HomeStreet, Inc.
Form 10-Q
August 06, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: June 30, 2015
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 x No o

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 x No o

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	o	Accelerated Filer	x
Non-accelerated Filer	o	Smaller Reporting Company	o

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

The number of outstanding shares of the registrant's common stock as of August 3, 2015 was 22,070,758.6.

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
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

(in thousands, except share data)	June 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents (including interest-earning instruments of $33,787 and $10,271)	$46,197	$ 30,502
Investment securities (includes $482,832 and $427,326 carried at fair value)	509,545	455,332
Loans held for sale (includes $955,726 and $610,350 carried at fair value)	972,183	621,235
Loans held for investment (net of allowance for loan losses of $25,777 and $22,021; includes $38,224 and $0 carried at fair value)	2,900,675	2,099,129
Mortgage servicing rights (includes $140,588 and $112,439 carried at fair value)	153,237	123,324
Other real estate owned	11,428	9,448
Federal Home Loan Bank stock, at cost	40,742	33,915
Premises and equipment, net	58,111	45,251
Goodwill	11,945	11,945
Other assets	162,185	105,009
Total assets	$4,866,248	$ 3,535,090
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$3,322,653	$ 2,445,430
Federal Home Loan Bank advances	922,832	597,590
Federal funds purchased and securities sold under agreements to repurchase	—	50,000
Accounts payable and other liabilities	111,180	77,975
Long-term debt	61,857	61,857
Total liabilities	4,418,522	3,232,852
Commitments and contingencies (Note 8)		
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, 22,065,249 shares and 14,856,611 shares	511	511
Additional paid-in capital	221,551	96,615
Retained earnings	226,246	203,566
Accumulated other comprehensive income	(582)	1,546
Total shareholders' equity	447,726	302,238
Total liabilities and shareholders' equity	$4,866,248	$ 3,535,090

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except share data)	2015	2014	2015	2014
Interest income:				
Loans	$38,944	$23,419	$70,591	$46,102
Investment securities	3,278	2,664	5,672	5,634
Other	218	142	423	299
	42,440	26,225	76,686	52,035
Interest expense:				
Deposits	3,005	2,356	5,587	4,716
Federal Home Loan Bank advances	906	444	1,518	857
Federal funds purchased and securities sold under agreements to repurchase	3	1	8	1
Long-term debt	272	265	537	580
Other	24	12	72	22
	4,210	3,078	7,722	6,176
Net interest income	38,230	23,147	68,964	45,859
Provision (reversal of provision) for credit losses	500	—	3,500	(1,500)
Net interest income after provision for credit losses	37,730	23,147	65,464	47,359
Noninterest income:				
Net gain on mortgage loan origination and sale activities	69,974	41,794	131,861	67,304
Mortgage servicing income	1,831	10,184	6,128	18,129
Income from WMS Series LLC	484	246	1,048	53
Gain (loss) on debt extinguishment	—	11	—	(575)
Depositor and other retail banking fees	1,399	917	2,538	1,732
Insurance agency commissions	291	232	706	636
Gain (loss) on sale of investment securities available for sale (includes unrealized gain (loss) reclassified from accumulated other comprehensive income of $0 and $(20) for the three months ended June 30, 2015 and 2014, and $0 and $693 for the six months ended June 30, 2015 and 2014, respectively)	—	(20)	—	693
Bargain purchase gain	(79)	—	6,549	—
Other	(913)	286	(470)	385
	72,987	53,650	148,360	88,357
Noninterest expense:				
Salaries and related costs	61,654	40,606	119,247	76,077
General and administrative	14,502	11,145	27,663	21,267
Legal	577	542	1,044	941
Consulting	813	603	6,378	1,554
Federal Deposit Insurance Corporation assessments	861	572	1,386	1,192
Occupancy	6,107	4,675	11,947	9,107
Information services	7,714	4,862	13,834	9,377
Net cost (income) from operation and sale of other real estate owned	107	(34)	318	(453)
	92,335	62,971	181,817	119,062

Income before income taxes	18,382	13,826	32,007	16,654
Income tax expense (includes reclassification adjustments of $0 and $(7) for the three months ended June 30, 2015 and 2014, and $0 and $243 for the six months ended June 30, 2015 and 2014, respectively)	6,006	4,464	9,327	4,991
NET INCOME	$12,376	$9,362	$22,680	$11,663
Basic income per share	$0.56	$0.63	$1.16	$0.79
Diluted income per share	$0.56	$0.63	$1.14	$0.78
Dividends paid on common stock per share	$—	$—	$—	$0.11
Basic weighted average number of shares outstanding	22,028,539	14,800,853	19,593,421	14,792,638
Diluted weighted average number of shares outstanding	22,292,734	14,954,998	19,823,905	14,956,079

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

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

(in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net income	$12,376	$9,362	$22,680	$11,663
Other comprehensive income, net of tax:				
Unrealized gain (loss) on investment securities available for sale:				
Unrealized holding (loss) gain arising during the period, net of tax (benefit) expense of $(2,313) and $2,537 for the three months ended June 30, 2015 and 2014, and $(1,146) and $6,078 for the six months ended June 30, 2015 and 2014, respectively	(4,295)	4,713	(2,128)	11,288
Reclassification adjustment for net gains included in net income, net of tax expense (benefit) of $0 and $(7) for the three months ended June 30, 2015 and 2014, and $0 and $243 for the six months ended June 30, 2015 and 2014, respectively	—	12	—	(451)
Other comprehensive income	(4,295)	4,725	(2,128)	10,837
Comprehensive income	$8,081	$14,087	$20,552	$22,500

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, 2014	14,799,991	$511	$94,474	$182,935	$ (11,994)	$265,926
Net income	—	—	—	11,663	—	11,663
Dividends ($0.11 per share)	—	—	—	(1,626)	—	(1,626)
Share-based compensation expense	—	—	1,199	—	—	1,199
Common stock issued	49,701	—	250	—	—	250
Other comprehensive income	—	—	—	—	10,837	10,837
Balance, June 30, 2014	14,849,692	$511	$95,923	$192,972	$ (1,157)	$288,249
Balance, January 1, 2015	14,856,611	$511	$96,615	$203,566	$ 1,546	$302,238
Net income	—	—	—	22,680	—	22,680
Share-based compensation expense	—	—	598	—	—	598
Common stock issued	7,208,638	—	124,338	—	—	124,338
Other comprehensive loss	—	—	—	—	(2,128)	(2,128)
Balance, June 30, 2015	22,065,249	$511	$221,551	$226,246	$ (582)	$447,726

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

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

(in thousands)	Six Months Ended June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$22,680	$11,663
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	7,156	7,152
Provision (reversal of provision) for credit losses	3,500	(1,500)
Fair value adjustment of loans held for sale	2,265	(12,660)
Fair value adjustment of loans held for investment	1,679	—
Origination of mortgage servicing rights	(36,932)	(20,365)
Change in fair value of mortgage servicing rights	7,075	20,736
Net gain on sale of investment securities	—	(693)
Net fair value adjustment, gain on sale and provision for losses on other real estate owned	(54)	(731)
Loss on early retirement of long-term debt	—	575
Loss on disposal of fixed assets	28	—
Net deferred income tax expense (benefit)	4,292	(15,623)
Share-based compensation expense	630	683
Bargain purchase gain	(6,549)	—
Origination of loans held for sale	(3,628,598)	(1,512,392)
Proceeds from sale of loans originated as held for sale	3,265,616	1,282,100
Cash used by changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable and other assets	(24,903)	3,267
Increase in accounts payable and other liabilities	24,706	1,546
Net cash (used in) operating activities	(357,409)	(236,242)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(49,972)	(30,780)
Proceeds from sale of investment securities	—	65,846
Principal repayments and maturities of investment securities	16,290	24,455
Proceeds from sale of other real estate owned	2,142	4,832
Proceeds from sale of loans originated as held for investment	—	266,823
Proceeds from sale of mortgage servicing rights	3,825	39,004
Mortgage servicing rights purchased from others	(6)	(5)
Origination of loans held for investment and principal repayments, net	(134,003)	(236,854)
Purchase of property and equipment	(11,676)	(11,348)
Net cash acquired from Simplicity acquisition	112,196	—
Net cash provided by investing activities	(61,204)	121,973

(in thousands)	Six Months Ended June 30, 2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits, net	$226,021	$206,891
Proceeds from Federal Home Loan Bank advances	3,934,500	2,492,300
Repayment of Federal Home Loan Bank advances	(3,675,000)	(2,554,800)
Federal funds purchased and proceeds from securities sold under agreements to repurchase	73,004	14,681
Repayment of securities sold under agreements to repurchase	(123,004)	—
Proceeds from Federal Home Loan Bank stock repurchase	27,685	670
Purchase of Federal Home Loan Bank stock	(28,993)	—
Repayment of long-term debt	—	(3,530)
Dividends paid	—	(1,626)
Proceeds from stock issuance, net	127	250
Excess tax benefit (expense) related to the exercise of stock options	(32)	516
Net cash provided by financing activities	434,308	155,352
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,695	41,083
CASH AND CASH EQUIVALENTS:		
Beginning of year	30,502	33,908
End of period	$46,197	$74,991
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest paid	$7,677	$7,159
Federal and state income taxes paid, net of refunds	16,281	7,610
Non-cash activities:		
Loans held for investment foreclosed and transferred to other real estate owned	4,095	2,922
Loans transferred from held for investment to held for sale	15,899	310,455
Loans transferred from held for sale to held for investment	25,668	17,095
Ginnie Mae loans recognized with the right to repurchase, net	594	833
Simplicity acquisition:		
Assets acquired, excluding cash acquired	737,483	—
Liabilities assumed	718,916	—
Bargain purchase gain	6,549	—
Common stock issued	$124,214	$—

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 serving customers primarily in the Pacific Northwest, California and Hawaii. The Company is principally engaged in real estate lending, including mortgage banking activities, and commercial and consumer banking. 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 and Union Street Holdings LLC. HomeStreet Bank was formed in 1986 and is a state-chartered savings bank.

