HomeStreet, Inc.
Form 10-Q
November 09, 2012

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: September 30, 2012
Commission file number: 001-35424

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

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

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

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

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

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer | £ | Accelerated Filer | £ |
| Non-accelerated Filer | S | Smaller Reporting Company | £ |

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. After giving effect to a two-for-one forward stock split of our common stock implemented on November 5, 2012, on October 31, 2012, there would have been 14,369,638 shares of no par value Common Stock outstanding.

PART I – FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

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

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

| (in thousands, except share data) | September 30, 2012 | December 31, 2011 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents (including interest-bearing instruments of $11,497 and $246,113) | $22,051 | $263,302 |
| Investment securities available for sale | 414,050 | 329,047 |
| Loans held for sale (includes $525,926 and $130,546 carried at fair value) | 532,580 | 150,409 |
| Loans held for investment (net of allowance for loan losses of $27,461 and $42,689) | 1,268,703 | 1,300,873 |
| Mortgage servicing rights (includes $73,787 and $70,169 carried at fair value) | 81,512 | 77,281 |
| Other real estate owned | 17,003 | 38,572 |
| Federal Home Loan Bank stock, at cost | 36,697 | 37,027 |
| Premises and equipment, net | 13,060 | 6,569 |
| Accounts receivable and other assets | 122,285 | 61,877 |
| | $2,507,941 | $2,264,957 |
| LIABILITIES AND SHAREHOLDERS’ EQUITY | | |
| Liabilities: | | |
| Deposits | $1,981,814 | $2,009,755 |
| Federal Home Loan Bank advances | 131,597 | 57,919 |
| Accounts payable and accrued expenses | 93,413 | 49,019 |
| Long-term debt | 61,857 | 61,857 |
| | 2,268,681 | 2,178,550 |
| Shareholders’ equity: | | |
| Preferred stock, no par value, Authorized 10,000 shares, Issued and outstanding, 0 shares and 0 shares | — | — |
| Common stock, no par value, Authorized 160,000,000, Issued and outstanding, 14,354,972 shares and 5,403,498 shares | 511 | 511 |
| Additional paid-in capital | 89,264 | 31 |
| Retained earnings | 140,136 | 81,746 |
| Accumulated other comprehensive income | 9,349 | 4,119 |
| | 239,260 | 86,407 |
| | $2,507,941 | $2,264,957 |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands, except share data) | 2012 | 2011 | 2012 | 2011 |
| Interest income: | | | | |
| Loans | $18,283 | $17,593 | $52,086 | $54,208 |
| Investment securities available for sale | 2,517 | 1,422 | 7,205 | 5,128 |
| Other | 24 | 117 | 216 | 274 |
| | 20,824 | 19,132 | 59,507 | 59,610 |
| Interest expense: | | | | |
| Deposits | 3,908 | 5,848 | 12,985 | 19,427 |
| Federal Home Loan Bank advances | 297 | 855 | 1,506 | 3,122 |
| Securities sold under agreements to repurchase | 19 | — | 69 | — |
| Long-term debt | 305 | 458 | 1,041 | 1,586 |
| Other | 4 | 1 | 12 | 1 |
| | 4,533 | 7,162 | 15,613 | 24,136 |
| Net interest income | 16,291 | 11,970 | 43,894 | 35,474 |
| Provision for credit losses | 5,500 | 1,000 | 7,500 | 3,300 |
| Net interest income after provision for credit losses | 10,791 | 10,970 | 36,394 | 32,174 |
| Noninterest income: | | | | |
| Net gain on mortgage loan origination and sale activities | 64,390 | 15,766 | 138,386 | 29,702 |
| Mortgage servicing income | 506 | 18,532 | 15,470 | 32,093 |
| Income from Windermere Mortgage Services Series LLC | 1,188 | 902 | 3,748 | 1,380 |
| (Loss) gain on debt extinguishment | — | — | (939) | 2,000 |
| Depositor and other retail banking fees | 756 | 778 | 2,262 | 2,313 |
| Insurance commissions | 192 | 103 | 550 | 724 |
| Gain on sale of investment securities available for sale | 397 | 642 | 1,349 | 643 |
| Other | 704 | 256 | 1,919 | 1,042 |
| | 68,133 | 36,979 | 162,745 | 69,897 |
| Noninterest expense: | | | | |
| Salaries and related costs | 31,573 | 13,217 | 81,149 | 37,056 |
| General and administrative | 7,033 | 4,310 | 19,030 | 12,307 |
| Legal | 312 | 983 | 1,471 | 2,286 |
| Consulting | 1,069 | 270 | 1,746 | 633 |
| Federal Deposit Insurance Corporation assessments | 794 | 1,264 | 2,751 | 4,278 |
| Occupancy | 2,279 | 1,663 | 6,160 | 5,031 |
| Information services | 2,411 | 1,509 | 6,129 | 4,466 |
| Other real estate owned expense | 348 | 9,113 | 8,916 | 26,533 |
| | 45,819 | 32,329 | 127,352 | 92,590 |
| Income before income taxes | 33,105 | 15,620 | 71,787 | 9,481 |
| Income tax expense | 11,762 | 362 | 13,397 | 388 |
| NET INCOME | $21,343 | $15,258 | $58,390 | $9,093 |
| Basic income per share | $1.49 | $2.82 | $4.51 | $1.68 |
| Diluted income per share | $1.45 | $2.66 | $4.35 | $1.62 |

| | | | | |
|---|---|---|---|---|
| Basic weighted average number of shares outstanding | 14,335,950 | 5,403,498 | 12,960,212 | 5,403,498 |
| Diluted weighted average number of shares outstanding | 14,699,032 | 5,745,432 | 13,414,476 | 5,608,104 |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2012 | 2011 | 2012 | 2011 |
| Net income | $21,343 | $15,258 | $58,390 | $9,093 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized gain on securities: | | | | |
| Unrealized holding gain arising during the period (net of tax expense of $1,564 and $3,135 for the three and nine months ended September 30, 2012 and $0 for the three and nine months ended September 30, 2011) | 3,525 | 7,405 | 6,107 | 13,085 |
| Reclassification adjustment for net gain included in net income (net of tax expense of $139 and $472 for the three and nine months ended September 30, 2012 and $0 for the three and nine months ended September 30, 2011) | (258) | (642) | (877) | (643) |
| Other comprehensive income | 3,267 | 6,763 | 5,230 | 12,442 |
| Comprehensive income | $24,610 | $22,021 | $63,620 | $21,535 |

