Deposit balances were as follows for the periods indicated:

	At December 31,		
(in thousands)	2014	2013	2012
Noninterest-bearing accounts - checking and savings	$240,679	$164,437	$83,563
Interest-bearing transaction and savings deposits:			
NOW accounts	272,390	297,966	174,699
Statement savings accounts due on demand	200,638	156,181	103,932
Money market accounts due on demand	1,007,213	919,322	683,906
Total interest-bearing transaction and savings deposits	1,480,241	1,373,469	962,537
Total transaction and savings deposits	1,720,920	1,537,906	1,046,100
Certificates of deposit	494,526	514,400	655,467
Noninterest-bearing accounts - other	229,984	158,515	275,268
Total deposits	$2,445,430	$2,210,821	$1,976,835

Borrowings

FHLB advances were $597.6 million at December 31, 2014, compared to $446.6 million as of December 31, 2013. FHLB advances may be collateralized by stock in the FHLB, cash, pledged mortgage-backed securities, real estate-secured commercial loans and unencumbered qualifying mortgage loans. As of December 31, 2014, 2013 and 2012, FHLB borrowings had weighted average interest rates of 0.41%, 0.43% and 0.60%, respectively. Of the total FHLB borrowings outstanding as of December 31, 2014, $532.0 million mature prior to December 31, 2015. We had $317.9 million and $228.5 million of additional borrowing capacity with the FHLB as of December 31, 2014 and December 31, 2013, respectively. Our lending agreement permits the FHLB to refuse to make advances under that agreement during periods in which an “event of default” (as defined in that agreement) exists. An “event of default” occurs when the FHLB gives notice to the Bank of an intention to take any of a list of permissible actions following the occurrence of specified events or conditions affecting the Bank. Among those events is the issuance or entry of “any supervisory or consent order pertaining to” the Bank. No such condition existed at December 31, 2014.

We may also borrow, on a collateralized basis, from the Federal Reserve Bank of San Francisco ("FRBSF" or "Federal Reserve Bank"). At December 31, 2014 and December 31, 2013, we did not have any outstanding borrowings from the FRBSF. Based on the amount of qualifying collateral available, borrowing capacity from the FRBSF was $316.1 million and $332.7 million at December 31, 2014 and December 31, 2013, respectively. The FRBSF is also not contractually bound to offer credit to us, and our access to this source for future borrowings may be discontinued at any time.

Long-term debt was $61.9 million at December 31, 2014 and $64.8 million at December 31, 2013. This balance represents junior subordinated debentures issued in connection with the sale of TruPS by HomeStreet Statutory Trusts, subsidiaries of

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HomeStreet, Inc. During 2013, as a result of the acquisition of YNB, the Company acquired $3.1 million of additional TruPS, which was redeemed during 2014. TruPS allow investors to buy subordinated debt through a variable interest entity trust that issues preferred securities to third-party investors and uses the cash received to purchase subordinated debt from the issuer. That debt is the sole asset of the trust and the coupon rate on the debt mirrors the dividend rate on the preferred securities. These securities are nonvoting and are not convertible into capital stock, and the variable interest entity trust is not consolidated in our financial statements.

Shareholders' Equity

Shareholders’ equity was $302.2 million at December 31, 2014, compared to $265.9 million at December 31, 2013. This increase included net income of $22.3 million and other comprehensive income of $13.5 million recognized during 2014, partially offset by $1.6 million of dividends paid during 2014. The comprehensive income in 2014 represented unrealized gains in the valuation of our investment securities available for sale portfolio at December 31, 2014.

The Company paid cash dividends to shareholders of $0.11 per share on February 24, 2014.

Shareholders' equity, on a per share basis, was $20.34 per share at December 31, 2014, compared to $17.97 per share at December 31, 2013.

Return on Equity and Assets

The following table presents certain information regarding our returns on average equity and average total assets. Return on equity ratios for the periods shown may not be comparable due to the impact and timing of the Company's initial public offering of common stock completed in February 2012 and changes in the annual effective income tax rate between periods. During 2012, the Company benefited from the full reversal of its deferred tax asset valuation allowances.

	Year Ended December 31,		
(in thousands)	2014	2013	2012
Return on assets (1)	0.69 %	0.88 %	3.42 %
Return on equity (2)	7.69 %	9.56 %	38.86 %
Equity to assets ratio (3)	9.03 %	9.16 %	8.79 %

(1) Net income divided by average total assets.
(2) Net earnings (loss) available to common shareholders divided by average common shareholders’ equity.
(3) Average equity divided by average total assets.

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.

This process is dynamic and is based on management's current view of the Company's operations and is not necessarily comparable with similar information for other financial institutions. We define our business segments by product type and customer segment. If the management structure or the allocation process changes, allocations, transfers and assignments may change.

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We use various management accounting methodologies to assign certain income statement items to the responsible operating segment, including:

- a funds transfer pricing ("FTP") system, which allocates interest income credits and funding charges between the segments, assigning to each segment a funding credit for its liabilities, such as deposits, and a charge to fund its assets;
- an allocation of charges for services rendered to the segments by centralized functions, such as corporate overhead, which are generally based on each segment's consumption patterns; and
- an allocation of the Company's consolidated income taxes which are based on the effective tax rate applied to the segment's pretax income or loss.

Commercial and Consumer Banking Segment

Commercial and Consumer Banking provides diversified financial products and services to our commercial and consumer customers through bank branches and through ATMs, online, mobile and telephone banking. These products and services include deposit products; residential, consumer, business and agricultural portfolio loans; non-deposit investment products; insurance products and cash management services. We originate construction loans, bridge loans and permanent loans for our portfolio primarily on single family residences, and on office, retail, industrial and multifamily property types. We originate multifamily real estate loans through our Fannie Mae DUS business, whereby loans are sold to or securitized by Fannie Mae, while the Company generally retains the servicing rights. As of December 31, 2014, our bank branch network consisted of 33 branches in the Pacific Northwest and Hawaii. At December 31, 2014 and 2013, our transaction and savings deposits totaled $1.72 billion and $1.54 billion, respectively, and our loan portfolio totaled $2.10 billion and $1.87 billion, respectively. This segment is also responsible for the management of the Company's portfolio of investment securities.

Commercial and Consumer Banking segment results are detailed below.

(in thousands)	Year Ended December 31, 2014	2013	2012
Net interest income	$81,986	$59,172	$46,625
Provision (reversal of provision) for loan losses	(1,000)	900	11,500
Noninterest income	18,666 [3]	15,091	12,465
Noninterest expense	79,812	66,141	63,609
Income (loss) before income taxes	21,840	7,222	(16,019)
Income tax (benefit) expense	7,092	1,249	(3,316)
Net income (loss)	$14,748	$5,973	$(12,703)
Total assets	$2,746,409	$2,576,762	$1,862,315
Pre-tax pre-provision profit (loss) [1]	20,840	8,122	(4,519)
Efficiency ratio [2]	79.29 %	89.06 %	107.65 %
Full-time equivalent employees (ending)	608	577	413
Net gain on mortgage loan origination and sale activity:			
Multifamily	$4,723	$5,306	$4,872
Other	4,764 [3]	964	—
	$9,487	$6,270	$4,872
Commercial and Consumer Banking production volumes:			
Multifamily mortgage originations	$152,282	$90,968	$112,074
Multifamily mortgage loans sold	$141,859	$104,016	$118,805

(1) Pre-tax pre-provision profit is total net revenue (net interest income and noninterest income) less noninterest expense. The Company believes that this financial measure is useful in assessing the ability of a lending institution to generate income in excess of its provision for credit losses.
(2) Noninterest expense divided by total net revenue (net interest income and noninterest income).
(3) Includes $4.6 million in pre-tax gain during 2014 from the sale of loans that were originally held for investment.