The Company’s accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP). Inter-company balances and transactions have been eliminated in consolidation. In preparing the consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses during the reporting periods and related disclosures. These estimates that require application of management's most difficult, subjective or complex judgments often result in the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. Management has made significant estimates in several areas, including the fair value of assets acquired and liabilities assumed in business combinations (Note 2, Business Combinations), allowance for credit losses (Note 4, Loans and Credit Quality), valuation of residential mortgage servicing rights and loans held for sale (Note 7, Mortgage Banking Operations), loans held for investment (Note 4, Loans and Credit Quality), investment securities (Note 3, Investment Securities) and derivatives (Note 6, Derivatives and Hedging Activities). Certain amounts in the financial statements from prior periods have been reclassified to conform to the current financial statement presentation.

These unaudited interim financial statements reflect 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 financial 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 our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission (“2014 Annual Report on Form 10-K”).

Recent Accounting Developments

On April 7, 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. The ASU was issued to simplify the presentation of debt issuance costs. This guidance requires that debt issuance costs related to a recognized debt liability be presented on the statement of financial condition as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts. This guidance becomes effective for the Company for the interim and annual periods beginning after December 15, 2015, and early adoption is permitted for financial statements that have not been previously issued. The guidance is required to be applied on a retrospective basis to each individual period presented on the statement of financial condition. The adoption of this guidance will result in a reclassification of debt issuance costs from other assets to consolidated obligations on the statement of financial condition. The Company is in the process of evaluating the effect of this guidance on the financial statements but the impact is not expected to be material.
On April 15, 2015, the FASB issued ASU 2015-05, Customer’s Accounting for Fees Paid in Cloud Computing Arrangement. The ASU was issued to clarify a customer's accounting for fees paid in a cloud computing arrangement.

The amendments provide guidance to customers in determining whether a cloud computing arrangement includes a software license that should be accounted for as internal-use software. If the arrangement does not contain a software license, it would be accounted for as a service contract. This guidance becomes effective for the Company for the interim and annual periods beginning after December 15, 2015, early adoption is permitted. The Company can elect to adopt the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. The Company is in the process of evaluating this guidance and its effect on the financial statements but the impact is not expected to be material.

In February 2015, the FASB issued ASU 2015-02, Consolidation. The ASU provides an additional requirement for a limited partnership or similar entity to qualify as a voting interest entity, amending the criteria for consolidating such an entity and eliminating the deferral provided under previous guidance for investment companies. In addition, the new guidance amends the criteria for evaluating fees paid to a decision maker or service provider as a variable interest and amends the criteria for evaluating the effect of fee arrangements and related parties on a VIE primary beneficiary determination. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015. The Company is currently evaluating this guidance to determine the impact on its consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon foreclosure. The ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2014 and can be applied with a modified retrospective transition method or prospectively. The prospective adoption of ASU 2014-04 did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU clarifies the principles for recognizing revenue from contracts with customers. The new accounting guidance, which does not apply to financial instruments, is effective on a retrospective basis beginning on January 1, 2017. The adoption of ASU 2014-09 is not expected to have a material impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to Maturity Transactions, Repurchase Financings, and Disclosures. The ASU applies to all entities that enter into repurchase-to-maturity transactions or repurchase financings. The amendments in this ASU require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. The amendments require an entity to disclose information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements, in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. In addition the amendments require disclosure of the types of collateral pledged in repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions and the tenor of those transactions. The amendments in this ASU are effective for public business entities for the first interim or annual period beginning after December 15, 2014. The application of this guidance required enhanced disclosures of the Company's repurchase agreements, but had no impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. The ASU clarifies the classification of certain foreclosed mortgage loans held by creditors that are either fully or partially guaranteed under government programs. The ASU requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. The separate other receivable should be measured based on the amount of the loan balance expected to be recovered from the guarantor. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2014 and can be applied with a modified retrospective transition method or prospectively. The prospective adoption of ASU 2014-14 did not have a material impact on the Company's consolidated financial statements.

NOTE 2–BUSINESS COMBINATIONS:

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. 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 the origination and sale of fixed-rate, conforming, one-to-four family residential real estate loans in the secondary market, usually with servicing retained. The primary objective for this acquisition is to grow our Commercial and Consumer Banking segment by expanding the business of the former Simplicity branches by offering additional banking and lending products to former Simplicity customers as well as new customers. 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.

At the closing, there were 7,180,005 shares of Simplicity common stock, par value $0.01, outstanding, all of which were cancelled and exchanged for an equal number of shares of HomeStreet common stock, no par value, issued to Simplicity's stockholders. In connection with the merger, all outstanding options to purchase Simplicity common stock were cancelled in exchange for a cash payment equal to the difference between a calculated price of HomeStreet common stock and the exercise price of the option, provided, however, that any options that were out-of-the-money at the time of closing were cancelled for no consideration. The calculated price of $17.53 was determined by averaging the closing price of HomeStreet common stock for the 10 trading days prior to but not including the 5th business day before the closing date. The aggregate consideration paid by us in the Simplicity acquisition was approximately $471 thousand in cash and 7,180,005 of HomeStreet common stock with a fair value of approximately $124.2 million as of the acquisition date. We used current liquidity sources to fund the cash consideration.

The acquisition was accounted for under the acquisition method of accounting pursuant to ASC 805, Business Combinations. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of acquisition date. The Company made significant estimates and exercised significant judgment in estimating the fair values and accounting for such acquired assets and assumed liabilities. The valuation of acquired loans, mortgage servicing rights, premises and equipment, core deposit intangibles, deferred taxes, deposits, Federal Home Loan Bank advances and any contingent liabilities that arise as a result of the transaction are considered preliminary and such fair value estimates are subject to adjustment for up to one year after the acquisition date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier. Any changes to the preliminary estimates during the measurement period are recorded as retrospective adjustments to the consolidated financial statements.

A summary of the consideration paid, the assets acquired and liabilities assumed in the merger are presented below:

(in thousands)	March 1, 2015	
Fair value consideration paid to Simplicity shareholders:		
Cash paid (79,399 stock options, consideration based on intrinsic value at a calculated price of $17.53)		$471
Fair value of common shares issued (7,180,005 shares at $17.30 per share)		124,214
Total purchase price		$124,685
Fair value of assets acquired:		
Cash and cash equivalents	112,667	
Investment securities	26,845	
Acquired loans	664,148	
Mortgage servicing rights	980	
Federal Home Loan Bank stock	5,520	
Premises and equipment	2,966	
Bank-owned life insurance	14,501	
Core deposit intangibles	7,450	
Accounts receivable and other assets	15,073	
Total assets acquired	850,150	
Fair value of liabilities assumed:		
Deposits	651,202	
Federal Home Loan Bank advances	65,855	

Accounts payable and accrued expenses	1,859	
Total liabilities assumed	718,916	
Net assets acquired		$131,234
Preliminary bargain purchase (gain)		$(6,549)

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The provisional application of the acquisition method of accounting resulted in a bargain purchase gain of $6.5 million which was reported as a component of noninterest income on our consolidated statements of operations. A substantial portion of the assets acquired from Simplicity were mortgage-related assets, which generally decrease in value as interest rates rise and increase in value as interest rates fall. The bargain purchase gain was driven largely by a substantial decline in long-term interest rates between the period shortly after our announcement of the Simplicity acquisition and its closing, which resulted in an increase in the fair value of the acquired mortgage assets and the overall net fair value of assets acquired. In addition, the Company believes it was able to acquire Simplicity for less than the fair value of its net assets due to Simplicity's stock trading below its book value for an extended period of time prior to the announcement of the acquisition. The Company negotiated a purchase price per share for Simplicity that was above the prevailing stock price thereby representing a premium to the shareholders. The stock consideration transferred was based on a 1:1 stock conversion ratio. The price of the Company's shares declined between the time the deal was announced and when it closed which also attributed to the bargain purchase gain. The acquisition of Simplicity by the Company was approved by Simplicity's shareholders. For tax purposes, the bargain purchase gain is a non-taxable event.

The operations of Simplicity are included in the Company's operating results as of the acquisition date of March 1, 2015 through the period ended June 30, 2015. Acquisition-related costs were expensed as incurred in noninterest expense as merger and integration costs.