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

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

| (in thousands, except share data) | Number of shares | Common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss) | Total |
|---|---|---|---|---|---|---|
| Balance, January 1, 2011 | 5,403,498 | $511 | $16 | $65,627 | $ (7,365) | $58,789 |
| Net income | — | — | — | 9,093 | — | 9,093 |
| Share-based compensation expense | — | — | 12 | — | — | 12 |
| Other comprehensive income | — | — | — | — | 12,442 | 12,442 |
| Balance, September 30, 2011 | 5,403,498 | $511 | $28 | $74,720 | $ 5,077 | $80,336 |
| | | | | | | |
| Balance, January 1, 2012 | 5,403,498 | $511 | $31 | $81,746 | $ 4,119 | $86,407 |
| Net income | — | — | — | 58,390 | — | 58,390 |
| Share-based compensation expense | — | — | 2,415 | — | — | 2,415 |
| Common stock issued | 8,951,474 | — | 86,818 | — | — | 86,818 |
| Other comprehensive income | — | — | — | — | 5,230 | 5,230 |
| Balance, September 30, 2012 | 14,354,972 | $511 | $89,264 | $140,136 | $ 9,349 | $239,260 |

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

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

| (in thousands) | Nine Months Ended September 30, 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $58,390 | $9,093 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Amortization/accretion of discount/premium on loans held for investment, net of additions | (919) | (536) |
| Amortization of investment securities | 3,877 | 1,988 |
| Amortization of intangibles | 77 | 99 |
| Amortization of mortgage servicing rights | 1,551 | 1,121 |
| Provision for credit losses | 7,500 | 3,300 |
| Provision for losses on other real estate owned | 10,955 | 23,515 |
| Depreciation and amortization on premises and equipment | 1,864 | 1,469 |
| Originations of loans held for sale | (3,433,925) | (1,201,835) |
| Proceeds from sale of loans held for sale | 3,075,401 | 1,196,931 |
| Fair value adjustment of loans held for sale | (23,647) | (9,085) |
| Fair value adjustment of foreclosed loans transferred to other real estate owned | (489) | — |
| Addition of originated mortgage servicing rights | (33,606) | (19,825) |
| Change in fair value of mortgage servicing rights | 27,889 | 31,914 |
| Net gain on sale of investment securities | (1,349) | (643) |
| Gain on sale of other real estate owned | (2,764) | (326) |
| Gain on early retirement of long-term debt | — | (2,000) |
| Net deferred income tax benefit | (11,494) | (16) |
| Share-based compensation expense | 2,415 | 12 |
| Cash used by changes in operating assets and liabilities: | | |
| Increase in accounts receivable and other assets | (55,462) | (23,232) |
| Increase (decrease) in accounts payable and other liabilities | 37,601 | (15,067) |
| Net cash used in operating activities | (336,135) | (3,123) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of investment securities | (260,566) | (204,502) |
| Proceeds from sale of investment securities | 159,174 | 155,924 |
| Principal repayments and maturities of investment securities | 28,150 | 33,738 |
| Proceeds from sale of other real estate owned | 47,392 | 118,744 |
| Mortgage servicing rights purchased from others | (65) | (60) |
| Capital expenditures related to other real estate owned | (4,643) | (841) |
| Origination of loans held for investment and principal repayments, net | (62) | 140,922 |
| Property and equipment purchased, net | (8,355) | (1,297) |
| Net cash (used in) provided by investing activities | (38,975) | 242,628 |

| (in thousands) | Nine Months Ended September 30, | |
|---|---|---|
| | 2012 | 2011 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Decrease in deposits, net | $(27,941) | $(72,765) |
| Proceeds from Federal Home Loan Bank advances | 4,975,490 | 36,398 |
| Repayment of Federal Home Loan Bank advances | (4,901,811) | (134,348) |
| Proceeds from securities sold under agreements to repurchase | 393,500 | — |
| Repayment of securities sold under agreements to repurchase | (393,500) | — |
| Repurchase of Federal Home Loan Bank stock | 330 | — |
| Repayment of long-term debt | — | (3,000) |
| Proceeds from stock issuance, net | 87,791 | — |
| Net cash provided by (used in) financing activities | 133,859 | (173,715) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (241,251) | 65,790 |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of year | 263,302 | 72,639 |
| End of period | $22,051 | $138,429 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for - | | |
| Interest | $16,642 | $24,857 |
| Federal and state income taxes | 11,746 | 11 |
| Noncash activities - | | |
| Loans held for investment foreclosed and transferred to other real estate owned | 37,305 | 35,005 |
| Loans originated to finance the sales of other real estate owned | — | 750 |
| Loans transferred from held for investment to held for sale | 9,966 | — |
| Ginnie Mae loans recognized with the right to repurchase, net | 3,330 | 390 |

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

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

NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

The information furnished in these unaudited interim statements reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The results of operations in the interim statements do not necessarily indicate the results that may be expected for the full year. The interim financial information should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission ("2011 Annual Report on Form 10-K").

Shares outstanding and per share information presented in this Form 10-Q have been adjusted to reflect the 2-for-1 forward stock splits effective on November 5, 2012 and on March 6, 2012, as well as the 1-for-2.5 reverse stock split effective on July 19, 2011.

Accounting Developments in 2012

ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, amends requirements for measuring fair value and for disclosing information about fair value. The Company adopted the amendments in this ASU effective January 1, 2012, which did not have a material effect on our consolidated financial statements.

NOTE 2–SIGNIFICANT RISKS AND UNCERTAINTIES:

Regulatory Agreements

On May 18, 2009, the Company entered into a Stipulation and Consent to the Issuance of an Order to Cease and Desist (the "Company Order") with the Office of Thrift Supervision (the "OTS"). The Company Order most significantly provides that the Company shall not pay dividends and shall not incur, issue, renew, repurchase, make payments on (including interest), or rollover any debt, increase any current lines of credit, or guarantee the debt of any entity without prior approval of the Federal Reserve, which subsequently replaced the OTS as the primary regulator. The Company Order will remain in effect until terminated, modified, or suspended, by written notice of such action by the Federal Reserve. The Company Order, however, does not prohibit the Holding Company from transacting its normal business.