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Commercial and Consumer Banking net income was $14.7 million for the year ended December 31, 2014, an increase of $8.8 million from $6.0 million for the year ended December 31, 2013. The increase in net income in 2014 was primarily the result of a $22.8 million increase in net interest income, which reflected improvements in our deposit product and pricing strategy. That strategy included reducing our higher-cost deposits and converting customers with maturing certificates of deposit to transaction and savings deposits. Additionally, improved credit quality of the Company's loan portfolio resulted in a $1.0 million reversal of provision for loan losses in 2014, compared to provision of $900 thousand in 2013. Partially offsetting these improvements to net income was increased noninterest expense as we continue to grow this segment.

Commercial and Consumer Banking noninterest expense of $79.8 million increased $13.7 million, or 20.7%, from $66.1 million in 2013, primarily due to increased salaries and related costs, reflecting the growth of our commercial real estate and commercial business lending units and the expansion of our branch banking network, including growth through acquisitions which closed in the fourth quarter of 2013.

Commercial and Consumer Banking had net income of $6.0 million for the year ended December 31, 2013, compared to a net loss of $12.7 million for the year ended December 31, 2012. The improvement in 2013 was primarily due to an increase in net interest income, which in large part reflected improvements in our deposit product and pricing strategy.

Commercial and Consumer Banking servicing income consisted of the following.

	Year Ended December 31,		
(in thousands)	2014	2013	2012
Servicing income, net:			
Servicing fees and other	$4,166	$3,174	$3,396
Amortization of multifamily MSRs	(1,712)	(1,803)	(2,014)
Commercial mortgage servicing income	$2,454	$1,371	$1,382

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

	Year Ended December 31,	
(in thousands)	2014	2013
Commercial		
Multifamily	$752,640	$720,429
Other	82,354	95,673
Total commercial loans serviced for others	$834,994	$816,102

Mortgage Banking Segment

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

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(in thousands)	Year Ended December 31, 2014	2013	2012
Net interest income	$16,683	$15,272	$14,117
Noninterest income	166,991	175,654	225,555
Noninterest expense	172,199	163,354	119,981
Income before income taxes	11,475	27,572	119,691
Income tax expense	3,964	9,736	24,862
Net income	$7,511	$17,836	$94,829
Total assets	$788,681	$489,292	$768,915
Efficiency ratio [1]	93.75 %	85.56 %	50.06 %
Full-time equivalent employees (ending)	1,003	925	686
Production volumes for sale to the secondary market:			
Single family mortgage closed loan volume [2][3]	$4,400,617	$4,459,649	$4,668,167
Single family mortgage interest rate lock commitments[2]	4,344,248	3,907,274	4,786,667
Single family mortgage loans sold[2]	3,979,398	4,733,473	4,170,840

(1) Noninterest expense divided by total net revenue (net interest income and noninterest income).
(2) Includes loans originated by WMS Series LLC ("WMS") and purchased by HomeStreet Bank.
(3) Represents single family mortgage production volume designated for sale to the secondary market during each respective period.

Mortgage Banking net income was $7.5 million for the year ended December 31, 2014, a decrease of $10.3 million, or 57.9%, from net income of $17.8 million for the year ended December 31, 2013. The decrease in Mortgage Banking net income for 2014 was driven primarily by lower gain on sale income. Our single family mortgage interest rate lock commitments of $4.34 billion in 2014 increased 11.2%, compared to $3.91 billion in the 2013. However, we experienced lower gain on sale margins on our interest rate lock commitments during 2014 compared to 2013. In periods where we experience lower gain on sale margins, noninterest expense will be higher relative to noninterest income, as we do not see a commensurate decrease in commissions expense at the time of closing the loan.

Mortgage Banking net income of $17.8 million for the year ended December 31, 2013 decreased $77.0 million, or 81.2%, from $94.8 million for the year ended December 31, 2012. The decrease in Mortgage Banking net income for 2013 was driven primarily by higher mortgage interest rates that led to a sharp decrease in interest rate lock commitments.

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

(in thousands)	Year Ended December 31, 2014	2013	2012
Net gain on mortgage loan origination and sale activities:[1]			
Single family:			
Servicing value and secondary market gains[2]	$109,063	$128,391	$178,624
Provision for repurchase losses[3]	—	—	(2,969)
Net gain from secondary market activities	109,063	128,391	175,655
Loan origination and funding fees	25,572	30,051	30,037
Total mortgage banking net gain on mortgage loan origination and sale activities[1]	$134,635	$158,442	$205,692

(1) Excludes inter-segment activities.
(2)

Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and the estimated fair value of the repurchase or indemnity obligation recognized on new loan sales.

(3) Represents changes in estimated probable future repurchase losses on previously sold loans.

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Net gain on mortgage loan origination and sale activities was $134.6 million for the year ended December 31, 2014, a decrease of $23.8 million, or 15.0%, from $158.4 million for the year ended December 31, 2013. This decrease is primarily the result of lower gain on sale margins on our interest rate lock commitments during 2014 compared to 2013. Partially offsetting this effect on net gain on mortgage loan origination and sale activities was an 11.2% increase in interest rate lock commitments resulting from the expansion of our mortgage lending operations, as we entered new markets by adding 11 mortgage loan origination offices during 2014.

Mortgage Banking servicing income consisted of the following.

(in thousands)	Year Ended December 31, 2014	2013	2012
Servicing income, net:			
Servicing fees and other	$33,652	$30,999	$24,437
Changes in fair value of MSRs due to modeled amortization [1]	(26,112)	(24,321)	(26,706)
	7,540	6,678	(2,269)
Risk management:			
Changes in fair value of MSRs due to changes in model inputs and/or assumptions [2]	(15,629) [3]	29,456	$(4,974)
Net gain from derivatives economically hedging MSRs	39,727	(20,432)	21,982
	24,098	9,024	17,008
Mortgage Banking servicing income	$31,638	$15,702	$14,739

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

(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.

(3) Includes pre-tax income of $4.7 million, net of brokerage fees and prepayment reserves, resulting from the second quarter 2014 sale of single family MSRs.

Single family mortgage servicing income of $31.6 million in the year ended December 31, 2014 increased by $15.9 million from $15.7 million in the year ended December 31, 2013. This increase was primarily due to MSR risk management results and increased servicing fees collected on the Company's single family mortgages. Risk management results represent changes in the fair value of single family MSRs due to changes in model inputs and assumptions net of the gain/(loss) from derivatives economically hedging MSRs. Included in risk management results for the year ended December 31, 2014 is $4.7 million of pre-tax income recognized from the second quarter 2014 sale of single family MSRs. No similar transactions occurred in 2013.

Single family mortgage servicing fees collected in the year ended December 31, 2014 increased $2.7 million, or 8.6%, from the year ended December 31, 2013. As a result of the June 30, 2014 sale of $2.96 billion of single family MSRs, the portfolio of single family loans serviced for others decreased to $11.22 billion at December 31, 2014, compared to $11.80 billion at December 31, 2013. Mortgage servicing fees collected in future periods will be negatively impacted in the short term because the balance of the loans serviced for others portfolio was reduced as a consequence of this sale.

Single family mortgage servicing income of $15.7 million for the year ended December 31, 2013 increased from servicing income of $14.7 million for the year ended December 31, 2012, primarily as a result of growth in the portfolio of single family loans serviced for others, which increased to $11.80 billion at December 31, 2013 from $8.87 billion at December 31, 2012.

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Single family loans serviced for others consisted of the following.

(in thousands)	At December 31, 2014	2013
Single family		
U.S. government and agency	$10,630,864	$11,467,853
Other	585,344	327,768
Total single family loans serviced for others	$11,216,208	$11,795,621

Mortgage Banking noninterest expense of $172.2 million for the year ended December 31, 2014 increased $8.8 million, or 5.4%, from $163.4 million in 2013. This increase was primarily attributable to increased salaries and related costs, as well as occupancy and information services expenses related to the addition of approximately 84 mortgage originators and mortgage fulfillment personnel as we grew our single family mortgage lending network.

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to financial instruments with off-balance sheet risk. These financial instruments (which include commitments to originate loans and commitments to purchase loans) include potential credit risk in excess of the amount recognized in the accompanying consolidated financial statements. These transactions are designed to (1) meet the financial needs of our customers, (2) manage our credit, market or liquidity risks, (3) diversify our funding sources and/or (4) optimize capital.

