

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

(State or other jurisdiction of incorporation)

601 Union Street, Suite 2000

Seattle, Washington 98101

(Address of principal executive offices)

(Zip Code)

(206) 623-3050

(Registrant's telephone number, including area code)

91-0186600

(IRS Employer Identification No.)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 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

<u>Interim Consolidated Statements of Financial Condition (Unaudited) at September 30, 2012, and December 31, 2011</u>	4
<u>Interim Consolidated Statements of Operations (Unaudited) for the Three and Nine Months Ended September 30, 2012 and 2011</u>	5
<u>Interim Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Nine Months Ended September 30, 2012 and 2011</u>	6
<u>Interim Consolidated Statements of Shareholders' Equity (Unaudited) for the Nine Months Ended September 30, 2012 and 2011</u>	7
<u>Interim Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2012 and 2011</u>	8
<u>Notes to Interim Consolidated Financial Statements (Unaudited)</u>	
<u>Note 1 – Summary of Significant Accounting Policies</u>	10
<u>Note 2 – Significant Risks and Uncertainties</u>	10
<u>Note 3 – Investment Securities Available for Sale</u>	11
<u>Note 4 – Loans and Credit Quality</u>	14
<u>Note 5 – Other Real Estate Owned</u>	25
<u>Note 6 – Derivatives and Hedging Activities</u>	26
<u>Note 7 – Mortgage Banking Operations</u>	27
<u>Note 8 – Commitments, Guarantees, and Contingencies</u>	32
<u>Note 9 – Income Taxes</u>	33
<u>Note 10 – Fair Value Measurement</u>	34
<u>Note 11 – Deposits</u>	40
<u>Note 12 – Share-Based Compensation Plans</u>	41
<u>Note 13 – Earnings Per Share</u>	43
<u>Note 14 – Business Segments</u>	44

<u>Note 15 – Subsequent Events</u>	<u>46</u>
ITEM 2 <u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	
<u>Summary Financial Data</u>	<u>49</u>
<u>Forward-Looking Statements</u>	<u>47</u>
<u>Management’s Overview of Financial Performance</u>	<u>52</u>
<u>Critical Accounting Policies and Estimates</u>	<u>55</u>
<u>Results of Operations</u>	<u>56</u>
<u>Review of Financial Condition</u>	<u>65</u>
<u>Business Segments</u>	<u>67</u>
<u>Off-Balance Sheet Arrangements</u>	<u>70</u>
<u>Enterprise Risk Management</u>	<u>70</u>
<u>Credit Risk Management</u>	<u>71</u>
<u>Liquidity Risk and Capital Resources</u>	<u>78</u>
<u>Accounting Developments</u>	<u>81</u>

ITEM 3	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>82</u>
ITEM 4	<u>CONTROLS AND PROCEDURES</u>	<u>82</u>
<u>PART II – OTHER INFORMATION</u>		
ITEM 1	<u>LEGAL PROCEEDINGS</u>	<u>83</u>
ITEM 1A	<u>RISK FACTORS</u>	<u>83</u>
ITEM 6	<u>EXHIBITS</u>	<u>96</u>
	<u>SIGNATURES</u>	<u>97</u>

Unless we state otherwise or the content otherwise requires, references in this Form 10-Q to “HomeStreet,” “we,” “our,” “us” or the “Company” refer collectively to HomeStreet, Inc., a Washington corporation, HomeStreet Bank (“Bank”), HomeStreet Capital Corporation 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		Nine Months Ended September	
	30,		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	