On May 8, 2009, HomeStreet Bank (the "Bank") entered into an agreement with its primary banking regulators, the Federal Deposit Insurance Corporation (“FDIC”), and the Washington State Department of Financial Institutions (“DFI”), pursuant to which we consented to the entry of an Order to Cease & Desist from certain allegedly unsafe and unsound banking practices (the “Bank Order”).

As a result of improvement in the Bank's capital position, including the successful completion of our initial public offering and the subsequent contribution of $65.0 million of net proceeds to the Bank, and improvement in the Bank's asset quality, management, earnings, liquidity and sensitivity to interest rates since the imposition of the Bank Order, on March 26, 2012, the FDIC and DFI terminated the Bank Order. In connection with this termination, we and those regulators have entered into a memorandum of understanding, which requires, among other things, that the Bank maintain a minimum Tier 1 leverage capital ratio of 9.0% and continue to reduce the level of adversely classified assets. The memorandum of understanding continues to prohibit the Bank from paying dividends without the regulators' prior written consent.

NOTE 3–INVESTMENT SECURITIES AVAILABLE FOR SALE:

The amortized cost and fair value of investment securities available for sale at September 30, 2012 and December 31, 2011, are summarized as follows.

| (in thousands) | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|---|---|---|---|
| September 30, 2012: | | | | |
| Mortgage backed securities: | | | | |
| Residential | $62,782 | $704 | $(120) | $63,366 |
| Commercial | 13,813 | 719 | — | 14,532 |
| Municipal bonds (1) | 122,845 | 5,780 | (30) | 128,595 |
| Collateralized mortgage obligations: | | | | |
| Residential | 161,950 | 5,806 | (243) | 167,513 |
| Commercial | 9,055 | 54 | — | 9,109 |
| US Treasury securities | 30,927 | 12 | (4) | 30,935 |
| | $401,372 | $13,075 | $(397) | $414,050 |
| December 31, 2011: | | | | |
| Commercial mortgage backed securities | $13,941 | $542 | $— | $14,483 |
| Municipal bonds (1) | 48,948 | 728 | (92) | 49,584 |
| Collateralized mortgage obligations: | | | | |
| Residential | 220,418 | 3,119 | (147) | 223,390 |
| Commercial | 10,081 | — | (11) | 10,070 |
| US Treasury securities | 31,540 | 3 | (23) | 31,520 |
| | $324,928 | $4,392 | $(273) | $329,047 |

(1) Comprised of general obligation bonds (i.e. backed by the general credit of the issuer) and revenue bonds (i.e. backed by revenues from the specific project being financed) issued by various municipal corporations. As of September 30, 2012 and December 31, 2011, of the bonds that were rated, no bonds were rated below "A."

Mortgage-backed and collateralized mortgage obligations represent securities issued by Government Sponsored Enterprises ("GSEs"). Substantially all securities held are rated and considered at least investment grade, according to their credit rating by Standard and Poor's Rating Services ("S&P") or Moody's Investors Services ("Moody's").

Investment securities that were in an unrealized loss position at September 30, 2012 and December 31, 2011 are presented in the following tables based on the length of time the individual securities have been in an unrealized loss position.

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| (in thousands) | Gross unrealized losses | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses | Fair value |
| September 30, 2012: | | | | | | |
| Mortgage backed securities: | | | | | | |
| Residential | $(120) | $11,516 | $— | $— | $(120) | $11,516 |
| Municipal bonds | (30) | 3,634 | — | — | (30) | 3,634 |
| Collateralized mortgage obligations: | | | | | | |
| Residential | (243) | 20,208 | — | — | (243) | 20,208 |
| US Treasury securities | (1) | 1,603 | (3) | 10,338 | (4) | 11,941 |
| | $(394) | $36,961 | $(3) | $10,338 | $(397) | $47,299 |
| December 31, 2011: | | | | | | |
| Municipal bonds | $— | $— | $(92) | $1,095 | $(92) | $1,095 |
| Collateralized mortgage obligations | | | | | | |
| Residential | (147) | 37,807 | — | — | (147) | 37,807 |
| Commercial | (11) | 10,070 | — | — | (11) | 10,070 |
| US Treasury securities | (23) | 27,510 | — | — | (23) | 27,510 |
| | $(181) | $75,387 | $(92) | $1,095 | $(273) | $76,482 |

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

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 were determined assuming no prepayments. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations before the underlying mortgages mature. The weighted average yield is computed using the contractual coupon of each security weighted based on the fair value of each security and does include adjustments to a tax equivalent basis.

| | At September 30, 2012 | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Within one year | | | After one year through five years | | | After five years through ten years | | | After ten years | | | Total | | |
| (in thousands) | Fair Value | Weighted Average Yield | | Fair Value | Weighted Average Yield | | Fair Value | Weighted Average Yield | | Fair Value | Weighted Average Yield | | Fair Value | Weighted Average Yield | |
| Available for sale: | | | | | | | | | | | | | | | |
| Mortgage-backed securities | | | | | | | | | | | | | | | |
| Residential | $— | — | % | $— | — | % | $— | — | % | $63,366 | 1.97 | % | $63,366 | 1.97 | % |
| Commercial | — | — | % | — | — | % | — | — | % | 14,532 | 3.54 | % | 14,532 | 3.54 | % |
| Municipal bonds | — | — | % | — | — | % | 15,783 | 3.58 | % | 112,812 | 4.59 | % | 128,595 | 4.46 | % |
| Collateralized mortgage obligations | | | | | | | | | | | | | | | |
| Residential | — | — | % | — | — | % | — | — | % | 167,513 | 2.81 | % | 167,513 | 2.81 | % |
| Commercial | — | — | % | — | — | % | — | — | % | 9,109 | 2.06 | % | 9,109 | 2.06 | % |
| U.S. Treasury securities | 4,160 | 0.18 | % | 26,775 | 0.24 | % | — | — | % | — | — | % | 30,935 | 0.23 | % |
| Total available for sale | $4,160 | 0.18 | % | $26,775 | 0.24 | % | $15,783 | 3.58 | % | $367,332 | 3.22 | % | $414,050 | 3.01 | % |