For more information on off-balance sheet arrangements, see Note 13, Commitments, Guarantees and Contingencies to the financial statements of this Form 10-K.

Commitments, Guarantees and Contingencies

We may incur liabilities under certain contractual agreements contingent upon the occurrence of certain events. Our known contingent liabilities include:

- Unfunded loan commitments. We make certain unfunded loan commitments as part of our lending activities that have not been recognized in the Company’s financial statements. These include commitments to extend credit made as part of our mortgage lending activities and interest rate lock commitments on loans we intend to hold in our loans held for investment portfolio. The aggregate amount of these unrecognized unfunded loan commitments existing at December 31, 2014 and December 31, 2013 was $72.0 million and $18.4 million, respectively.
- Credit agreements. We extend secured and unsecured open-end loans to meet the financing needs of our customers. These commitments, which primarily related to unused home equity and commercial real estate lines of credit and business banking funding lines, totaled $149.4 million and $154.0 million at December 31, 2014 and December 31, 2013. Undistributed construction loan proceeds, where the Company has an obligation to advance funds for construction progress payments, was $379.4 million and $168.5 million at December 31, 2014 and December 31, 2013, respectively. The total amounts of unused commitments do not necessarily represent future credit exposure or cash requirements in that commitments may expire without being drawn upon.
- Interest rate lock commitments. The Company writes options in the form of interest rate lock commitments on single family mortgage loans that are exercisable at the option of the borrower. We are exposed to market risk on interest rate lock commitments. The fair value of interest rate lock commitments existing at December 31, 2014 and December 31, 2013, was $11.9 million and $6.0 million, respectively. We mitigate the risk of future changes in the fair value of interest rate lock commitments primarily through the use of forward sale commitments.
- Credit loss sharing. We originate, sell and service multifamily loans through the Fannie Mae DUS program. Multifamily loans are sold to Fannie Mae subject to a loss sharing arrangement. HomeStreet Capital services the loans

for Fannie Mae and shares in the risk of loss with Fannie Mae under the terms of the DUS contracts. Under the DUS program, the DUS lender is contractually responsible for the first 5% of losses and then shares equally in the remainder of losses with Fannie Mae with a maximum lender loss of 20% of the original principal balance of each DUS loan. The total principal balance of loans outstanding under the DUS program as of December 31, 2014 and December 31, 2013 was $752.6 million and $720.4 million, respectively, and our loss reserve was $2.3 million and $2.0 million as of December 31, 2014 and December 31, 2013, respectively.

- Mortgage repurchase liability. In our single family lending business, we sell residential mortgage loans to GSEs that include the mortgage loans in GSE-guaranteed mortgage securitizations. In addition, the Company pools FHA-insured and Department of Veterans' Affairs ("VA")-guaranteed mortgage loans that are used to back Ginnie Mae-guaranteed securities. We have made representations and warranties that the loans sold meet certain requirements. We may be required to repurchase mortgage loans or indemnify loan purchasers due to defects in the origination process of the loan, such as documentation errors, underwriting errors and judgments, early payment defaults and fraud. These obligations expose us to any credit loss on the repurchased mortgage loans after accounting for any mortgage insurance that it may receive. Generally, the maximum amount of future payments we 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.

We do not typically receive repurchase requests from Ginnie Mae, FHA or VA. As an originator of FHA-insured or VA-guaranteed loans, we are responsible for obtaining the insurance with FHA or the guarantee with the VA. If loans are later found not to meet the requirements of FHA or VA, through required internal quality control reviews or through agency audits, we may be required to indemnify FHA or VA against loss. The loans remain in Ginnie Mae pools unless and until they qualify for voluntary repurchase by the Company. In general, once a FHA or VA loan becomes 90 days past due, we repurchase the FHA or VA 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.

As of December 31, 2014 and December 31, 2013, the total principal balance of loans sold on a servicing-retained basis that were subject to the terms and conditions of these representations and warranties totaled $11.30 billion and $11.89 billion, respectively. The recorded mortgage repurchase liability for loans sold on a servicing-retained and a servicing-released basis was $2.0 million and $1.3 million at December 31, 2014 and 2013, respectively. The Company's mortgage repurchase liability reflects management's estimate of losses for loans sold on a servicing-retained and servicing-released basis for which we could have a repurchase obligation. Actual repurchase losses of $734 thousand, $2.5 million and $2.8 million were incurred for the years ended December 31, 2014, 2013 and 2012, respectively.

- Leases. The Company is obligated under non-cancelable leases for office space. The office leases also contain renewal and space options. Rental expense under non-cancelable operating leases totaled $15.3 million, $11.4 million and $7.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Derivative Counterparty Credit Risk

Derivative financial instruments expose us to credit risk in the event of nonperformance by counterparties to such agreements. This risk consists primarily of the termination value of agreements where we are in a favorable position. Credit risk related to derivative financial instruments is considered within the fair value measurement of the instrument. We manage the credit risk associated with our various derivative agreements through counterparty credit review, counterparty exposure limits and monitoring procedures. From time to time, we may provide or obtain collateral from certain counterparties for amounts in excess of exposure limits as outlined by the counterparty credit policies of the parties. We have entered into agreements with derivative counterparties that include netting arrangements whereby the counterparties are entitled to settle their positions on a net basis. At December 31, 2014 and 2013, our net exposure to the credit risk of derivative counterparties was $18.8 million and $10.2 million.

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Contractual Obligations

The following table summarizes our significant fixed and determinable contractual obligations, within the categories described below, by payment date or contractual maturity as of December 31, 2014. The payment amounts for financial instruments shown below represent principal amounts contractually due to the recipient and do not include any unamortized premiums or discounts, or other similar carrying value adjustments.

(in thousands)	Within one year	After one but within three years	After three but within five	More than five years	Total
Deposits [1]	$2,270,483	$165,529	$9,418	$—	$2,445,430
FHLB advances	532,000	50,000	—	15,590	597,590
Federal funds purchased	50,000	—	—	—	50,000
Trust preferred securities[2]	—	—	—	61,857	61,857
Interest[3]	4,677	6,564	3,899	20,062	35,202
Operating leases	14,555	29,128	22,070	54,047	119,800
Purchase obligations [4]	8,458	9,698	5,834	170	24,160
Total	$2,880,173	$260,919	$41,221	$151,726	$3,334,039

(1) Deposits with indeterminate maturities, such as demand, savings and money market accounts, are reflected as obligations due less than one year.
(2) Trust preferred securities is included in long-term debt on the consolidated statements of financial condition.
(3) Represents the future interest obligations related to interest-bearing time deposits and long-term debt in the normal course of business. These interest obligations assume no early debt redemption. We estimated variable interest rate payments using December 31, 2014 rates, which we held constant until maturity.
(4) Represents agreements to purchase goods or services.

Enterprise Risk Management

All financial institutions manage and control a variety of business and financial risks that can significantly affect their financial performance. Among these risks are credit risk; market risk, which includes interest rate risk and price risk; liquidity risk; and operational risk. We are also subject to risks associated with compliance/legal, strategic and reputational matters.
The Company's Board of Directors (the "Board") and executive management have overall and ultimate responsibility for management of these risks. The Board, its committees and senior managers oversee the management of various risks. We review and assess these risks on an enterprise-wide basis periodically and as part of the annual strategic planning process. We use internal audits, quality control and loan review functions to assess the strength of and adherence to risk management policies, internal controls and regulatory requirements. Similarly, external reviews, examinations and audits are conducted by regulators and others. In addition, our compliance, appraisal, corporate security and information security personnel provide additional risk management services in their areas of expertise. The Board and its committees (both for the Company and its subsidiaries) work closely with senior management in overseeing risk. Management recommends the appropriate level of risk in our strategic and business plans and in our board-approved credit and operating policies and has responsibility for measuring, managing, controlling and reporting on risks. The Board and its committees oversee the monitoring and controlling of significant risk exposures, including the policies governing risk management. The Board authorizes its committees to take any action on its behalf as described in their respective charter or as otherwise delegated by the Board, except as otherwise specifically reserved by law, regulation, other committees' charters or the Company's charter documents for action solely by the full board or another board committee. These committees include:

- Audit Committee. The Audit Committee oversees the policies and management activities relating to our financial reporting, internal and external audit, regulatory, legal and compliance risks.
- Finance Committee. The Finance Committee oversees the consolidated companies' activities related to balance sheet management, major financial risks including market, interest rate, liquidity and funding risks and counterparty risk management, including trading limits.