The following table provides a breakout of merger-related expense for the six months ended June 30, 2015 and for the year ended December 31, 2014:

(in thousands)	Six Months Ended June 30, 2015	Year Ended December 31, 2014
Noninterest expense		
Salaries and related costs	$7,676	$23
General and administrative	1,249	179
Legal	351	245
Consulting	5,751	388
Occupancy	383	4
Information services	(37)	50
Total noninterest expense	$15,373	$889

The $664.1 million estimated fair value of loans acquired from Simplicity was determined by utilizing a discounted cash flow methodology considering credit and interest rate risk. Cash flows were determined by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value based on the Company's weighted average cost of capital. The discount for acquired loans from Simplicity was $16.6 million as of the acquisition date.

A core deposit intangible ("CDI") of $7.5 million was recognized related to the core deposits acquired from Simplicity. A discounted cash flow method was used to estimate the fair value of the certificates of deposit. The CDI is amortized over its estimated useful life of approximately ten years using an accelerated method and will be reviewed for impairment quarterly.

The fair value of savings and transaction deposit accounts was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. A discounted cash flow method was used to estimate the fair value of the certificates of deposit. A premium, which will be amortized over the contractual life of the deposits, of $3.96 million was recorded for certificates of deposit.

The fair value of Federal Home Loan Bank advances was estimated using a discounted cash flow method. A premium, which will be amortized over the contractual life of the advances, of $855 thousand was recorded for the Federal Home Loan Bank advances.

The Company determined that the disclosure requirements related to the amounts of revenues and earnings of the acquiree included in the consolidated statements of operations since the acquisition date is impracticable. The financial activity and operating results of the acquiree were commingled with the Company’s financial activity and operating results as of the acquisition date.

Unaudited Pro Forma Results of Operations

The following table presents our unaudited pro forma results of operations for the periods presented as if the Simplicity acquisition had been completed on January 1, 2014. The unaudited pro forma results of operations include the historical accounts of Simplicity and pro forma adjustments as may be required, including the amortization of intangibles with definite lives and the amortization or accretion of any premiums or discounts arising from fair value adjustments for assets acquired and liabilities assumed. The unaudited pro forma information is intended for informational purposes only and is not necessarily indicative of our future operating results or operating results that would have occurred had the Simplicity acquisition been completed at the beginning of 2014. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except share data)	2015	2014	2015	2014
Net interest income	$38,370	$31,516	$73,587	$61,958
Total noninterest income	73,070	54,994	142,563	97,699
Total noninterest expense	89,095	72,883	174,686	147,423
Net income	$14,384	$9,625	$25,599	$13,163
Basic income per share	$0.65	$0.44	$1.16	$0.60
Diluted income per share	$0.65	$0.44	$1.15	$0.60
Basic weighted average number of shares outstanding	22,028,539	21,878,222	22,033,644	21,848,465
Diluted weighted average number of shares outstanding	22,292,734	22,058,842	22,165,741	22,033,217

NOTE 3–INVESTMENT SECURITIES:

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

	At June 30, 2015			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	$109,169	$525	$(1,067)	$108,627
Commercial	12,857	495	—	13,352
Municipal bonds	136,182	2,241	(1,174)	137,249
Collateralized mortgage obligations:				
Residential	81,857	115	(1,360)	80,612
Commercial	19,428	27	(184)	19,271
Corporate debt securities	84,920	130	(2,352)	82,698
U.S. Treasury securities	40,986	37	—	41,023

	$485,399	$3,570	$(6,137)	$482,832

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(in thousands)	At December 31, 2014 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	$107,624	$509	$(853)	$107,280
Commercial	13,030	641	—	13,671
Municipal bonds	119,744	2,847	(257)	122,334
Collateralized mortgage obligations:				
Residential	44,254	161	(1,249)	43,166
Commercial	20,775	—	(289)	20,486
Corporate debt securities	80,214	296	(1,110)	79,400
U.S. Treasury securities	40,976	13	—	40,989
	$426,617	$4,467	$(3,758)	$427,326

Mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO") represent securities issued by government sponsored enterprises ("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 municipal corporations. As of June 30, 2015 and December 31, 2014, 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 June 30, 2015 and December 31, 2014, substantially all securities held had ratings available by external ratings agencies.

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

	At June 30, 2015					
	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
Mortgage-backed securities:						
Residential	$(332)	$41,498	$(735)	$22,440	$(1,067)	$63,938
Municipal bonds	(943)	53,882	(231)	5,752	(1,174)	59,634
Collateralized mortgage obligations:						
Residential	(471)	33,973	(889)	28,540	(1,360)	62,513
Commercial	(89)	9,748	(95)	4,729	(184)	14,477
Corporate debt securities	(1,191)	40,833	(1,161)	28,261	(2,352)	69,094
	$(3,026)	$179,934	$(3,111)	$89,722	$(6,137)	$269,656

(in thousands)	At December 31, 2014 Less than 12 months Gross unrealized losses	Fair value	12 months or more Gross unrealized losses	Fair value	Total Gross unrealized losses	Fair value
Mortgage-backed securities:						
Residential	$—	$—	$(853)	$57,242	$(853)	$57,242
Municipal bonds	(11)	2,339	(246)	17,155	(257)	19,494
Collateralized mortgage obligations:						
Residential	—	—	(1,249)	31,021	(1,249)	31,021
Commercial	(29)	5,037	(260)	15,449	(289)	20,486
Corporate debt securities	(56)	13,140	(1,054)	40,997	(1,110)	54,137
	$(96)	$20,516	$(3,662)	$161,864	$(3,758)	$182,380

The Company has evaluated securities available for sale 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 issuer- or industry-specific credit event. As of June 30, 2015 and December 31, 2014, the Company does not expect any credit losses on its debt securities. In addition, as of June 30, 2015 and December 31, 2014, the Company had not made a decision to sell any of its debt securities held, nor did the Company consider it more likely than not that it would be required to sell such securities before recovery of their amortized cost basis.

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

(in thousands)	At June 30, 2015 Within one year Fair Value	Weighted Average Yield	After one year through five years Fair Value	Weighted Average Yield	After five years through ten years Fair Value	Weighted Average Yield	After ten years Fair Value	Weighted Average Yield	Total Fair Value	Weighted Average Yield
Mortgage-backed securities:										
Residential	$—	— %	$5	0.42 %	$7,171	1.96 %	$101,450	1.93 %	$108,626	1.93 %
Commercial	—	—	—	—	—	—	13,353	4.86	13,353	4.86
Municipal bonds	—	—	4,199	3.65	22,075	3.50	110,975	4.20	137,249	4.07
Collateralized mortgage obligations:										
Residential	—	—	—	—	173	0.90	80,439	1.70	80,612	1.70
Commercial	—	—	—	—	9,748	1.95	9,523	1.69	19,271	1.82
Corporate debt securities	—	—	11,050	2.45	41,325	3.22	30,323	3.64	82,698	3.28

U.S. Treasury securities	41,023	0.35		—	—		—	—		—	—		41,023	0.35	
Total available for sale	$41,023	0.35	%	$15,254	2.77	%	$80,492	3.03	%	$346,063	2.85	%	$482,832	2.67	%

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	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 %

Sales of investment securities available for sale were as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2015	2014	2015	2014
Proceeds	$—	$11,541	$—	$65,846
Gross gains	—	118	—	895
Gross losses	—	(137)	—	(201)

There were $116.6 million and $44.3 million in investment securities pledged to secure advances from the Federal Home Loan Bank of Des Moines ("FHLB") at June 30, 2015 and December 31, 2014, respectively. At June 30, 2015 and December 31, 2014, there were $34.1 million and $33.4 million, respectively, of securities pledged to secure derivatives in a liability position.

The Company assesses the creditworthiness of the counterparties that hold the pledged collateral and has determined that these arrangements have little risk. There were no securities pledged under repurchase agreements at June 30, 2015 and December 31, 2014.

Tax-exempt interest income on securities available for sale totaling $852 thousand and $863 thousand for the three months ended June 30, 2015 and 2014, respectively, and $1.6 million and $1.8 million for the six months ended June 30, 2015 and 2014, respectively, was recorded in the Company's consolidated statements of operations.

NOTE 4–LOANS AND CREDIT QUALITY:

For a detailed discussion of loans and credit quality, including accounting policies and the methodology used to estimate the allowance for credit losses, see Note 1, Summary of Significant Accounting Policies and Note 5, Loans and Credit Quality within our 2014 Annual Report on Form 10-K.

The Company's portfolio of loans held for investment is divided into two portfolio segments, consumer loans and commercial loans, which are the same segments used to determine the allowance for loan losses. Within each portfolio segment, the Company monitors and assesses credit risk based on the risk characteristics of each of the following loan classes: single family and home equity and other loans within the consumer loan portfolio segment and commercial real estate, multifamily, construction/land development and commercial business loans within the commercial loan portfolio segment.