| | At December 31, 2011 | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Within one year | | | After one year through five years | | | After five years through ten years | | | After ten years | | | Total | | |
| (in thousands) | Fair Value | Weighted Average Yield | | Fair Value | Weighted Average Yield | | Fair Value | Weighted Average Yield | | Fair Value | Weighted Average Yield | | Fair Value | Weighted Average Yield | |
| Available for sale: | | | | | | | | | | | | | | | |
| Commercial mortgage backed securities | $— | — | % | $— | — | % | $— | — | % | $14,483 | 3.23 | % | $14,483 | 3.23 | % |
| Municipal bonds | — | — | % | — | — | % | 2,450 | 2.95 | % | 47,134 | 4.65 | % | 49,584 | 4.56 | % |
| Collateralized mortgage obligations | | | | | | | | | | | | | | | |
| Residential | — | — | % | — | — | % | — | — | % | 223,390 | 2.70 | % | 223,390 | 2.70 | % |
| Commercial | — | — | % | — | — | % | — | — | % | 10,070 | 2.06 | % | 10,070 | 2.06 | % |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| U.S. Treasury | 4,010 | 0.23 | % | 27,510 | 0.24 | % | — | — | % | — | — | % | 31,520 | 0.24 | % |
| Total available for sale | $4,010 | 0.23 | % | $27,510 | 0.24 | % | $2,450 | 2.95 | % | $295,077 | 3.02 | % | $329,047 | 2.75 | % |

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Sales of investment securities available for sale were as follows.

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Proceeds | $39,635 | $146,710 | $159,174 | $155,924 |
| Gross gains | 434 | 642 | 1,780 | 643 |
| Gross losses | (37) | — | (431) | — |

There were no securities pledged to secure advances from the Federal Home Loan Bank ("FHLB") at September 30, 2012 and December 31, 2011. At September 30, 2012 and December 31, 2011 there were $19.3 million and $22.5 million, respectively, of securities pledged to secure derivatives in a liability position.

Tax-exempt interest income on securities available for sale totaling $1.3 million and $41 thousand for the three months ended September 30, 2012 and 2011, respectively, and $3.0 million and $172 thousand, for the nine months ended September 30, 2012 and 2011, respectively, were recorded in the Company’s consolidated statements of operations.

NOTE 4–LOANS AND CREDIT QUALITY:

Loans held for investment consist of the following.

| (in thousands) | At September 30, 2012 | At December 31, 2011 |
|---|---|---|
| Consumer loans | | |
| Single family residential | $602,164 | $496,934 |
| Home equity | 141,343 | 158,936 |
| | 743,507 | 655,870 |
| Commercial loans | | |
| Commercial real estate | 360,919 | 402,139 |
| Multifamily residential | 36,912 | 56,379 |
| Construction/land development | 77,912 | 173,405 |
| Commercial business | 80,056 | 59,831 |
| | 555,799 | 691,754 |
| | 1,299,306 | 1,347,624 |
| Net deferred loan fees and costs | (3,142) | (4,062) |
| | 1,296,164 | 1,343,562 |
| Allowance for loan losses | (27,461) | (42,689) |
| | $1,268,703 | $1,300,873 |

Loans are pledged to secure borrowings from the FHLB as part of our liquidity management strategy. The FHLB does not have the right to sell or repledge these loans, which totaled $428.5 million and $490.4 million at September 30, 2012 and December 31, 2011, respectively.

Loans held for investment are primarily secured by real estate located in the states of Washington, Oregon, Idaho and Hawaii.

Loan concentrations may exist when there are amounts loaned to borrowers engaged in similar activities or similar types of loans extended to a diverse group of borrowers that would cause them to be similarly impacted by economic or other conditions. At September 30, 2012 we had concentrations representing 10% or more of the total portfolio by state and property type for the loan classes of single family and commercial real estate within the state of Washington, which represented 34.5% and 20.9% respectively. At December 31, 2011 we had concentrations representing 10% or more of the total portfolio by state and property type for the loan classes of single family, commercial real estate and construction/land development within the state of Washington, which represented 28.4%, 23.8% and 11.1% respectively. These loans were mostly located within the Puget Sound area, particularly within King County.

Credit Quality

Management considers the level of allowance for credit losses to be appropriate to cover credit losses inherent within the loans held for investment portfolio as of September 30, 2012. The allowance for credit losses is comprised of the allowance for loan losses as well as the allowance for unfunded credit commitments, which is reported in accounts payable and accrued expenses on the consolidated statement of financial condition.

Credit quality within the loans held for investment portfolio is continuously monitored by management and is reflected in the allowance for credit losses. Allowance levels are influenced by loan volumes, loan asset quality ratings (AQR) or delinquency status, historic loss experience and other conditions influencing loss expectations, such as economic conditions. The methodology for evaluating the adequacy of the allowance for loan losses has two basic elements: first, the identification of impaired loans and the measurement of impairment for each individual loan identified; and second, a method for estimating an allowance for all other loans.

For further information on the policies that govern the determination of the allowance for loan losses levels, see Note 5, Loans and Credit Quality to the Consolidated Financial Statements within the 2011 Annual Report on Form 10-K.

For the three and nine months ended September 30, 2012 and 2011, activity in the allowance for credit losses by loan portfolio segment and loan class is as follows.