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- Credit Committee. The Credit Committee oversees the annual Loan Review Plan, lending policies, credit performance and trends, the allowance for credit loss policy and loan loss reserves, large borrower exposure and concentrations, and approval of broker/dealer relationships.
- Human Resources and Corporate Governance Committee. The Human Resources and Corporate Governance Committee (the "HRCG") of HomeStreet, Inc. reviews all matters concerning our human resources, compensation, benefits, and corporate governance. HRCG's policy objectives are to ensure that HomeStreet and its operating subsidiaries meet their corporate objectives of attracting and retaining a well-qualified workforce, to oversee our human resource strategies and policies and to ensure processes are in place to assure compliance with employment laws and regulations.
- Enterprise Risk Management Committee. The Enterprise Risk Management Committee (the "ERMC") oversees the Company's enterprise-wide risk management framework, including evaluating management's identification and assessment of the significant risks and the related infrastructure to address such risks and monitors the Company's compliance with its risk appetite and risk limit structures and effective remediation of non-compliance on an ongoing, enterprise-wide, and individual entity basis. The ERMC does not duplicate the risk oversight of the Board's other committees, but rather helps ensure end-to-end understanding and oversight of all risk issues in one Board committee and enhances the Board's and management's understanding of the Company's aggregate enterprise-wide risk appetite.

The following is a discussion of our risk management practices. The risks related to credit, liquidity, interest rate and price warrant in-depth discussion due to the significance of these risks and the impact they may have on our business.

Credit Risk Management

Credit risk is defined as the risk to current or anticipated earnings or capital arising from an obligor’s failure to meet the terms of any contract with the Company, including those in the lending, securities and derivative portfolios, or otherwise perform as agreed. Factors relating to the degree of credit risk include the size of the asset or transaction, the contractual terms of the related documents, the credit characteristics of the borrower, the channel through which assets are acquired, the features of loan products or derivatives, the existence and strength of guarantor support, the availability, quality and adequacy of any underlying collateral and the economic environment after the loan is originated or the asset is acquired. Our overall portfolio credit risk is also impacted by asset concentrations within the portfolio.

Our credit risk management process is primarily governed centrally. Our overall credit process includes comprehensive credit policies, judgmental or statistical credit underwriting, frequent and detailed risk measurement and modeling and loan review, quality control and audit processes. In addition, we have an independent loan review function that reports directly to the Credit Committee of the Board, and internal auditors and regulatory examiners review and perform detailed tests of our credit underwriting, loan administration and allowance processes.

The Chief Credit Officer’s primary responsibilities include directing the activities of the credit risk management function as it relates to the loan portfolio, overseeing loan portfolio performance and ensuring compliance with regulatory requirements and the Company's established credit policies, standards and limits, determining the reasonableness of our allowance for loan losses, reviewing and approving large credit exposures and delegating credit approval authorities. Senior credit administrators who oversee the lines of business have both transaction approval authority and governance authority for the approval of procedures within established policies, standards and limits. The Chief Credit Officer reports directly to the Chief Executive Officer.

The Loan Committee provides direction and oversight within our risk management framework. The committee seeks to ensure effective portfolio risk analysis and policy review and to support sound implementation of defined business and risk strategies. Additionally, the Loan Committee periodically approves credits larger than the Chief Credit Officer’s or Chief Executive Officer’s individual approval authorities allow. The members of the Loan Committee are the Chief Executive Officer, Chief Credit Officer and the Commercial Banking Director.

The loan review department's primary responsibility includes the review of our loan portfolios to provide an independent assessment of credit quality, portfolio oversight and credit management, including accuracy of loan grading. Loan review also conducts targeted credit-related reviews and credit process reviews at the request of the Board and management and reviews a sample of newly originated loans for compliance with closing conditions and accuracy of loan grades. Loan review reports directly to the Credit Committee and administratively to the Compliance and Regulatory Affairs Director.

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Credit limits for capital markets counterparties, including derivative counterparties, are defined in the Company's Counterparty Risk policy, which is reviewed annually by the Bank Loan Committee, with final approval by the Board Credit Committee. The treasury function is responsible for directing the activities related to securities and derivative portfolios, including overseeing derivative portfolio performance and ensuring compliance with established credit policies, standards and limits. The Chief Investment Officer and Treasurer reports directly to the Chief Executive Officer.

Appraisal Policy

An integral part of our credit risk management process is the valuation of the collateral supporting the loan portfolio, which is primarily comprised of loans secured by real estate. We maintain a Board-approved appraisal policy for real estate appraisals that conforms to the Uniform Standards of Professional Appraisal Practice and FDIC regulatory requirements. Our Chief Appraiser, who is independent of the business unit and credit administration departments, is responsible for maintaining the appraisal policy and recommending changes to the policy subject to Loan Committee and Credit Committee approval.

Real Estate

Our appraisal policy requires that market value appraisals or evaluations be prepared prior to new loan origination, subsequent loan transactions and for loan monitoring purposes. Our appraisals are prepared by independent third-party appraisers and our staff appraisers. Evaluations are prepared by independent and qualified third-party providers. We use state certified and licensed appraisers with appropriate expertise as it relates to the subject property type and location. All appraisals contain an “as is” market value estimate based upon the definition of market value as set forth in the FDIC appraisal regulations. For applicable property types, we may also obtain “upon completion” and “upon stabilization” values. The appraisal standard for non-tract development properties (four units or less) is the retail market value of individual units. For tract development properties with five or more units, the appraisal standard is the bulk market value of the tract as a whole.

We review all appraisals and evaluations prior to the closing of a loan transaction. Commercial and single family real estate appraisals and evaluations are reviewed by either our in-house appraisal staff or by independent and qualified third-party appraisers.

For loan monitoring and problem loan management purposes our appraisal practices are as follows:

- We generally do not perform valuation monitoring for pass-graded credits due to minimal credit risk.
- For loans graded special mention, an appraisal is performed at the time of loan downgrade, and an appraisal or evaluation is performed at least every two years thereafter, depending upon property complexity, market area, market conditions, intended use and other considerations.
- For loans graded substandard or doubtful and for all OREO properties, we require an independent third-party appraisal at the time of downgrade or transfer to OREO and at least every twelve months thereafter until disposition or loan upgrade. For loans where foreclosure is probable, an appraisal or evaluation is prepared at the intervening six-month period prior to foreclosure.
- In addition, if we determine that market conditions, changes to the property, changes in the intended use of the property or other factors indicate an appraisal is no longer reliable, we will also obtain an updated appraisal or evaluation and assess whether a change in collateral value requires an additional adjustment to carrying value.

Other

Our appraisal requirements for loans not secured by real estate, such as business loans secured by equipment, include valuation methods ranging from evidence of sales price or verification with a recognized guide for new equipment to a valuation opinion by a professional appraiser for multiple pieces of used equipment.

Loan Modifications

We have modified loans for various reasons for borrowers not experiencing financial difficulties. For example, we have extended maturities on certain loans to allow additional time for sales or leasing of residential and commercial real estate construction or rehabilitation projects. Other short-term extensions have been granted to allow time for receipt of appraisals and other financial reporting information to facilitate underwriting of loan extensions and renewals.

When there is a well-conceived and prudent workout plan that supports the ultimate collection of principal and interest, we may enter into a loan modification to help maximize the likelihood of success for a given workout strategy. In each case we also

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assess whether it is in the best interests of the Company to foreclose or modify the terms. We have made concessions such as interest-only payment terms, interest rate reductions, principal and interest forgiveness and payment restructures. Additionally, we have provided for concessions to construction and land development borrowers that focused primarily on forgiveness of principal in conjunction with settlement activities so as to allow us to acquire control of the real estate collateral. For single family mortgage borrowers, we have generally provided for granting interest rate reductions for periods of three years or less to reduce payments and provide the borrower time to resolve their financial difficulties. In each case, we carefully analyze the borrower's current financial condition to assure that they can make the modified payment.