Loans held for investment consist of the following:

(in thousands)	At June 30, 2015	At December 31, 2014
Consumer loans		
Single family	$1,182,542 (1)	$896,665
Home equity and other	216,635	135,598
	1,399,177	1,032,263
Commercial loans		
Commercial real estate	547,571	523,464
Multifamily	366,187	55,088
Construction/land development	454,817	367,934
Commercial business	166,216	147,449
	1,534,791	1,093,935
	2,933,968	2,126,198
Net deferred loan fees, costs and discounts	(7,516)	(5,048)
	2,926,452	2,121,150
Allowance for loan losses	(25,777)	(22,021)
	$2,900,675	$2,099,129

(1) Includes $38.2 million of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

Loans in the amount of $1.32 billion and $1.06 billion at June 30, 2015 and December 31, 2014, respectively, were pledged to secure borrowings from the FHLB as part of our liquidity management strategy. Additionally, loans totaling $516.2 million and $487.2 million were pledged to secure borrowings from the Federal Reserve Bank. The FHLB and Federal Reserve Bank do not have the right to sell or re-pledge these loans.

Credit Risk Concentration

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

Loans held for investment are primarily secured by real estate located in the Pacific Northwest, Oregon, California and Hawaii. At June 30, 2015, 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 20.7%, 15.0% and 11.3% of the total portfolio, respectively. Additionally, we had a concentration representing 10% or more by state and property type for the single family loan class within the state of California, which represented 13.8% of the total portfolio. At December 31, 2014 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 28.0% and 20.7% and 13.7% of the total portfolio, respectively.

Credit Quality

Management considers the level of allowance for loan losses to be appropriate to cover credit losses inherent within the loans held for investment portfolio as of June 30, 2015. In addition to the allowance for loan losses, the Company maintains a separate allowance for losses related to unfunded loan commitments, and this amount is included in accounts payable and other liabilities on the consolidated statements of financial condition. Collectively, these allowances are referred to as the allowance for credit losses.

For further information on the policies that govern the determination of the allowance for loan losses levels, see Note 1, Summary of Significant Accounting Policies within our 2014 Annual Report on Form 10-K.

Activity in the allowance for credit losses was as follows.

(in thousands)	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Allowance for credit losses (roll-forward):				
Beginning balance	$25,628	$22,317	$22,524	$24,089
Provision (reversal of provision) for credit losses	500	—	3,500	(1,500)
(Charge-offs), net of recoveries	320	(149)	424	(421)
Ending balance	$26,448	$22,168	$26,448	$22,168
Components:				
Allowance for loan losses	$25,777	$21,926	$25,777	$21,926
Allowance for unfunded commitments	671	242	671	242
Allowance for credit losses	$26,448	$22,168	$26,448	$22,168

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

(in thousands)	Three Months Ended June 30, 2015 Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$9,959	$—	$181	$(1,143)	$8,997
Home equity and other	3,331	(119)	57	613	3,882
	13,290	(119)	238	(530)	12,879
Commercial loans					
Commercial real estate	4,551	—	37	458	5,046
Multifamily	661	—	—	119	780
Construction/land development	5,003	—	85	855	5,943
Commercial business	2,123	(9)	88	(402)	1,800
	12,338	(9)	210	1,030	13,569
Total allowance for credit losses	$25,628	$(128)	$448	$500	$26,448

(in thousands)	Three Months Ended June 30, 2014 Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$9,406	$(172)	$25	$(148)	$9,111
Home equity and other	3,882	(136)	236	(465)	3,517
	13,288	(308)	261	(613)	12,628
Commercial loans					
Commercial real estate	4,309	(23)	100	(323)	4,063
Multifamily	965	—	—	(78)	887
Construction/land development	2,003	—	46	369	2,418
Commercial business	1,752	(288)	63	645	2,172
	9,029	(311)	209	613	9,540
Total allowance for credit losses	$22,317	$(619)	$470	$—	$22,168

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(in thousands)	Six Months Ended June 30, 2015 Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$9,447	$—	$246	$(696)	$8,997
Home equity and other	3,322	(201)	141	620	3,882
	12,769	(201)	387	(76)	12,879
Commercial loans					
Commercial real estate	3,846	(16)	37	1,179	5,046
Multifamily	673	—	—	107	780
Construction/land development	3,818	—	99	2,026	5,943
Commercial business	1,418	(9)	127	264	1,800
	9,755	(25)	263	3,576	13,569
Total allowance for credit losses	$22,524	$(226)	$650	$3,500	$26,448

(in thousands)	Six Months Ended June 30, 2014 Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$11,990	$(283)	$41	$(2,637)	$9,111
Home equity and other	3,987	(559)	326	(237)	3,517
	15,977	(842)	367	(2,874)	12,628
Commercial loans					
Commercial real estate	4,012	(23)	156	(82)	4,063
Multifamily	942	—	—	(55)	887
Construction/land development	1,414	—	62	942	2,418
Commercial business	1,744	(288)	147	569	2,172
	8,112	(311)	365	1,374	9,540
Total allowance for credit losses	$24,089	$(1,153)	$732	$(1,500)	$22,168

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

(in thousands)	At June 30, 2015 Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total	
Consumer loans							
Single family	$8,738	$259	$8,997	$1,065,566	$ 78,752	$1,144,318	
Home equity and other	3,719	163	3,882	214,468	2,167	216,635	
	12,457	422	12,879	1,280,034	80,919	1,360,953	
Commercial loans							
Commercial real estate	4,672	374	5,046	523,570	24,001	547,571	
Multifamily	581	199	780	361,475	4,712	366,187	
Construction/land development	5,943	—	5,943	450,217	4,600	454,817	
Commercial business	1,487	313	1,800	160,173	6,043	166,216	
	12,683	886	13,569	1,495,435	39,356	1,534,791	
Total loans evaluated for impairment	25,140	1,308	26,448	2,775,469	120,275	2,895,744	
Loans held for investment carried at fair value						38,224	(1)
Total loans held for investment	$25,140	$1,308	$26,448	$2,775,469	$ 120,275	$2,933,968	

(1) Comprised of single family loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

(in thousands)	At December 31, 2014 Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total
Consumer loans						
Single family	$8,743	$704	$9,447	$818,783	$77,882	$896,665
Home equity and other	3,165	157	3,322	132,937	2,661	135,598
	11,908	861	12,769	951,720	80,543	1,032,263
Commercial loans						
Commercial real estate	3,806	40	3,846	496,685	26,779	523,464
Multifamily	312	361	673	52,011	3,077	55,088
Construction/land development	3,818	—	3,818	362,487	5,447	367,934
Commercial business	974	444	1,418	144,071	3,378	147,449
	8,910	845	9,755	1,055,254	38,681	1,093,935
Total	$20,818	$1,706	$22,524	$2,006,974	$119,224	$2,126,198

The Company recorded $500 thousand of provision for credit losses in the second quarter of 2015. The credit loss provision recorded in the quarter was the result of overall growth in the loans held for investment portfolio.

Impaired Loans

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

(in thousands)	At June 30, 2015 Recorded investment (1)	Unpaid principal balance (2)	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$76,135	$78,337	$—
Home equity and other	1,387	1,412	—
	77,522	79,749	—
Commercial loans			
Commercial real estate	10,429	12,179	—
Multifamily	3,810	4,223	—
Construction/land development	4,600	5,101	—
Commercial business	5,015	5,516	—
	23,854	27,019	—
	$101,376	$106,768	$—
With an allowance recorded:			
Consumer loans			
Single family	$2,617	$2,730	$259
Home equity and other	780	780	163
	3,397	3,510	422
Commercial loans			
Commercial real estate	13,572	13,585	374
Multifamily	902	850	199
Construction/land development	—	—	—
Commercial business	1,028	1,145	313
	15,502	15,580	886
	$18,899	$19,090	$1,308
Total:			
Consumer loans			
Single family(3)	$78,752	$81,067	$259
Home equity and other	2,167	2,192	163
	80,919	83,259	422
Commercial loans			
Commercial real estate	24,001	25,764	374
Multifamily	4,712	5,073	199
Construction/land development	4,600	5,101	—
Commercial business	6,043	6,661	313
	39,356	42,599	886
Total impaired loans	$120,275	$125,858	$1,308

(1) Includes partial charge-offs and nonaccrual interest paid and purchase discounts and premiums.

(2) Unpaid principal balance does not include partial charge-offs, purchase discounts and premiums or nonaccrual interest paid. Related allowance is calculated on net book balances not unpaid principal balances.

(3) Includes $75.7 million in performing troubled debt restructurings ("TDRs").

(in thousands)	At December 31, 2014 Recorded investment (1)	Unpaid principal balance (2)	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$48,104	$50,787	$—
Home equity and other	1,824	1,850	—
	49,928	52,637	—
Commercial loans			
Commercial real estate	25,540	27,205	—
Multifamily	508	508	—
Construction/land development	5,447	14,532	—
Commercial business	1,302	3,782	—
	32,797	46,027	—
	$82,725	$98,664	$—
With an allowance recorded:			
Consumer loans			
Single family	$29,778	$29,891	$704
Home equity and other	837	837	157
	30,615	30,728	861
Commercial loans			
Commercial real estate	1,239	1,399	40
Multifamily	2,569	2,747	361
Commercial business	2,076	2,204	444
	5,884	6,350	845
	$36,499	$37,078	$1,706
Total:			
Consumer loans			
Single family(3)	$77,882	$80,678	$704
Home equity and other	2,661	2,687	157
	80,543	83,365	861
Commercial loans			
Commercial real estate	26,779	28,604	40
Multifamily	3,077	3,255	361
Construction/land development	5,447	14,532	—
Commercial business	3,378	5,986	444
	38,681	52,377	845
Total impaired loans	$119,224	$135,742	$1,706

(1) Includes partial charge-offs and nonaccrual interest paid.
(2) Unpaid principal balance does not include partial charge-offs, purchase discounts and premiums or nonaccrual interest paid. Related allowance is calculated on net book balances not unpaid principal balances.
(3) Includes $73.6 million in single family performing TDRs.