| | Three Months Ended September 30, 2012 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Beginning balance | Charge-offs | Recoveries | Provision | Ending Balance |
| Consumer loans | | | | | |
| Single family residential | $12,865 | $(1,363) | $22 | $2,028 | $13,552 |
| Home equity | 4,851 | (1,078) | 121 | 1,139 | 5,033 |
| | 17,716 | (2,441) | 143 | 3,167 | 18,585 |
| Commercial loans | | | | | |
| Commercial real estate | 4,343 | (1,757) | 130 | 1,020 | 3,736 |
| Multifamily residential | 923 | — | — | (151) | 772 |
| Construction/land development | 3,022 | (1,823) | 193 | 1,472 | 2,864 |
| Commercial business | 1,121 | (74) | 631 | (8) | 1,670 |
| | 9,409 | (3,654) | 954 | 2,333 | 9,042 |
| Total allowance for credit losses | $27,125 | $(6,095) | $1,097 | $5,500 | $27,627 |

| | Three Months Ended September 30, 2011 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Beginning balance | Charge-offs | Recoveries | Provision | Ending Balance |
| Consumer loans | | | | | |
| Single family residential | $10,418 | $(2,160) | $163 | $2,805 | $11,226 |
| Home equity | 4,670 | (1,199) | 84 | 1,687 | 5,242 |
| | 15,088 | (3,359) | 247 | 4,492 | 16,468 |
| Commercial loans | | | | | |
| Commercial real estate | 4,075 | (509) | — | 156 | 3,722 |
| Multifamily residential | 350 | — | — | 7 | 357 |
| Construction/land development | 39,090 | (3,979) | 5 | (3,773) | 31,343 |
| Commercial business | 1,456 | (113) | 35 | 118 | 1,496 |
| | 44,971 | (4,601) | 40 | (3,492) | 36,918 |
| Total allowance for credit losses | $60,059 | $(7,960) | $287 | $1,000 | $53,386 |

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| (in thousands) | Nine Months Ended September 30, 2012<br>Beginning balance | Charge-offs | Recoveries | Provision | Ending Balance |
|---|---|---|---|---|---|
| Consumer loans | | | | | |
| Single family residential | $10,671 | $(3,889) | $455 | $6,315 | $13,552 |
| Home equity | 4,623 | (3,577) | 398 | 3,589 | 5,033 |
| | 15,294 | (7,466) | 853 | 9,904 | 18,585 |
| Commercial loans | | | | | |
| Commercial real estate | 4,321 | (3,474) | 258 | 2,631 | 3,736 |
| Multifamily residential | 335 | — | — | 437 | 772 |
| Construction/land development | 21,237 | (13,858) | 835 | (5,350) | 2,864 |
| Commercial business | 1,613 | (538) | 717 | (122) | 1,670 |
| | 27,506 | (17,870) | 1,810 | (2,404) | 9,042 |
| Total allowance for credit losses | $42,800 | $(25,336) | $2,663 | $7,500 | $27,627 |

| (in thousands) | Nine Months Ended September 30, 2011<br>Beginning balance | Charge-offs | Recoveries | Provision | Ending Balance |
|---|---|---|---|---|---|
| Consumer loans | | | | | |
| Single family residential | $11,977 | $(6,329) | $163 | $5,415 | $11,226 |
| Home equity | 4,495 | (3,572) | 110 | 4,209 | 5,242 |
| | 16,472 | (9,901) | 273 | 9,624 | 16,468 |
| Commercial loans | | | | | |
| Commercial real estate | 10,060 | (578) | — | (5,760) | 3,722 |
| Multifamily residential | 1,795 | — | — | (1,438) | 357 |
| Construction/land development | 33,478 | (9,759) | 6,126 | 1,498 | 31,343 |
| Commercial business | 2,761 | (849) | 208 | (624) | 1,496 |
| | 48,094 | (11,186) | 6,334 | (6,324) | 36,918 |
| Total allowance for credit losses | $64,566 | $(21,087) | $6,607 | $3,300 | $53,386 |

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

| (in thousands) | Allowance: collectively evaluated for impairment | Allowance: individually evaluated for impairment | Total | Loans: collectively evaluated for impairment | Loans: individually evaluated for impairment | Total |
|---|---|---|---|---|---|---|
| September 30, 2012 | | | | | | |
| Consumer loans | | | | | | |
| Single family residential | $11,134 | $2,418 | $13,552 | $533,901 | $68,263 | $602,164 |
| Home equity | 4,989 | 44 | 5,033 | 138,574 | 2,769 | 141,343 |
| | 16,123 | 2,462 | 18,585 | 672,475 | 71,032 | 743,507 |
| Commercial loans | | | | | | |
| Commercial real estate | 3,320 | 416 | 3,736 | 328,194 | 32,725 | 360,919 |
| Multifamily residential | 224 | 548 | 772 | 30,882 | 6,030 | 36,912 |
| Construction/land development | 1,373 | 1,491 | 2,864 | 56,766 | 21,146 | 77,912 |
| Commercial business | 632 | 1,038 | 1,670 | 77,612 | 2,444 | 80,056 |
| | 5,549 | 3,493 | 9,042 | 493,454 | 62,345 | 555,799 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | $21,672 | $5,955 | $27,627 | $1,165,929 | $133,377 | $1,299,306 |

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| (in thousands) | Allowance: collectively evaluated for impairment | Allowance: individually evaluated for impairment | Total | Loans: collectively evaluated for impairment | Loans: individually evaluated for impairment | Total |
|---|---|---|---|---|---|---|
| December 31, 2011 | | | | | | |
| Consumer loans | | | | | | |
| Single family residential | $9,756 | $915 | $10,671 | $437,264 | $59,670 | $496,934 |
| Home equity | 4,111 | 512 | 4,623 | 155,997 | 2,939 | 158,936 |
| | 13,867 | 1,427 | 15,294 | 593,261 | 62,609 | 655,870 |
| Commercial loans | | | | | | |
| Commercial real estate | 4,051 | 270 | 4,321 | 366,914 | 35,225 | 402,139 |
| Multifamily residential | 320 | 15 | 335 | 47,933 | 8,446 | 56,379 |
| Construction/land development | 4,668 | 16,569 | 21,237 | 103,462 | 69,943 | 173,405 |
| Commercial business | 1,177 | 436 | 1,613 | 58,689 | 1,142 | 59,831 |
| | 10,216 | 17,290 | 27,506 | 576,998 | 114,756 | 691,754 |
| Total | $24,083 | $18,717 | $42,800 | $1,170,259 | $177,365 | $1,347,624 |

The Company had 163 impaired relationships totaling $133.4 million at September 30, 2012 and 145 impaired relationships totaling $177.4 million at December 31, 2011. Impaired loans totaling $72.2 million and $82.5 million had a valuation allowance of $6.0 million and $18.7 million at September 30, 2012 and December 31, 2011, respectively. Interest on impaired loans, applied against loan principal or recognized as interest income, of $1.3 million and $1.1 million was recorded for cash payments received during the three months ended September 30, 2012 and 2011 respectively, and $4.3 million and $2.1 million was recorded for cash payments received during the nine months ended September 30, 2012 and 2011 respectively.