Asset Quality and Nonperforming Assets

Nonperforming assets were $25.5 million, or 0.72% of total assets at December 31, 2014, compared to $38.6 million, or 1.26% of total assets at December 31, 2013. Nonaccrual loans of $16.0 million, or 0.75% of total loans at December 31, 2014, decreased $9.7 million, or 37.7%, from $25.7 million, or 1.36% of total loans at December 31, 2013. OREO balances of $9.4 million at December 31, 2014 decreased $3.5 million, or 26.8%, from $12.9 million at December 31, 2013. Net charge-offs in 2014 were $565 thousand, compared to $4.6 million in 2013 and $26.5 million in 2012.

At December 31, 2014, our loans held for investment portfolio, excluding the allowance for loan losses, was $2.12 billion, an increase of $225.4 million from December 31, 2013, while the allowance for loan losses decreased to $22.0 million, or 1.04% of loans held for investment, compared to $23.9 million, or 1.26% of loans held for investment at December 31, 2013. The decrease in the allowance for loan losses as a percentage of loans held for investment primarily reflected the improved credit quality of our loan portfolio.

We recorded a reversal of provision for loan losses of $1.0 million during 2014, compared to a provision for loan losses of $900 thousand for 2013 and a provision for loan losses of $11.5 million for 2012. Management considers the current level of the allowance for loan losses to be appropriate to cover estimated incurred losses inherent within our loans held for investment portfolio.

The following table presents the activity in our allowance for credit losses and those amounts that were collectively and individually evaluated for impairment at December 31, 2014, 2013 and 2012.

	December 31,		
(in thousands)	2014	2013	2012
Allowance for credit losses:			
Beginning balance	$24,089	$27,751	$42,800
Charge-offs	(2,508)	(6,854)	(29,875)
Recoveries	1,943	2,292	3,326
Provision	(1,000)	900	11,500
Ending balance	$22,524	$24,089	$27,751
Collectively evaluated for impairment	$20,818	$21,518	$21,383
Individually evaluated for impairment	1,706	2,571	6,368
Total	$22,524	$24,089	$27,751
Loans held for investment:			
Collectively evaluated for impairment	$2,006,974	$1,779,071	$1,216,146
Individually evaluated for impairment	119,224	119,869	123,965
Total	$2,126,198	$1,898,940	$1,340,111

The allowance for credit losses represents management’s estimate of the incurred credit losses inherent within our loan portfolio. For further discussion related to credit policies and estimates see "Critical Accounting Policies and Estimates — Allowance for Loan Losses" within Management's Discussion and Analysis of this Form 10-K.

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The following tables present the recorded investment, unpaid principal balance and related allowance for impaired loans, broken down by those with and those without a specific reserve.

(in thousands)	At December 31, 2014 Recorded Investment		Unpaid Principal Balance	Related Allowance
Impaired loans:				
Loans with no related allowance recorded	$82,725		$98,664	$—
Loans with an allowance recorded	36,499		37,078	1,706
Total	$119,224	(1)	$135,742	$1,706

	At December 31, 2013 Recorded Investment		Unpaid Principal Balance	Related Allowance
Impaired loans:				
Loans with no related allowance recorded	$81,301		$112,795	$—
Loans with an allowance recorded	38,568		38,959	2,571
Total	$119,869	(1)	$151,754	$2,571

	At December 31, 2012 Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans:			
Loans with no related allowance recorded	$53,615	$67,262	$—
Loans with an allowance recorded	70,350	72,220	6,368
Total	$123,965	$139,482	$6,368

(1) Includes $72.3 million and $70.3 million in single family performing troubled debt restructurings ("TDRs") at December 31, 2014 and December 31, 2013, respectively.

The Company had 258 impaired loans totaling $119.2 million at December 31, 2014, and 216 impaired loans totaling $119.9 million at December 31, 2013. Included in the total impaired loan amounts were 199 single family troubled debt restructuring ("TDR") loan relationships totaling $74.8 million at December 31, 2014 and 169 single family TDR relationships totaling $74.3 million at December 31, 2013. The increase in the number of impaired loan relationships at December 31, 2014 from 2013 was primarily due to an increase in the number of single family impaired loans. At December 31, 2014, there were 189 single family impaired relationships totaling $72.3 million that were performing per their current contractual terms. Additionally, the impaired loan balance included $26.8 million of loans insured by the FHA or guaranteed by the VA. The average recorded investment in these loans for the year ended December 31, 2014 was $118.8 million, compared to $122.8 million for the year ended December 31, 2013. Impaired loans of $36.5 million and $38.6 million had a valuation allowance of $1.7 million and $2.6 million at December 31, 2014 and 2013, respectively.

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

	At December 31,								
	2014			2013			2012		
(in thousands)	Amount	Percent of allowance to total allowance	Loan category as a % of total loans	Amount	Percent of allowance to total allowance	Loan category as a % of total loans	Amount	Percent of allowance to total allowance	Loan category as a % of total loans
Consumer loans									
Single family	$9,447	41.9 %	42.2 %	$11,990	49.8 %	47.7 %	$13,388	48.2 %	50.3 %
Home equity	3,322	14.8	6.4	3,987	16.6	7.1	4,648	16.8	10.2
	12,769	56.7	48.6	15,977	66.4	54.8	18,036	65.0	60.5
Commercial loans									
Commercial real estate	3,846	17.0	24.6	4,012	16.6	25.2	5,312	19.2	27.0
Multifamily	673	3.0	2.6	942	3.9	4.2	622	2.2	1.3
Construction/land development	3,818	17.0	17.3	1,414	5.9	6.9	1,580	5.7	5.3
Commercial business	1,418	6.3	6.9	1,744	7.2	8.9	2,201	7.9	5.9
	9,755	43.3	51.4	8,112	33.6	45.2	9,715	35.0	39.5
Total allowance for credit losses	$22,524	100.0 %	100.0 %	$24,089	100.0 %	100.0 %	$27,751	100.0 %	100.0 %

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The following table presents activity in our allowance for credit losses, which includes reserves for unfunded commitments.

(in thousands)	Year Ended December 31, 2014	2013	2012
Allowance at the beginning of period	$24,089	$27,751	$42,800
Provision (reversal of provision) for loan losses	(1,000)	900	11,500
Recoveries:			
Consumer			
Single family	139	536	657
Home equity	566	583	631
	705	1,119	1,288
Commercial			
Commercial real estate	493	134	259
Multifamily residential	—	—	10
Construction/land development	516	767	1,042
Commercial business	229	272	727
	1,238	1,173	2,038
Total recoveries	1,943	2,292	3,326
Charge-offs:			
Consumer			
Single family	907	2,967	5,939
Home equity	953	1,960	4,264
	1,860	4,927	10,203
Commercial			
Commercial real estate	52	1,448	4,253
Construction/land development	—	458	14,861
Commercial business	596	21	558
	648	1,927	19,672
Total charge-offs	2,508	6,854	29,875
(Charge-offs), net of recoveries	(565)	(4,562)	(26,549)
Balance at end of period	$22,524	$24,089	$27,751
Net charge-offs to average loans receivable, net	0.03%	0.30%	2.04%

We manage asset quality and control credit risk by diversifying our loan portfolio and by applying policies designed to promote sound underwriting and loan monitoring practices. The Credit Administration department is charged with monitoring asset quality, establishing credit policies and procedures, and enforcing the consistent application of these policies and procedures across the organization. For further discussion related to credit quality, see Note 5, Loans and Credit Quality to the financial statements of this Form 10-K.

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The following tables present the composition of TDRs by accrual and nonaccrual status.