The following table provides the average recorded investment in impaired loans by portfolio segment and class.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2015	2014	2015	2014
Consumer loans				
Single family	$78,720	$70,977	$78,440	$71,713
Home equity and other	2,250	2,466	2,387	2,525
	80,970	73,443	80,827	74,238
Commercial loans				
Commercial real estate	23,469	31,771	24,572	31,806
Multifamily	4,270	3,135	3,873	3,144
Construction/land development	5,047	5,875	5,180	5,966
Commercial business	4,832	3,200	4,347	3,085
	37,618	43,981	37,972	44,001
	$118,588	$117,424	$118,799	$118,239

Credit Quality Indicators

Management regularly reviews loans in the portfolio to assess credit quality indicators and to determine appropriate loan classification and grading in accordance with applicable bank regulations. The Company's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The Company differentiates its lending portfolios into homogeneous loans and non-homogeneous loans.

The 10 risk rating categories can be generally described by the following groupings for non-homogeneous loans:

Pass. We have five pass risk ratings which represent a level of credit quality that ranges from no well-defined deficiency or weakness to some noted weakness, however the risk of default on any loan classified as pass is expected to be remote. The five pass risk ratings are described below:

Minimal Risk. A minimal risk loan, risk rated 1-Exceptional, is to a borrower of the highest quality. The borrower has an unquestioned ability to produce consistent profits and service all obligations and can absorb severe market disturbances with little or no difficulty.

Low Risk. A low risk loan, risk rated 2-Superior, is similar in characteristics to a minimal risk loan. Balance sheet and operations are slightly more prone to fluctuations within the business cycle; however, debt capacity and debt service coverage remains strong. The borrower will have a strong demonstrated ability to produce profits and absorb market disturbances.

Modest Risk. A modest risk loan, risk rated 3-Excellent, is a desirable loan with excellent sources of repayment and no currently identifiable risk associated with collection. The borrower exhibits a very strong capacity to repay the loan in accordance with the repayment agreement. The borrower may be susceptible to economic cycles, but will have cash reserves to weather these cycles.

Average Risk. An average risk loan, risk rated 4-Good, is an attractive loan with sound sources of repayment and no material collection or repayment weakness evident. The borrower has an acceptable capacity to pay in accordance with the agreement. The borrower is susceptible to economic cycles and more efficient competition, but should have modest reserves sufficient to survive all but the most severe downturns or major setbacks.

Acceptable Risk. An acceptable risk loan, risk rated 5-Acceptable, is a loan with lower than average, but still acceptable credit risk. These borrowers may have higher leverage, less certain but viable repayment sources, have limited financial reserves and may possess weaknesses that can be adequately mitigated through collateral, structural or credit enhancement. The borrower is susceptible to economic cycles and is less resilient to negative market forces or financial events. Reserves may be insufficient to survive a modest downturn.

Watch. A watch loan, risk rated 6-Watch, is still pass-rated, but represents the lowest level of acceptable risk due to an emerging risk element or declining performance trend. Watch ratings are expected to be temporary, with issues resolved or manifested to the extent that a higher or lower rating would be appropriate. The borrower should have a plausible plan, with reasonable certainty of success, to correct the problems in a short period of time. Borrowers rated watch are characterized by elements of uncertainty, such as:

- The borrower may be experiencing declining operating trends, strained cash flows or less-than anticipated performance. Cash flow should still be adequate to cover debt service, and the negative trends should be identified as being of a short-term or temporary nature.
- The borrower may have experienced a minor, unexpected covenant violation.
- Companies who may be experiencing tight working capital or have a cash cushion deficiency.
- A loan may also be a watch if financial information is late, there is a documentation deficiency, the borrower has experienced unexpected management turnover, or if they face industry issues that, when combined with performance factors create uncertainty in their future ability to perform.
- Delinquent payments, increasing and material overdraft activity, request for bulge and/or out- of-formula advances may be an indicator of inadequate working capital and may suggest a lower rating.
- Failure of the intended repayment source to materialize as expected, or renewal of a loan (other than cash/marketable security secured or lines of credit) without reduction are possible indicators of a watch or worse risk rating.

Special Mention. A special mention loan, risk rated 7-Special Mention, has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loans or the institutions credit position at some future date. They contain unfavorable characteristics and are generally undesirable. Loans in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of a substandard classification. A special mention loan has potential weaknesses, which if not checked or corrected, weaken the loan or inadequately protect the Company’s position at some future date. Such weaknesses include:

- Performance is poor or significantly less than expected. There may be a temporary debt-servicing deficiency or inadequate working capital as evidenced by a cash cushion deficiency, but not to the extent that repayment is compromised. Material violation of financial covenants is common.
- Loans with unresolved material issues that significantly cloud the debt service outlook, even though a debt servicing deficiency does not currently exist.
- Modest underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt as structured. Depth of support for interest carry provided by owner/guarantors may mitigate and provide for improved rating
- This rating may be assigned when a loan officer is unable to supervise the credit properly, an inadequate loan agreement, an inability to control collateral, failure to obtain proper documentation, or any other deviation from prudent lending practices.
- Unlike a substandard credit, there should be a reasonable expectation that these temporary issues will be corrected within the normal course of business, rather than liquidation of assets, and in a reasonable period of time.

Substandard. A substandard loan, risk rated 8-Substandard, is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the loan. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard. Loans are classified as substandard when they have unsatisfactory characteristics causing unacceptable levels of risk. A substandard loan normally has one or more well-defined weaknesses that could jeopardize repayment of the loan. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations is the key distinction between special mention and substandard. The following are examples of well-defined weaknesses:

-

Cash flow deficiencies or trends are of a magnitude to jeopardize current and future payments with no immediate relief. A loss is not presently expected, however the outlook is sufficiently uncertain to preclude ruling out the possibility.

- The borrower has been unable to adjust to prolonged and unfavorable industry or economic trends.

- Material underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt and risk is not mitigated by willingness and capacity of owner/guarantor to support interest payments.
- Management character or honesty has become suspect. This includes instances where the borrower has become uncooperative.
- Due to unprofitable or unsuccessful business operations, some form of restructuring of the business, including liquidation of assets, has become the primary source of loan repayment. Cash flow has deteriorated, or been diverted, to the point that sale of collateral is now the Company’s primary source of repayment (unless this was the original source of repayment). If the collateral is under the Company’s control and is cash or other liquid, highly marketable securities and properly margined, then a more appropriate rating might be special mention or watch.
- The borrower is involved in bankruptcy proceedings where collateral liquidation values are expected to fully protect the Company against loss.
- There is material, uncorrectable faulty documentation or materially suspect financial information.

Doubtful. Loans classified as doubtful, risk rated 9-Doubtful, have all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening of the loan, classification as a loss (and immediate charge-off) is deferred until more exact status may be determined. Pending factors include proposed merger, acquisition, liquidation procedures, capital injection, and perfection of liens on additional collateral and refinancing plans. In certain circumstances, a doubtful rating will be temporary, while the Company is awaiting an updated collateral valuation. In these cases, once the collateral is valued and appropriate margin applied, the remaining un-collateralized portion will be charged-off. The remaining balance, properly margined, may then be upgraded to substandard, however must remain on non-accrual.

Loss. Loans classified as loss, risk rated 10-Loss, are considered un-collectible and of such little value that the continuance as an active Company asset is not warranted. This rating does not mean that the loan has no recovery or salvage value, but rather that the loan should be charged-off now, even though partial or full recovery may be possible in the future.

Impaired. Loans are classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement, without unreasonable delay. This generally includes all loans classified as nonaccrual and troubled debt restructurings. Impaired loans are risk rated for internal and regulatory rating purposes, but presented separately for clarification.

Homogeneous loans maintain their original risk rating until they are greater than 30 days past due, and risk rating reclassification is based primarily on the past due status of the loan. The risk rating categories can be generally described by the following groupings for commercial and commercial real estate homogeneous loans:

Watch. A homogeneous watch loan, risk rated 6, is 30-59 days past due from the required payment date at month-end.

Special Mention. A homogeneous special mention loan, risk rated 7, is 60-89 days past due from the required payment date at month-end.

Substandard. A homogeneous substandard loan, risk rated 8, is 90-179 days past due from the required payment date at month-end.

Loss. A homogeneous loss loan, risk rated 10, is 180 days and more past due from the required payment date. These loans are generally charged-off in the month in which the 180 day time period elapses.

The risk rating categories can be generally described by the following groupings for residential and home equity and other homogeneous loans:

Watch. A homogeneous retail watch loan, risk rated 6, is 60-89 days past due from the required payment date at month-end.

Substandard. A homogeneous retail substandard loan, risk rated 8, is 90-180 days past due from the required payment date at month-end.