The following table presents impaired loans by loan portfolio segment and loan class as of September 30, 2012 and December 31, 2011.

| (in thousands) | Recorded investment (1) | Unpaid principal balance (2) | Related allowance |
|---|---|---|---|
| September 30, 2012 | | | |
| With no related allowance recorded | | | |
| Consumer loans | | | |
| Single family residential | $18,513 | $19,273 | $— |
| Home equity | 1,766 | 1,811 | — |
| | 20,279 | 21,084 | — |
| Commercial loans | | | |
| Commercial real estate | 24,115 | 25,282 | — |
| Multifamily residential | 3,284 | 3,508 | — |
| Construction/land development | 13,026 | 22,901 | — |
| Commercial business | 459 | 984 | — |
| | 40,884 | 52,675 | — |
| | $61,163 | $73,759 | $— |
| With an allowance recorded | | | |
| Consumer loans | | | |
| Single family residential | $49,750 | $50,241 | $2,418 |
| Home equity | 1,003 | 1,153 | 44 |
| | 50,753 | 51,394 | 2,462 |
| Commercial loans | | | |
| Commercial real estate | 8,610 | 10,740 | 416 |
| Multifamily residential | 2,746 | 2,923 | 548 |
| Construction/land development | 8,120 | 8,204 | 1,491 |
| Commercial business | 1,985 | 1,985 | 1,038 |
| | 21,461 | 23,852 | 3,493 |
| | $72,214 | $75,246 | $5,955 |
| Total | | | |
| Consumer loans | | | |
| Single family residential | $68,263 | $69,514 | $2,418 |
| Home equity | 2,769 | 2,964 | 44 |
| | 71,032 | 72,478 | 2,462 |
| Commercial loans | | | |
| Commercial real estate | 32,725 | 36,022 | 416 |
| Multifamily residential | 6,030 | 6,431 | 548 |
| Construction/land development | 21,146 | 31,105 | 1,491 |
| Commercial business | 2,444 | 2,969 | 1,038 |
| | 62,345 | 76,527 | 3,493 |
| | $133,377 | $149,005 | $5,955 |

| (in thousands) | Recorded investment (1) | Unpaid principal balance (2) | Related allowance |
|---|---|---|---|
| December 31, 2011 | | | |
| With no related allowance recorded | | | |
| Consumer loans | | | |
| Single family residential | $23,617 | $23,859 | $— |
| Home equity | 1,353 | 1,358 | — |
| | 24,970 | 25,217 | — |
| Commercial loans | | | |
| Commercial real estate | 34,444 | 36,224 | — |
| Multifamily residential | 7,938 | 8,585 | — |
| Construction/land development | 27,019 | 36,781 | — |
| Commercial business | 454 | 1,305 | — |
| | 69,855 | 82,895 | — |
| | $94,825 | $108,112 | $— |
| With an allowance recorded | | | |
| Consumer loans | | | |
| Single family residential | $36,053 | $36,323 | $914 |
| Home equity | 1,586 | 1,629 | 512 |
| | 37,639 | 37,952 | 1,426 |
| Commercial loans | | | |
| Commercial real estate | 781 | 1,777 | 271 |
| Multifamily residential | 508 | 508 | 15 |
| Construction/land development | 42,924 | 46,527 | 16,569 |
| Commercial business | 688 | 1,017 | 436 |
| | 44,901 | 49,829 | 17,291 |
| | $82,540 | $87,781 | $18,717 |
| Total | | | |
| Consumer loans | | | |
| Single family residential | $59,670 | $60,182 | $914 |
| Home equity | 2,939 | 2,987 | 512 |
| | 62,609 | 63,169 | 1,426 |
| Commercial loans | | | |
| Commercial real estate | 35,225 | 38,001 | 271 |
| Multifamily residential | 8,446 | 9,093 | 15 |
| Construction/land development | 69,943 | 83,308 | 16,569 |
| Commercial business | 1,142 | 2,322 | 436 |
| | 114,756 | 132,724 | 17,291 |
| | $177,365 | $195,893 | $18,717 |

(1) Net Book Balance, includes partial charge-offs and nonaccrual interest paid.

(2) Unpaid Principal Balance does not include partial charge-offs or nonaccrual interest paid. Related allowance is calculated on Net Book Balances not Unpaid Principal Balances.

The following table provides the average recorded investment in impaired loans by portfolio segment and class for the three and nine months ended September 30, 2012 and 2011. Information related to interest income recognized on average impaired loan balances is not included as it is not operationally practicable to derive this.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2012 | 2011 | 2012 | 2011 |
| Consumer loans | | | | |
| Single family residential | $69,419 | $41,091 | $66,967 | $31,953 |
| Home equity | 2,860 | 2,550 | 2,788 | 2,440 |
| | 72,279 | 43,641 | 69,755 | 34,393 |
| Commercial loans | | | | |
| Commercial real estate | 31,765 | 30,950 | 33,439 | 33,379 |
| Multifamily residential | 5,779 | 8,011 | 6,512 | 8,071 |
| Construction/land development | 19,197 | 66,141 | 43,656 | 72,294 |
| Commercial business | 1,792 | 2,632 | 1,379 | 2,744 |
| | 58,533 | 107,734 | 84,986 | 116,488 |
| | $130,812 | $151,375 | $154,741 | $150,881 |

The following table presents designated loan grades by loan portfolio segment and loan class as of September 30, 2012 and December 31, 2011.