(in thousands)	At December 31, 2014 Accrual	Number of accrual relationships	Nonaccrual	Number of nonaccrual relationships	Total	Total number of relationships
Consumer:						
Single family[1]	$73,585	193	$2,482	10	$76,067	203
Home equity	2,430	23	231	3	2,661	26
	76,015	216	2,713	13	78,728	229
Commercial:						
Commercial real estate	21,703	4	1,148	1	22,851	5
Multifamily residential	3,077	2	—	—	3,077	2
Construction/land development	5,447	3	—	—	5,447	3
Commercial business	1,573	3	249	2	1,822	5
	31,800	12	1,397	3	33,197	15
	$107,815	228	$4,110	16	$111,925	244

(1) Includes loan balances insured by the FHA or guaranteed by the VA of $26.8 million.

(in thousands)	At December 31, 2013 Accrual	Number of accrual relationships	Nonaccrual	Number of nonaccrual relationships	Total	Total number of relationships
Consumer:						
Single family	$70,304	159	$4,017	10	$74,321	169
Home equity	2,558	23	86	2	2,644	25
	72,862	182	4,103	12	76,965	194
Commercial:						
Commercial real estate	19,620	2	628	1	20,248	3
Multifamily residential	3,163	2	—	—	3,163	2
Construction/land development	6,148	4	—	—	6,148	4
Commercial business	112	1	—	—	112	1
	29,043	9	628	1	29,671	10
	$101,905	191	$4,731	13	$106,636	204

(1) Includes loan balances insured by the FHA or guaranteed by the VA of $17.8 million.

The Company had 244 loan relationships classified as TDRs totaling $111.9 million at December 31, 2014 with related unfunded commitments of $151 thousand. The Company had 204 loan relationships classified as TDRs totaling $106.6 million at December 31, 2013 with related unfunded commitments of $47 thousand. The increase in the number of TDR loan relationships at December 31, 2014 from 2013 was primarily due to an increase in the number of single family loan TDRs. TDR loans within the loans held for investment portfolio and the related reserves are included in the impaired loan tables above. TDR loans held for sale totaled $1.3 million comprised of seven relationships, and $1.9 million comprised of five relationships, as of December 31, 2014 and 2013, respectively, and were predominantly comprised of loans repurchased from Ginnie Mae and cured by modifying interest rate terms.

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The following table presents nonperforming assets, contractually past due assets, and accruing and nonaccrual restructured loans.

(in thousands)	At December 31, 2014	2013	2012	2011	2010
Loans accounted for on a nonaccrual basis: (1)					
Consumer					
Single family	$8,368	$8,861	$13,304	$12,104	$13,938
Home equity	1,526	1,846	2,970	2,464	2,535
	9,894	10,707	16,274	14,568	16,473
Commercial					
Commercial real estate	4,843	12,257	6,403	10,184	20,259
Multifamily residential	—	—	—	2,394	8,167
Construction/land development	—	—	5,042	48,387	65,952
Commercial business	1,277	2,743	2,173	951	2,359
	6,120	15,000	13,618	61,916	96,737
Total loans on nonaccrual	16,014	25,707	29,892	76,484	113,210
Other real estate owned	9,448	12,911	23,941	38,572	170,455
Total nonperforming assets	$25,462	$38,618	$53,833	$115,056	$283,665
Loans 90 days or more past due and accruing (2)	$34,987	$46,811	$40,658	$35,757	$43,503
Accruing TDR loans (3)	107,815	101,905	$100,575	104,931	31,806
Nonaccrual TDR loans (3)	4,110	4,731	10,208	23,540	25,063
Total TDR loans	$111,925	$106,636	$110,783	$128,471	$56,869
Allowance for loan losses as a percent of nonaccrual loans	137.51 %	93.00 %	92.20 %	55.81 %	56.69 %
Nonaccrual loans as a percentage of total loans	0.75 %	1.36 %	2.24 %	5.69 %	7.06 %
Nonperforming assets as a percentage of total assets	0.72 %	1.26 %	2.05 %	5.08 %	11.41 %

(1) If interest on nonaccrual loans under the original terms had been recognized, such income is estimated to have been $2.8 million, $4.6 million and $6.2 million for the years ended December 31, 2014, 2013 and 2012.

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

(3) At December 31, 2014, TDRs (performing and nonperforming) were comprised of 244 loan relationships totaling $111.9 million.

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Delinquent loans and other real estate owned by loan type consisted of the following.

(in thousands)	At December 31, 2014 30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	90 Days or More Past Due and Accruing [1]	Total Past Due Loans	Other Real Estate Owned
Consumer loans						
Single family	$7,832	$2,452	$8,368	$ 34,737	$53,389	$1,613
Home equity	371	81	1,526	—	1,978	—
	8,203	2,533	9,894	34,737	55,367	1,613
Commercial loans						
Commercial real estate	—	—	4,843	—	4,843	1,996
Multifamily	—	—	—	—	—	—
Construction/land development	—	1,261	—	—	1,261	5,839
Commercial business	611	3	1,277	250	2,141	—
	611	1,264	6,120	250	8,245	7,835
Total	$8,814	$3,797	$16,014	$ 34,987	$63,612	$9,448

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

(in thousands)	At December 31, 2013 30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	90 Days or More Past Due and Accruing [1]	Total Past Due Loans	Other Real Estate Owned
Consumer loans						
Single family	$6,466	$4,901	$8,861	$ 46,811	$67,039	$5,246
Home equity	375	75	1,846	—	2,296	—
	6,841	4,976	10,707	46,811	69,335	5,246
Commercial loans						
Commercial real estate	—	—	12,257	—	12,257	1,688
Construction/land development	—	—	—	—	—	5,977
Commercial business	—	—	2,743	—	2,743	—
	—	—	15,000	—	15,000	7,665
Total	$6,841	$4,976	$25,707	$ 46,811	$84,335	$12,911

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

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(in thousands)	At December 31, 2012 30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	90 Days or More Past Due and Accruing [1]	Total Past Due Loans	Other Real Estate Owned
Consumer loans						
Single family	$11,916	$4,732	$13,304	$ 40,658	$70,610	$4,071
Home equity	787	242	2,970	—	3,999	—
	12,703	4,974	16,274	40,658	74,609	4,071
Commercial loans						
Commercial real estate	—	—	6,403	—	6,403	10,283
Construction/land development	—	—	5,042	—	5,042	9,587
Commercial business	—	—	2,173	—	2,173	—
	—	—	13,618	—	13,618	19,870
Total	$12,703	$4,974	$29,892	$ 40,658	$88,227	$23,941

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

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The following table presents nonperforming assets by loan type by region at December 31, 2014.

(in thousands)	Washington Puget Sound King [1]	Snohomish[3]	Pierce [1]	Thurston[3]	Vancouver & Other [2][3]	Central & Eastern WA [2] [3]	Kitsap/Jefferson/Clallam [1]
Loans on nonaccrual status:							
Consumer							
Single family	$2,033	$1,175	$1,480	$167	$ 252	$361	$ —
Home equity	274	63	323	119	132	12	172
	2,307	1,238	1,803	286	384	373	172
Commercial							
Commercial real estate	172	—	3,212	1,148	—	311	—
Commercial business	1,098	—	—	5	—	174	—
	1,270	—	3,212	1,153	—	485	—
Total loans on nonaccrual status	$3,577	$1,238	$5,015	$1,439	$ 384	$858	$ 172
Other real estate owned:							
Consumer							
Single family	$144	$—	$—	$211	$ —	$167	$ —
	144	—	—	211	—	167	—
Commercial							
Commercial real estate	—	—	—	280	—	824	892
Construction/land development	—	—	—	5,839	—	—	—
	—	—	—	6,119	—	824	892
Total other real estate owned	$144	$—	$—	$6,330	$ —	$991	$ 892
Total nonperforming assets	$3,721	$1,238	$5,015	$7,769	$ 384	$1,849	$ 1,064

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(in thousands)	Idaho Boise (2)	Oregon Portland (2)(3)	Bend (2)(3)	Salem (2)	Hawaii	Total
Loans on nonaccrual status:						
Consumer						
Single family	$—	$1,440	$112	$568	$780	$8,368
Home equity	—	231	—	11	189	1,526
	—	1,671	112	579	969	9,894
Commercial						
Commercial real estate	—	—	—	—	—	4,843
Commercial business	—	—	—	—	—	1,277
	—	—	—	—	—	6,120
Total loans on nonaccrual status	$—	$1,671	$112	$579	$969	$16,014
Other real estate owned:						
Consumer						
Single family	$—	$—	$—	$834	$257	$1,613
	—	—	—	834	257	1,613
Commercial						
Commercial real estate	—	—	—	—	—	1,996
Construction/land development	—	—	—	—	—	5,839
	—	—	—	—	—	7,835
Total other real estate owned	$—	$—	$—	$834	$257	$9,448
Total nonperforming assets	$—	$1,671	$112	$1,413	$1,226	$25,462

(1) Refers to a specific county.
(2) Refers to a specific city.
(3) Also includes surrounding counties.