Loss. A homogeneous retail loss loan, risk rated 10, becomes past due 180 cumulative days from the contractual due date. These loans are generally charged-off in the month in which the 180 day period elapses.

Residential and home equity loans modified in a troubled debt restructure are not considered homogeneous. The risk rating classification for such loans are based on the non-homogeneous definitions noted above.

The following tables summarize designated loan grades by loan portfolio segment and loan class.

	At June 30, 2015				
(in thousands)	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$1,149,603 (1)	$1,498	$20,604	$10,837	$1,182,542
Home equity and other	214,492	61	481	1,601	216,635
	1,364,095	1,559	21,085	12,438	1,399,177
Commercial loans					
Commercial real estate	452,364	76,226	8,285	10,696	547,571
Multifamily	339,780	18,529	4,687	3,191	366,187
Construction/land development	448,247	3,240	1,314	2,016	454,817
Commercial business	131,601	27,647	2,354	4,614	166,216
	1,371,992	125,642	16,640	20,517	1,534,791
	$2,736,087	$127,201	$37,725	$32,955	$2,933,968

(1) Includes $38.2 million of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

	At December 31, 2014				
(in thousands)	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$865,641	$361	$21,714	$8,949	$896,665
Home equity and other	133,338	82	652	1,526	135,598
	998,979	443	22,366	10,475	1,032,263
Commercial loans					
Commercial real estate	441,509	67,434	13,066	1,455	523,464
Multifamily	50,495	1,516	3,077	—	55,088
Construction/land development	361,167	2,830	1,261	2,676	367,934
Commercial business	115,665	25,724	3,690	2,370	147,449
	968,836	97,504	21,094	6,501	1,093,935
	$1,967,815	$97,947	$43,460	$16,976	$2,126,198

As of June 30, 2015 and December 31, 2014, none of the Company's loans were rated Doubtful or Loss. For a detailed discussion on credit quality, see Note 6, Loans and Credit Quality within our 2014 Annual Report on Form 10-K.

Nonaccrual and Past Due Loans
Loans are placed on nonaccrual status when the full and timely collection of principal and interest is doubtful, generally when the loan becomes 90 days or more past due for principal or interest payment or if part of the principal

balance has been charged off. Loans whose repayments are insured by the Federal Housing Authority ("FHA") or guaranteed by the Department of Veterans' Affairs ("VA") are generally maintained on accrual status even if 90 days or more past due.

The following table presents an aging analysis of past due loans by loan portfolio segment and loan class.

	At June 30, 2015						
(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 accruing (2)
Consumer loans							
Single family	$8,619	$3,400	$41,959	$53,978	$1,128,564 (1)	$1,182,542	$31,700 (2)
Home equity and other	658	80	1,533	2,271	214,364	216,635	—
	9,277	3,480	43,492	56,249	1,342,928	1,399,177	31,700
Commercial loans							
Commercial real estate	—	—	3,850	3,850	543,721	547,571	—
Multifamily	—	—	1,671	1,671	364,516	366,187	—
Construction/land development	—	—	—	—	454,817	454,817	—
Commercial business	—	—	3,995	3,995	162,221	166,216	—
	—	—	9,516	9,516	1,525,275	1,534,791	—
	$9,277	$3,480	$53,008	$65,765	$2,868,203	$2,933,968	$31,700

	At December 31, 2014						
(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 accruing (2)
Consumer loans							
Single family	$7,832	$2,452	$43,105	$53,389	$843,276	$896,665	$34,737 (2)
Home equity and other	371	81	1,526	1,978	133,620	135,598	—
	8,203	2,533	44,631	55,367	976,896	1,032,263	34,737
Commercial loans							
Commercial real estate	—	—	4,843	4,843	518,621	523,464	—
Multifamily	—	—	—	—	55,088	55,088	—
Construction/land development	—	1,261	—	1,261	366,673	367,934	—
Commercial business	611	3	1,527	2,141	145,308	147,449	250
	611	1,264	6,370	8,245	1,085,690	1,093,935	250
	$8,814	$3,797	$51,001	$63,612	$2,062,586	$2,126,198	$34,987

(1) Includes $38.2 million of loans at June 30, 2015 where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

(2) 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.

The following tables present performing and nonperforming loan balances by loan portfolio segment and loan class.

	At June 30, 2015		
(in thousands)	Accrual	Nonaccrual [(2)]	Total
Consumer loans			
Single family	$1,172,283 [(1)]	$10,259	$1,182,542
Home equity and other	215,102	1,533	216,635
	1,387,385	11,792	1,399,177
Commercial loans			
Commercial real estate	543,721	3,850	547,571
Multifamily	364,516	1,671	366,187
Construction/land development	454,817	—	454,817
Commercial business	162,221	3,995	166,216
	1,525,275	9,516	1,534,791
	$2,912,660	$21,308	$2,933,968

(1) Includes $38.2 million of loans at June 30, 2015 where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.
(2) Included in this balance are $8.5 million of acquired nonperforming loans.

	At December 31, 2014		
(in thousands)	Accrual	Nonaccrual	Total
Consumer loans			
Single family	$888,297	$8,368	$896,665
Home equity and other	134,072	1,526	135,598
	1,022,369	9,894	1,032,263
Commercial loans			
Commercial real estate	518,621	4,843	523,464
Multifamily	55,088	—	55,088
Construction/land development	367,934	—	367,934
Commercial business	146,172	1,277	147,449
	1,087,815	6,120	1,093,935
	$2,110,184	$16,014	$2,126,198

The following tables present information about troubled debt restructurings ("TDRs") activity during the periods presented.

(dollars in thousands)	Three Months Ended June 30, 2015 Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	17	$4,402	$—
	Payment restructure	—	—	—
Home equity and other				
	Interest rate reduction	—	—	—
Total consumer				
	Interest rate reduction	17	4,402	—
	Payment restructure	—	—	—
		17	4,402	—
Commercial loans				
Commercial real estate				
	Interest rate reduction	—	—	—
	Payment restructure	—	—	—
Commercial business				
	Interest rate reduction	2	482	—
	Forgiveness of principal	—	—	—
Total commercial				
	Interest rate reduction	2	482	—
	Payment restructure	—	—	—
	Forgiveness of principal	—	—	—
		2	482	—
Total loans				
	Interest rate reduction	19	4,884	—
	Payment restructure	—	—	—
	Forgiveness of principal	—	—	—
		19	$4,884	$—

(dollars in thousands)	Three Months Ended June 30, 2014 Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	15	$2,430	$—
Total consumer				
	Interest rate reduction	15	2,430	—
		15	2,430	—
Commercial loans				
Commercial real estate				
	Payment restructure	2	2,092	—
Commercial business				
	Forgiveness of principal	1	208	288
Total commercial				
	Payment restructure	2	2,092	—
	Forgiveness of principal	1	208	288
		3	2,300	288
Total loans				
	Interest rate reduction	15	2,430	—
	Payment restructure	2	2,092	—
	Forgiveness of principal	1	208	288
		18	$4,730	$288

	Six Months Ended June 30, 2015			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	28	$6,792	$—
	Payment restructure	—	—	—
Home equity and other				
	Interest rate reduction	1	37	—
Total consumer				
	Interest rate reduction	29	6,829	—
	Payment restructure	—	—	—
		29	6,829	—
Commercial loans				
Commercial real estate				
	Interest rate reduction	—	—	—
	Payment restructure	—	—	—
Commercial business				
	Interest rate reduction	2	482	
	Forgiveness of principal	—	—	—
Total commercial				
	Interest rate reduction	2	482	—
	Payment restructure	—	—	—
	Forgiveness of principal	—	—	—
		2	482	—
Total loans				
	Interest rate reduction	31	7,311	—
	Payment restructure	—	—	—
	Forgiveness of principal	—	—	—
		31	$7,311	$—

(dollars in thousands)	Six Months Ended June 30, 2014 Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	24	$4,187	$—
	Payment restructure	2	365	—
Total consumer				
	Interest rate reduction	24	4,187	—
	Payment restructure	2	365	—
		26	4,552	—
Commercial loans				
Commercial real estate				
	Payment restructure	3	4,248	—
Commercial business				
	Interest rate reduction	2	117	—
	Forgiveness of principal	1	208	288
Total commercial				
	Interest rate reduction	2	117	—
	Payment restructure	3	4,248	—
	Forgiveness of principal	1	208	288
		6	4,573	288
Total loans				
	Interest rate reduction	26	4,304	—
	Payment restructure	5	4,613	—
	Forgiveness of principal	1	208	288
		32	$9,125	$288

The following tables present loans that were modified as TDRs within the previous 12 months and subsequently re-defaulted during the three and six months ended June 30, 2015 and 2014, respectively. A TDR loan is considered re-defaulted when it becomes doubtful that the objectives of the modifications will be met, generally when a consumer loan TDR becomes 60 days or more past due on principal or interest payments or when a commercial loan TDR becomes 90 days or more past due on principal or interest payments.