| (in thousands) | Pass | Watch | Special mention | Substandard | Total |
|---|---|---|---|---|---|
| September 30, 2012 | | | | | |
| Consumer loans | | | | | |
| Single family residential | $493,597 | $44,266 | $ 40,365 | $23,936 | $602,164 |
| Home equity | 136,225 | 1,389 | 2,705 | 1,024 | 141,343 |
| | 629,822 | 45,655 | 43,070 | 24,960 | 743,507 |
| Commercial loans | | | | | |
| Commercial real estate | 189,052 | 91,858 | 40,645 | 39,364 | 360,919 |
| Multifamily residential | 11,708 | 19,174 | 3,254 | 2,776 | 36,912 |
| Construction/land development | 14,942 | 6,840 | 41,066 | 15,064 | 77,912 |
| Commercial business | 67,791 | 8,724 | 323 | 3,218 | 80,056 |
| | 283,493 | 126,596 | 85,288 | 60,422 | 555,799 |
| | $913,315 | $172,251 | $ 128,358 | $85,382 | $1,299,306 |
| December 31, 2011 | | | | | |
| Consumer loans | | | | | |
| Single family residential | $395,736 | $43,682 | $ 45,412 | $12,104 | $496,934 |
| Home equity | 153,916 | 500 | 2,056 | 2,464 | 158,936 |
| | 549,652 | 44,182 | 47,468 | 14,568 | 655,870 |
| Commercial loans | | | | | |
| Commercial real estate | 188,885 | 114,010 | 52,456 | 46,788 | 402,139 |
| Multifamily residential | 19,383 | 28,550 | 508 | 7,938 | 56,379 |
| Construction/land development | 29,212 | 19,573 | 46,019 | 78,601 | 173,405 |
| Commercial business | 38,851 | 12,462 | 6,818 | 1,700 | 59,831 |
| | 276,331 | 174,595 | 105,801 | 135,027 | 691,754 |
| | $825,983 | $218,777 | $ 153,269 | $149,595 | $1,347,624 |

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The following table presents an aging analysis of past due loans by loan portfolio segment and loan class as of September 30, 2012 and December 31, 2011.

| (in thousands) | 30-59 days past due | 60-89 days past due | 90 days or more past due | Total past due | Current | Total loans | 90 days or more past due and still accruing[1] |
|---|---|---|---|---|---|---|---|
| September 30, 2012 | | | | | | | |
| Consumer loans | | | | | | | |
| Single family residential | $9,658 | $10,374 | $48,048 | $68,080 | $534,084 | $602,164 | $ 35,148 |
| Home equity | 929 | 1,389 | 1,024 | 3,342 | 138,001 | 141,343 | — |
| | 10,587 | 11,763 | 49,072 | 71,422 | 672,085 | 743,507 | 35,148 |
| Commercial loans | | | | | | | |
| Commercial real estate | — | — | 16,186 | 16,186 | 344,733 | 360,919 | — |
| Multifamily residential | — | — | — | — | 36,912 | 36,912 | — |
| Construction/land development | — | — | 5,848 | 5,848 | 72,064 | 77,912 | — |
| Commercial business | — | — | 2,289 | 2,289 | 77,767 | 80,056 | — |
| | — | — | 24,323 | 24,323 | 531,476 | 555,799 | — |
| | $10,587 | $11,763 | $73,395 | $95,745 | $1,203,561 | $1,299,306 | $ 35,148 |
| December 31, 2011 | | | | | | | |
| Consumer loans | | | | | | | |
| Single family residential | $7,694 | $8,552 | $47,861 | $64,107 | $432,827 | $496,934 | $ 35,757 |
| Home equity | 957 | 500 | 2,464 | 3,921 | 155,015 | 158,936 | — |
| | 8,651 | 9,052 | 50,325 | 68,028 | 587,842 | 655,870 | 35,757 |
| Commercial loans | | | | | | | |
| Commercial real estate | — | — | 10,184 | 10,184 | 391,955 | 402,139 | — |
| Multifamily residential | — | — | 2,394 | 2,394 | 53,985 | 56,379 | — |
| Construction/land development | 9,916 | — | 48,387 | 58,303 | 115,102 | 173,405 | — |
| Commercial business | — | — | 951 | 951 | 58,880 | 59,831 | — |
| | 9,916 | — | 61,916 | 71,832 | 619,922 | 691,754 | — |
| | $18,567 | $9,052 | $112,241 | $139,860 | $1,207,764 | $1,347,624 | $ 35,757 |

(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. All single family loans in this category are Ginnie Mae pool loans.

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The following table presents performing and nonaccrual loan balances by loan portfolio segment and loan class as of September 30, 2012 and December 31, 2011.

| (in thousands) | Performing | Nonaccrual | Total |
|---|---|---|---|
| September 30, 2012 | | | |
| Consumer loans | | | |
| Single family residential | $589,264 | $12,900 | $602,164 |
| Home equity | 140,319 | 1,024 | 141,343 |
| | 729,583 | 13,924 | 743,507 |
| Commercial loans | | | |
| Commercial real estate | 344,733 | 16,186 | 360,919 |
| Multifamily residential | 36,912 | — | 36,912 |
| Construction/land development | 72,064 | 5,848 | 77,912 |
| Commercial business | 77,767 | 2,289 | 80,056 |
| | 531,476 | 24,323 | 555,799 |
| | $1,261,059 | $38,247 | $1,299,306 |

| (in thousands) | Performing | Nonaccrual | Total |
|---|---|---|---|
| December 31, 2011 | | | |
| Consumer loans | | | |
| Single family residential | $484,830 | $12,104 | $496,934 |
| Home equity | 156,472 | 2,464 | 158,936 |
| | 641,302 | 14,568 | 655,870 |
| Commercial loans | | | |
| Commercial real estate | 391,955 | 10,184 | 402,139 |
| Multifamily residential | 53,985 | 2,394 | 56,379 |
| Construction/land development | 125,018 | 48,387 | 173,405 |
| Commercial business | 58,880 | 951 | 59,831 |
| | 629,838 | 61,916 | 691,754 |
| | $1,271,140 | $76,484 | $1,347,624 |

Loans are reported as troubled debt restructurings ("TDRs") when the Company grants concessions that it would not otherwise consider to borrowers experiencing financial difficulty. A TDR loan is considered re-defaulted when it becomes doubtful that the objectives of the modifications will be met, generally when a TDR loan becomes 90 days or more past due for interest or principal payments.

The Company had 151 loan relationships classified as TDRs totaling $117.2 million at September 30, 2012 with related unfunded commitments of $103 thousand. The Company had 126 loan relationships classified as TDRs in the amount of $118.5 million at December 31, 2011 with related unfunded commitments of $32 thousand. 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 $173 thousand, comprised of one relationship, and $1.0 million, comprised of five relationships, as of September 30, 2012 and December 31, 2011, respectively, and are predominately comprised of loans previously repurchased from Ginnie Mae and cured by modifying interest rate terms.