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The following table presents nonperforming assets by loan type by region at December 31, 2013.

	Washington Puget Sound						
(in thousands)	King [1]	Snohomish[3]	Pierce [1]	Thurston[3]	Vancouver & Other [2][3]	Spokane [2][3]	Kitsap/Jefferson/Clallam [1]
Loans on nonaccrual status:							
Consumer							
Single family	$3,032	$1,469	$1,821	$213	$ 292	$ 802	$ —
Home equity	596	117	386	22	49	77	—
	3,628	1,586	2,207	235	341	879	—
Commercial							
Commercial real estate	7,076	2,274	—	—	—	208	—
Commercial business	2,520	—	—	—	—	223	—
	9,596	2,274	—	—	—	431	—
Total loans on nonaccrual status	$13,224	$3,860	$2,207	$235	$ 341	$ 1,310	$ —
Other real estate owned:							
Consumer							
Single family	$923	$105	$577	$—	$ —	$ —	$ —
	923	105	577	—	—	—	—
Commercial							
Commercial real estate	—	—	—	—	—	—	958
Construction/land development	—	—	325	6,219	—	—	—
	—	—	325	6,219	—	—	958
Total other real estate owned	$923	$105	$902	$6,219	$ —	$ —	$ 958
Total nonperforming assets	$14,147	$3,965	$3,109	$6,454	$ 341	$ 1,310	$ 958

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(in thousands)	Idaho Boise (2)	Oregon Portland (2)(3)	Bend (2)(3)	Salem (2)	Hawaii	Total
Loans on nonaccrual status:						
Single family	$—	$271	$301	$—	$660	$8,861
Home equity	—	251	—	85	263	1,846
	—	522	301	85	923	10,707
Commercial real estate	—	2,699	—	—	—	12,257
Commercial business	—	—	—	—	—	2,743
	—	2,699	—	—	—	15,000
Total loans on nonaccrual status	$—	$3,221	$301	$85	$923	$25,707
Other real estate owned:						
Consumer						
Single family	$—	$1,334	$—	$1,410	$897	$5,246
	—	1,334	—	1,410	897	5,246
Commercial						
Commercial real estate	—	—	—	—	—	958
Construction/land development	—	163	—	—	—	6,707
	—	163	—	—	—	7,665
Total other real estate owned	$—	$1,497	$—	$1,410	$897	$12,911
Total nonperforming assets	$—	$4,718	$301	$1,495	$1,820	$38,618

(1) Refers to a specific county.
(2) Refers to a specific city.
(3) Also includes surrounding counties.

The following tables present the single family loan held for investment portfolio by original FICO score.
At December 31, 2014

Greater Than		Less Than or Equal To		Percentage	(1)
N/A	(2)	N/A	(2)	4.0%	
<		500		0.1%	
500		549		0.2%	
550		599		0.9%	
600		649		3.5%	
650		699		16.9%	
700		749		27.0%	
750		>		47.3%	
		TOTAL		100.0%	

(1) Percentages based on aggregate loan amounts.
(2) Information is not available.

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At December 31, 2013

Greater Than		Less Than or Equal To		Percentage	(1)
N/A	(2)	N/A	(2)	3.9%	
<		500		0.1%	
500		549		0.1%	
550		599		0.9%	
600		649		3.3%	
650		699		13.8%	
700		749		25.2%	
750		>		52.7%	
		TOTAL		100.0%	

(1) Percentages based on aggregate loan amounts.
(2) Information is not available.

Loan Underwriting Standards

Our underwriting standards for single family and home equity loans require evaluating and understanding a borrower's credit, collateral and ability to repay the loan. Credit is determined based on how well a borrower manages their current and prior debts, documented by a credit report that provides credit scores and the borrower's current and past information about their credit history. Collateral is based on the type and use of property, occupancy and market value, largely determined by property appraisals. A borrower's ability to repay the loan is based on several factors, including employment, income, current debt, assets and level of equity in the property. We also consider loan-to-property value and debt-to-income ratios, loan amount and lien position in assessing whether to originate a loan. Single family and home equity borrowers are particularly susceptible to downturns in economic trends that negatively affect housing prices and demand and levels of unemployment.

For commercial, multifamily and construction loans, we consider the same factors with regard to the borrower and the guarantors. In addition, we evaluate liquidity, net worth, leverage, other outstanding indebtedness of the borrower, an analysis of cash expected to flow through the borrower (including the outflow to other lenders) and prior experience with the borrower. We use this information to assess financial capacity, profitability and experience. Ultimate repayment of these loans is sensitive to interest rate changes, general economic conditions, liquidity and availability of long-term financing.

Additional considerations for commercial permanent loans secured by real estate:

Our underwriting standards for commercial permanent loans generally require that the loan-to-value ratio for these loans not exceed 75% of appraised value or discounted cash flow value, as appropriate, and that commercial properties attain debt coverage ratios (net operating income divided by annual debt servicing) of 1.25 or better.

Our underwriting standards for multifamily residential permanent loans generally require that the loan-to-value ratio for these loans not exceed 80% of appraised value, cost, or discounted cash flow value, as appropriate, and that multifamily residential properties attain debt coverage ratios of 1.2 or better. However, underwriting standards can be influenced by competition and other factors. We endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.

Additional considerations for commercial construction loans secured by real estate:

We originate a variety of real estate construction loans. Underwriting guidelines for these loans vary by loan type but include loan-to-value limits, term limits, loan advance limits and pre-leasing requirements, as applicable.

Our underwriting guidelines for commercial real estate construction loans generally require that the loan-to-value ratio not exceed 75% and stabilized debt coverage ratios of 1.25 or better.

Our underwriting guidelines for multifamily residential construction loans generally require that the loan-to-value ratio not exceed 80% and stabilized debt coverage ratios of 1.2 or better.

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Our underwriting guidelines for single family residential construction loans to builders generally require that the loan-to-value ratio not exceed 85%.

As noted above, underwriting standards can be influenced by competition and other factors. However, we endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.

Liquidity Risk and Capital Resources

Liquidity risk management is primarily intended to ensure we are able to maintain cash flows adequate to fund operations and meet our obligations, including demands from depositors, draws on lines of credit and paying any creditors, on a timely and cost-effective basis in various market conditions. Our liquidity profile is influenced by changes in market conditions, the composition of the balance sheet and risk tolerance levels. HomeStreet, Inc., HomeStreet Capital ("HSC") and the Bank
have established liquidity guidelines and operating plans that detail the sources and uses of cash and liquidity.

HomeStreet, Inc., HomeStreet Capital and the Bank have different funding needs and sources of liquidity and separate regulatory capital requirements.

HomeStreet, Inc.

The main source of liquidity for HomeStreet, Inc. is proceeds from dividends from the Bank and HomeStreet Capital. In the past, we raised longer-term funds through the issuance of TruPS. Historically, the main cash outflows were distributions to shareholders, interest and principal payments to creditors and operating expenses. HomeStreet, Inc.'s ability to pay dividends to shareholders depends substantially on dividends received from the Bank.

HomeStreet Capital

HomeStreet Capital generates positive cash flow from its servicing fee income on the DUS portfolio, net of its costs to service the portfolio. Offsetting this are HomeStreet Capital's costs to purchase the servicing rights on new production from the Bank. Liquidity management and reporting requirements for DUS lenders such as HomeStreet Capital are set by Fannie Mae. HomeStreet Capital's liquidity management therefore consists of meeting Fannie Mae requirements and its own operational needs.