	Three Months Ended June 30,			
	2015		2014	
(dollars in thousands)	Number of loan relationships that re-defaulted	Recorded investment	Number of loan relationships that re-defaulted	Recorded investment
Consumer loans				
Single family	1	$220	2	$425
Home equity and other	—	—	—	—
	1	220	2	425
	1	$220	2	$425

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(dollars in thousands)	Six Months Ended June 30, 2015 Number of loan relationships that re-defaulted	Recorded investment	2014 Number of loan relationships that re-defaulted	Recorded investment
Consumer loans				
Single family	7	$1,718	4	$728
Home equity and other	—	—	1	190
	7	1,718	5	918
	7	$1,718	5	$918

NOTE 5–DEPOSITS:

Deposit balances, including stated rates, were as follows.

(in thousands)	At June 30, 2015	At December 31, 2014
Noninterest-bearing accounts	$681,059	$470,663
NOW accounts, 0.00% to 1.00% at June 30, 2015 and 0.00% to 1.00% at December 31, 2014	453,366	272,390
Statement savings accounts, due on demand, 0.00% to 1.99% at June 30, 2015 and 0.00% to 1.99% at December 31, 2014	300,214	200,638
Money market accounts, due on demand, 0.00% to 1.45% at June 30, 2015 and 0.00% to 1.45% at December 31, 2014	1,134,687	1,007,214
Certificates of deposit, 0.05% to 4.54% at June 30, 2015 and 0.05% to 3.80% at December 31, 2014	753,327	494,525
	$3,322,653	$2,445,430

There were $1.6 million in public funds included in deposits as of June 30, 2015 and $2.2 million at December 31, 2014.

Interest expense on deposits was as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2015	2014	2015	2014
NOW accounts	$466	$286	$788	$546
Statement savings accounts	266	211	521	411
Money market accounts	1,244	1,080	2,383	2,101
Certificates of deposit	1,029	779	1,895	1,658
	$3,005	$2,356	$5,587	$4,716

The weighted-average interest rates on certificates of deposit June 30, 2015 and December 31, 2014 were 0.91% and 0.60%, respectively.

Certificates of deposit outstanding mature as follows.

(in thousands)	At June 30, 2015
Within one year	$562,436
One to two years	114,920
Two to three years	27,761
Three to four years	26,034
Four to five years	22,176
	$753,327

The aggregate amount of time deposits in denominations of $100 thousand or more at June 30, 2015 and December 31, 2014 was $336.7 million and $188.7 million, respectively. The aggregate amount of time deposits in denominations of more than $250 thousand at June 30, 2015 and December 31, 2014 was $69.2 million and $30.2 million, respectively. There were $176.1 million of brokered deposits at each of June 30, 2015 and December 31, 2014.

NOTE 6–DERIVATIVES AND HEDGING ACTIVITIES:

To reduce the risk of significant interest rate fluctuations on the value of certain assets and liabilities, such as certain mortgage loans held for sale or mortgage servicing rights ("MSRs"), the Company utilizes derivatives, such as forward sale commitments, futures, option contracts, interest rate swaps and swaptions as risk management instruments in its hedging strategy. Derivative transactions are measured in terms of notional amount, which is not recorded in the consolidated statements of financial condition. The notional amount is generally not exchanged and is used as the basis for interest and other contractual payments. We held no derivatives designated as a fair value, cash flow or foreign currency hedge instrument at June 30, 2015 or December 31, 2014. Derivatives are reported at their respective fair values in the other assets or accounts payable and other liabilities line items on the consolidated statements of financial condition, with changes in fair value reflected in current period earnings.

As permitted under U.S. GAAP, the Company nets derivative assets and liabilities when a legally enforceable master netting agreement exists between the Company and the derivative counterparty, which are documented under industry standard master agreements and credit support annexes. The Company's master netting agreements provide that following an uncured payment default or other event of default the non-defaulting party may promptly terminate all transactions between the parties and determine a net amount due to be paid to, or by, the defaulting party. An event of default may also occur under a credit support annex if a party fails to make a collateral delivery (which remains uncured following applicable notice and grace periods). The Company's right of offset requires that master netting agreements are legally enforceable and that the exercise of rights by the non-defaulting party under these agreements will not be stayed, or avoided under applicable law upon an event of default including bankruptcy, insolvency or similar proceeding.

The collateral used under the Company's master netting agreements is typically cash, but securities may be used under agreements with certain counterparties. Receivables related to cash collateral that has been paid to counterparties is included in other assets on the Company's consolidated statements of financial condition. Any securities pledged to counterparties as collateral remain on the consolidated statement of financial condition. Refer to Note 3, Investment Securities of this Form 10-Q for further information on securities collateral pledged. At June 30, 2015 and December 31, 2014, the Company did not hold any collateral received from counterparties under derivative transactions.

For further information on the policies that govern derivative and hedging activities, see Note 1, Summary of Significant Accounting Policies and Note 11, Derivatives and Hedging Activities within our 2014 Annual Report on Form 10-K.

The notional amounts and fair values for derivatives consist of the following.

	At June 30, 2015		
	Notional amount	Fair value derivatives	
(in thousands)		Asset	Liability
Forward sale commitments	$2,110,586	$9,785	$(3,190)
Interest rate swaptions	20,000	31	—
Interest rate lock commitments	806,471	24,004	(517)
Interest rate swaps	717,200	1,504	(12,877)
Total derivatives before netting	$3,654,257	35,324	(16,584)
Netting adjustments		(8,019)	8,019
Carrying value on consolidated statements of financial condition		$27,305	$(8,565)

	At December 31, 2014		
	Notional amount	Fair value derivatives	
(in thousands)		Asset	Liability
Forward sale commitments	$934,986	$1,071	$(5,658)
Interest rate swaptions	15,000	—	—
Interest rate lock commitments	392,687	11,939	(6)
Interest rate swaps	610,150	11,689	(972)
Total derivatives before netting	$1,952,823	24,699	(6,636)
Netting adjustments		(5,858)	5,858
Carrying value on consolidated statements of financial condition		$18,841	$(778)

The following tables present gross and net information about derivative instruments.

	At June 30, 2015					
(in thousands)	Gross fair value	Netting adjustments	Carrying value	Cash collateral paid [(1)]	Securities pledged	Net amount
Derivative assets	$35,324	$(8,019)	$27,305	$—	$—	$27,305
Derivative liabilities	$(16,584)	$8,019	$(8,565)	$6,607	$1,335	$(623)

	At December 31, 2014					
(in thousands)	Gross fair value	Netting adjustments	Carrying value	Cash collateral paid [(1)]	Securities pledged	Net amount
Derivative assets	$24,699	$(5,858)	$18,841	$—	$—	$18,841
Derivative liabilities	$(6,636)	$5,858	$(778)	$—	$762	$(16)

(1) Excludes cash collateral of $26.2 million and $20.4 million at June 30, 2015 and December 31, 2014, which predominantly consists of collateral transferred by the Company at the initiation of derivative transactions and held by the counterparty as security. These amounts were not netted against the derivative receivables and payables, because, at an individual counterparty level, the collateral exceeded the fair value exposure at both June 30, 2015

and December 31, 2014.

The following table presents the net gain (loss) recognized on derivatives, including economic hedge derivatives, within the respective line items in the statement of operations for the periods indicated.

(in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Recognized in noninterest income:				
Net gain on mortgage loan origination and sale activities [1]	$14,248	$(4,580)	$22,251	$(6,014)
Mortgage servicing income [2]	(17,221)	10,941	(4,987)	20,838
	$(2,973)	$6,361	$17,264	$14,824

(1) Comprised of interest rate lock commitments ("IRLCs") and forward contracts used as an economic hedge of IRLCs and single family mortgage loans held for sale.

(2) Comprised of interest rate swaps, interest rate swaptions and forward contracts used as an economic hedge of single family MSRs.

NOTE 7–MORTGAGE BANKING OPERATIONS:

Loans held for sale consisted of the following.

(in thousands)	At June 30, 2015	At December 31, 2014
Single family	$955,726	$610,350
Multifamily	16,457	10,885
Total loans held for sale	$972,183	$621,235

Loans sold consisted of the following.

(in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Single family	$1,894,387	$906,342	$3,211,346	$1,526,255
Multifamily	72,459	15,902	98,632	22,165
Total loans sold	$1,966,846	$922,244	$3,309,978	$1,548,420

Net gain on mortgage loan origination and sale activities, including the effects of derivative risk management instruments, consisted of the following.

(in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Single family:				
Servicing value and secondary market gains[1]	$61,884	$30,233	$118,173	$49,792
Loan origination and funding fees	5,635	6,781	10,090	11,542
Total single family	67,519	37,014	128,263	61,334
Multifamily	2,314	693	3,253	1,089
Other	141	4,087	345	4,881

Total net gain on mortgage loan origination and sale activities	$69,974	$41,794	$131,861	$67,304

(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.

The Company’s portfolio of loans serviced for others is primarily comprised of loans held in U.S. government and agency MBS issued by Fannie Mae, Freddie Mac and Ginnie Mae. Loans serviced for others are not included in the consolidated statements of financial condition as they are not assets of the Company. The composition of loans serviced for others is presented below at the unpaid principal balance.