The following tables present information about TDRs by loan portfolio segment and loan class as of September 30, 2012 and December 31, 2011.

| (dollars in thousands) | September 30, 2012<br>Concession type | Number of loan relationships | Recorded investment | Related charge-offs |
|---|---|---|---|---|
| Consumer loans | | | | |
| Single family residential | | | | |
| | Interest rate reduction | 102 | $62,810 | $491 |
| | Payment restructure | 11 | 1,975 | 7 |
| | | 113 | $64,785 | $498 |
| Home equity | | | | |
| | Interest rate reduction | 19 | $2,593 | $176 |
| | Payment restructure | 5 | 176 | — |
| | | 24 | $2,769 | $176 |
| Total consumer | | | | |
| | Interest rate reduction | 121 | $65,403 | $667 |
| | Payment restructure | 16 | 2,151 | 7 |
| | | 137 | $67,554 | $674 |
| Commercial loans | | | | |
| Commercial real estate | | | | |
| | Payment restructure | 3 | 24,256 | 1,264 |
| | | 3 | $24,256 | $1,264 |
| Multifamily residential | | | | |
| | Interest rate reduction | 2 | $5,521 | $— |
| | | 2 | $5,521 | $— |
| Construction/land development | | | | |
| | Interest rate reduction | 5 | $18,971 | $7,086 |
| | Forgiveness of principal | 2 | 676 | 43 |
| | | 7 | $19,647 | $7,129 |
| Commercial business | | | | |
| | Payment restructure | 2 | 176 | 391 |
| | | 2 | $176 | $391 |
| Total commercial | | | | |
| | Interest rate reduction | 7 | $24,492 | $7,086 |
| | Payment restructure | 5 | 24,432 | 1,655 |
| | Forgiveness of principal | 2 | 676 | 43 |
| | | 14 | $49,600 | $8,784 |
| Total loans | | | | |
| | Interest rate reduction | 128 | $89,895 | $7,753 |
| | Payment restructure | 21 | 26,583 | 1,662 |
| | Forgiveness of principal | 2 | 676 | 43 |
| | | 151 | $117,154 | $9,458 |

| (dollars in thousands) | December 31, 2011<br>Concession type | Number of loan relationships | Recorded investment | Related charge-offs |
|---|---|---|---|---|
| Consumer loans | | | | |
| Single family residential | | | | |
| | Interest rate reduction | 76 | $53,969 | $270 |
| | Payment restructure | 13 | 2,612 | — |
| | | 89 | $56,581 | $270 |
| Home equity | | | | |
| | Interest rate reduction | 12 | $2,263 | $7 |
| | Payment restructure | 6 | 212 | — |
| | | 18 | $2,475 | $7 |
| Total consumer | | | | |
| | Interest rate reduction | 88 | $56,232 | $277 |
| | Payment restructure | 19 | 2,824 | — |
| | | 107 | $59,056 | $277 |
| Commercial loans | | | | |
| Commercial real estate | | | | |
| | Payment restructure | 2 | $25,040 | $— |
| | | 2 | $25,040 | $— |
| Multifamily residential | | | | |
| | Interest rate reduction | 3 | $6,053 | $— |
| | | 3 | $6,053 | $— |
| Construction/land development | | | | |
| | Interest rate reduction | 6 | $22,881 | $8,589 |
| | Payment restructure | 1 | 2,750 | — |
| | Forgiveness of principal | 3 | 1,801 | 8,795 |
| | | 10 | $27,432 | $17,384 |
| Commercial business | | | | |
| | Payment restructure | 4 | $878 | $852 |
| | | 4 | $878 | $852 |
| Total commercial | | | | |
| | Interest rate reduction | 9 | $28,934 | $8,589 |
| | Payment restructure | 7 | 28,668 | 852 |
| | Forgiveness of principal | 3 | 1,801 | 8,795 |
| | | 19 | $59,403 | $18,236 |
| Total loans | | | | |
| | Interest rate reduction | 97 | $85,166 | $8,866 |
| | Payment restructure | 26 | 31,492 | 852 |
| | Forgiveness of principal | 3 | 1,801 | 8,795 |
| | | 126 | $118,459 | $18,513 |

The following table presents TDR balances which have subsequently re-defaulted during the three and nine months ended September 30, 2012 and 2011, respectively.

| (dollars in thousands) | Three Months Ended September 30, 2012 Number of loan relationships that subsequently re-defaulted | Recorded investment | 2011 Number of loan relationships that subsequently re-defaulted | Recorded investment |
|---|---|---|---|---|
| Consumer loans | | | | |
| Single family residential | 18 | $4,290 | — | $— |
| Home equity | — | — | 1 | 187 |
| | 18 | 4,290 | 1 | 187 |
| Commercial loans | | | | |
| Commercial real estate | 1 | 7,716 | — | — |
| Construction/land development | — | — | 2 | 4,819 |
| Commercial business | 1 | 21 | 1 | 153 |
| | 2 | $7,737 | 3 | $4,972 |
| | 20 | $12,027 | 4 | $5,159 |

| (dollars in thousands) | Nine Months Ended September 30, 2012 Number of loan relationships that subsequently re-defaulted | Recorded investment | 2011 Number of loan relationships that subsequently re-defaulted | Recorded investment |
|---|---|---|---|---|
| Consumer loans | | | | |
| Single family residential | 41 | $9,551 | — | $— |
| Home equity | 1 | 34 | 1 | 187 |
| | 42 | 9,585 | 1 | 187 |
| Commercial loans | | | | |
| Commercial real estate | 1 | 7,716 | — | — |
| Construction/land development | — | — | 6 | 24,590 |
| Commercial business | 3 | 410 | 1 | 153 |
| | 4 | $8,126 | 7 | $24,743 |
| | 46 | $17,711 | 8 | $24,930 |

NOTE 5–OTHER REAL ESTATE OWNED:

Other real estate owned consisted of the following.

| (in thousands) | September 30, 2012 | December 31, 2011 |
|---|---|---|

| | | |
|---|---|---|
| Single family | $2,890 | $7,006 |
| Commercial real estate | 3,489 | 2,436 |
| Construction/land development | 24,889 | 50,632 |