HomeStreet Bank

The Bank's primary short-term sources of funds include deposits, advances from the FHLB, repayments and prepayments of loans, proceeds from the sale of loans and investment securities and interest from our loans and investment securities. We have also raised short-term funds through the sale of securities under agreements to repurchase. While scheduled principal repayments on loans are a relatively predictable source of funds, deposit inflows and outflows and loan prepayments are greatly influenced by interest rates, economic conditions and competition. The primary liquidity ratio is defined as net cash, short-term investments and other marketable assets as a percent of net deposits and short-term borrowings. At December 31, 2014 our primary liquidity ratio was 30.0%, compared with 26.9% at December 31, 2013.

At December 31, 2014 and 2013, the Bank had available borrowing capacity of $317.9 million and $228.5 million, respectively, from the FHLB, and $316.1 million and $332.7 million, respectively, from the Federal Reserve Bank of San Francisco.

Our lending agreement with the FHLB permits it to refuse to make advances during periods in which an “event of default” (as defined in that agreement) exists. An event of default occurs when the FHLB gives notice to the Bank of an intention to take any of a list of permissible actions following the occurrence of specified events or conditions affecting the Bank. The FHLB has not declared a default under this agreement, and has not notified the Bank that future advances would not be made available.

Cash Flows

For the years ended December 31, 2014, 2013 and 2012, cash and cash equivalents decreased $3.4 million, increased $8.6 million, and decreased $238.0 million, respectively. The following discussion highlights the major activities and transactions that affected our cash flows during these periods.

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Cash flows from operating activities

The Company's operating assets and liabilities are used to support our lending activities, including the origination and sale of mortgage loans. For the year ended December 31, 2014, net cash of $348.6 million was used in operating activities, as cash used to fund loans held for sale production exceeded proceeds from the sale of loans held for sale. During 2014, the Company transferred a net $217.8 million of loans from loans held for investment to loans held for sale. We believe that cash flows from operations, available cash balances and our ability to generate cash through short-term debt are sufficient to fund our operating liquidity needs. For the year ended December 31, 2013, net cash of $304.0 million was provided by operating activities, as proceeds from the sale of loans held for sale exceeded cash used to fund loans held for sale production. During 2013, the Company transferred $93.6 million of loans from loans held for investment to loans held for sale. For the year ended December 31, 2012, net cash of $391.9 million was used by operating activities, as higher mortgage production volumes during 2012 resulted in higher average balances of loans held for sale. Cash used to fund loans held for sale production was largely offset by proceeds from the sale of such loans.

Cash flows from investing activities

The Company's investing activities primarily include available-for-sale securities and loans originated and held for investment. For the year ended December 31, 2014, net cash of $84.2 million was used in investing activities. We used cash of $443.5 million in net originations and principal repayments of loans held for investment during 2014, as a result of increased originations of mortgages that exceed conventional conforming loan limits. Offsetting this decrease to cash was net proceeds of $271.4 million from the sale of loans originated as held for investment and $39.0 million of proceeds form the sale of single family mortgage servicing rights. Net proceeds from our investment securities portfolio were $35.6 million during 2014. For the year ended December 31, 2013, net cash of $459.9 million was used in investing activities. We used cash of $447.9 million in net originations and principal repayments of loans held for investment during 2013, as a result of increased originations of mortgages that exceed conventional conforming loan limits. Net purchases in our investment securities portfolio were $190.0 million during 2013. Additionally, cash of $24.0 million was provided in connection with the purchases of YNB, Fortune Bank and two AmericanWest Bank branches. For the year ended December 31, 2012, net cash of $102.9 million was used by investing activities, as we used the proceeds from our stock issuance to purchase available-for-sale securities. Net purchases in our investment securities portfolio were $119.0 million during 2012. Additionally, we realized net proceeds of $49.6 million from the sale of OREO properties during 2012.

Cash flows from financing activities

The Company's financing activities are primarily related to customer deposits and net proceeds from the FHLB. For the year ended December 31, 2014, net cash of $429.5 million was provided by financing activities, as we increased our lower cost short-term advances from the FHLB. For additional liquidity, the Company added $50 million in federal funds purchased during the fourth quarter of 2014. For the year ended December 31, 2013, net cash of $164.5 million was provided by financing activities, as we increased our lower cost short-term advances from the FHLB. For the year ended December 31, 2012, net cash of $256.7 million was provided by financing activities. We had net proceeds of $200.2 million from FHLB advances as the Company prepaid higher cost long-term FHLB advances, replacing these borrowings with lower cost short-term advances from the FHLB. Additionally, the Company had net proceeds of $88.2 million from the issuance of common stock through our initial public offering and option exercises, which we used to invest in investment securities.

Capital Management

Federally insured depository institutions, such as the Bank, are required to maintain a minimum level of regulatory capital. The FDIC regulations recognize two types, or tiers, of capital: “core capital,” or Tier 1 capital, and “supplementary capital,” or Tier 2 capital. As of December 31, 2014, the FDIC measured a bank’s capital using (1) total risk-based capital ratio, (2) Tier 1 risk-based capital ratio and (3) Tier 1 leverage ratio. Under the standards in place on December 31, 2014, in order to qualify as “well capitalized,” a bank must have a total risk-based capital ratio of at least 10.0%, a Tier 1 risk-based capital ratio of at least 6.0% and a Tier 1 leverage ratio of at least 5.0%. In order to be deemed “adequately capitalized” under such standards, a bank generally must have a total risk-based capital ratio of at least 8.0%, a Tier 1 risk-based capital ratio of at least 4.0% and a Tier 1 leverage ratio of at least 4.0%. Beginning January 1, 2015, new rules under Dodd-Frank adopting the Basel III requirements began to go into effect, increasing the threshold requirements. See "–New Capital Regulations" below. The FDIC retains the right to require a depository institution to maintain a higher capital level based on its particular risk profile.

As of December 31, 2014, the Bank had a total risk-based capital ratio, Tier 1 risk-based capital ratio and Tier 1 leverage capital ratio of 14.03%, 13.10% and 9.38%, respectively, compared with 15.28%, 14.12% and 9.96%, as of December 31,

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2013. At December 31, 2014 the Bank's capital ratios continued to meet the regulatory capital category of "well capitalized" as defined by the FDIC's prompt corrective action rules.

The following table presents the Bank's capital amounts and ratios.

	At December 31, 2014								
	Actual			For Minimum Capital Adequacy Purposes			To Be Categorized As "Well Capitalized" Under Prompt Corrective Action Provisions		
(in thousands)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Tier 1 leverage capital (to average assets)	$319,010	9.38	%	$136,058	4.0	%	$170,072	5.0	%
Tier 1 risk-based capital (to risk-weighted assets)	319,010	13.10	%	97,404	4.0	%	146,106	6.0	%
Total risk-based capital (to risk-weighted assets)	341,534	14.03	%	194,808	8.0	%	243,511	10.0	%

	At December 31, 2013								
	Actual			For Minimum Capital Adequacy Purposes			To Be Categorized As "Well Capitalized" Under Prompt Corrective Action Provisions		
(in thousands)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Tier 1 leverage capital (to average assets)	$291,673	9.96	%	$117,182	4.0	%	$146,478	5.0	%
Tier 1 risk-based capital (to risk-weighted assets)	291,673	14.12	%	81,708	4.0	%	122,562	6.0	%
Total risk-based capital (to risk-weighted assets)	315,762	15.28	%	163,415	8.0	%	204,269	10.0	%

	At December 31, 2012								
	Actual			For Minimum Capital Adequacy Purposes			To Be Categorized As "Well Capitalized" Under Prompt Corrective Action Provisions		
(in thousands)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Tier 1 leverage capital (to average assets)	$286,963	11.78	%	$97,466	4.0	%	$121,833	5.0	%
Tier 1 risk-based capital (to risk-weighted assets)	286,963	18.05	%	63,596	4.0	%	95,394	6.0	%
Total risk-based capital (to risk-weighted assets)	306,934	19.31	%	127,1					