(in thousands)	At June 30, 2015	At December 31, 2014
Single family		
U.S. government and agency	$12,361,841	$10,630,864
Other	618,204	585,344
	12,980,045	11,216,208
Commercial		
Multifamily	840,051	752,640
Other	83,982	82,354
	924,033	834,994
Total loans serviced for others	$13,904,078	$12,051,202

The Company has made representations and warranties that the loans sold meet certain requirements. The Company 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, appraisal errors, early payment defaults and fraud. For further information on the Company's mortgage repurchase liability, see Note 8, Commitments, Guarantees and Contingencies of this Form 10-Q. The following is a summary of changes in the Company's liability for estimated mortgage repurchase losses.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2015	2014	2015	2014
Balance, beginning of period	$2,111	$1,142	$1,956	$1,260
Additions (1)	682	313	1,169	552
Realized losses (2)	(313)	(220)	(645)	(577)
Balance, end of period	$2,480	$1,235	$2,480	$1,235

(1) Includes additions for new loan sales and changes in estimated probable future repurchase losses on previously sold loans.

(2) Includes principal losses and accrued interest on repurchased loans, “make-whole” settlements, settlements with claimants and certain related expense.

Advances are made to Ginnie Mae mortgage pools for delinquent loan payments. We also fund foreclosure costs and we repurchase loans from Ginnie Mae mortgage pools prior to recovery of guaranteed amounts. Ginnie Mae advances of $9.8 million and $7.8 million were recorded in other assets as of June 30, 2015 and December 31, 2014, respectively.

When the Company has the unilateral right to repurchase Ginnie Mae pool loans it has previously sold (generally loans that are more than 90 days past due), the Company then records the loan on its consolidated statement of financial condition. At June 30, 2015 and December 31, 2014, delinquent or defaulted mortgage loans currently in Ginnie Mae pools that the Company has recognized on its consolidated statements of financial condition totaled $21.8 million and $21.2 million, respectively, with a corresponding amount recorded within accounts payable and other liabilities on the consolidated statements of financial condition. The recognition of previously sold loans does not impact the accounting for the previously recognized MSRs.

Revenue from mortgage servicing, including the effects of derivative risk management instruments, consisted of the following.

(in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Servicing income, net:				
Servicing fees and other	$10,057	$10,112	$19,120	$19,961
Changes in fair value of single family MSRs due to modeled amortization [1]	(9,012)	(7,109)	(18,247)	(13,077)
Amortization of multifamily MSRs	(476)	(434)	(930)	(858)
	569	2,569	(57)	6,026
Risk management, single family MSRs:				
Changes in fair value due to changes in model inputs and/or assumptions [2]	18,483	(3,326) [3]	11,172	(8,735) [3]
Net gain (loss) from derivatives economically hedging MSR	(17,221)	10,941	(4,987)	20,838
	1,262	7,615	6,185	12,103
Mortgage servicing income	$1,831	$10,184	$6,128	$18,129

(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 the three months ended June 30, 2014.

All MSRs are initially measured and recorded at fair value at the time loans are sold. Single family MSRs are subsequently carried at fair value with changes in fair value reflected in earnings in the periods in which the changes occur, while multifamily MSRs are subsequently carried at the lower of amortized cost or fair value.

The fair value of MSRs is determined based on the price that would be received to sell the MSRs in an orderly transaction between market participants at the measurement date. The Company determines fair value using a valuation model that calculates the net present value of estimated future cash flows. Estimates of future cash flows include contractual servicing fees, ancillary income and costs of servicing, the timing of which are impacted by assumptions, primarily expected prepayment speeds and discount rates, which relate to the underlying performance of the loans.

The initial fair value measurement of MSRs is adjusted up or down depending on whether the underlying loan pool interest rate is at a premium, discount or par. Key economic assumptions used in measuring the initial fair value of capitalized single family MSRs were as follows.

(rates per annum) [1]	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Constant prepayment rate ("CPR") [2]	13.31 %	13.71 %	14.56 %	12.79 %
Discount rate	10.06 %	11.06 %	10.28 %	10.80 %

(1) Weighted average rates for sales during the period for sales of loans with similar characteristics.

(2) Represents the expected lifetime average.

Key economic assumptions and the sensitivity of the current fair value for single family MSRs to immediate adverse changes in those assumptions were as follows.

(dollars in thousands)	At June 30, 2015
Fair value of single family MSR	$140,588
Expected weighted-average life (in years)	5.20
Constant prepayment rate [1]	15.35 %
Impact on 25 basis points adverse change	$(9,600)
Impact on 50 basis points adverse change	$(19,755)
Discount rate	10.50 %
Impact on fair value of 100 basis points increase	$(4,328)
Impact on fair value of 200 basis points increase	$(8,405)

(1) Represents the expected lifetime average.

These sensitivities are hypothetical and should be used with caution. As the table above demonstrates, the Company's methodology for estimating the fair value of MSRs is highly sensitive to changes in key assumptions. For example, actual prepayment experience may differ and any difference may have a material effect on MSR fair value. Changes in fair value resulting from changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated without changing any other assumption; in reality, changes in one factor may be associated with changes in another (for example, decreases in market interest rates may provide an incentive to refinance; however, this may also indicate a slowing economy and an increase in the unemployment rate, which reduces the number of borrowers who qualify for refinancing), which may magnify or counteract the sensitivities. Thus, any measurement of MSR fair value is limited by the conditions existing and assumptions made as of a particular point in time. Those assumptions may not be appropriate if they are applied to a different point in time.

The changes in single family MSRs measured at fair value are as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2015	2014	2015	2014
Beginning balance	$110,709	$149,646	$112,439	$153,128
Additions and amortization:				
Originations	20,405	11,827	35,218	19,720
Purchases	3	3	6	5
Sale of single family MSRs	—	(43,248) [3]	—	(43,248) [3]
Changes due to modeled amortization [1]	(9,012)	(7,109)	(18,247)	(13,077)
Net additions and amortization	11,396	(38,527)	16,977	(36,600)
Changes in fair value due to changes in model inputs and/or assumptions [2]	18,483	(2,250) [4]	11,172	(7,659) [4]
Ending balance	$140,588	$108,869	$140,588	$108,869

(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) On June 30, 2014, the Company sold the rights to service $2.96 billion in total unpaid principal balance of single family mortgage loans serviced for Fannie Mae.

(4) Includes pre-tax income of $5.7 million, excluding transaction costs, resulting from the sale of single family MSRs on June 30, 2014.

MSRs resulting from the sale of multifamily loans are subsequently carried at the lower of amortized cost or fair value. Multifamily MSRs are recorded at fair value and are amortized in proportion to, and over, the estimated period the net servicing income will be collected.

The changes in multifamily MSRs measured at the lower of amortized cost or fair value were as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2015	2014	2015	2014
Beginning balance	$11,013	$9,095	$10,885	$9,335
Origination	2,112	461	2,694	644
Amortization	(476)	(434)	(930)	(857)
Ending balance	$12,649	$9,122	$12,649	$9,122

At June 30, 2015, the expected weighted-average life of the Company’s multifamily MSRs was 9.71 years. Projected amortization expense for the gross carrying value of multifamily MSRs is estimated as follows.

(in thousands)	At June 30, 2015
Remainder of 2015	$996
2016	1,910
2017	1,788
2018	1,631
2019	1,521
2020 and thereafter	4,803
Carrying value of multifamily MSR	$12,649

NOTE 8–COMMITMENTS, GUARANTEES AND CONTINGENCIES:

Commitments

Commitments to extend credit are agreements to lend to customers in accordance with predetermined contractual provisions. These commitments may be for specific periods or contain termination clauses and may require the payment of a fee by the borrower. 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.

The Company makes certain unfunded loan commitments as part of its lending activities that have not been recognized in the Company’s financial statements. These include commitments to extend credit made as part of the Company's mortgage lending activities and interest rate lock commitments on loans the Company intends to hold in its loans held for investment portfolio. The aggregate amount of these unrecognized unfunded loan commitments existing at June 30, 2015 and December 31, 2014 was $78.0 million and $72.0 million, respectively.

In the ordinary course of business, the Company extends secured and unsecured open-end loans to meet the financing needs of its customers. Undistributed construction loan commitments, where the Company has an obligation to advance funds for construction progress payments, were $401.0 million and $379.4 million at June 30, 2015 and December 31, 2014, respectively. Unused home equity and commercial banking funding lines totaled $139.9 million and $149.4 million at June 30, 2015 and December 31, 2014, respectively. The Company has recorded an allowance for credit losses on loan commitments, included in accounts payable and other liabilities on the consolidated statements of financial condition, of $671 thousand and $503 thousand at June 30, 2015 and December 31, 2014, respectively.

Guarantees

In the ordinary course of business, the Company sells loans through the Fannie Mae Multifamily Delegated Underwriting and Servicing Program ("DUS®")[1] that are subject to a credit loss sharing arrangement. The Company 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 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. For loans that have been sold through this program, a liability is recorded for this loss sharing arrangement under the accounting guidance for guarantees. As of June 30, 2015 and December 31, 2014, the total unpaid principal balance of loans sold under this program was $840.1 million and $752.6 million, respectively. The Company's reserve liability related to this arrangement totaled $2.7 million and $2.3 million at June 30, 2015 and December 31, 2014, respectively. There were no actual losses incurred under this arrangement during the three and six months ended June 30, 2015 and 2014.

Mortgage repurchase liability

In the ordinary course of business, the Company sells residential mortgage loans to GSEs that include the mortgage loans in GSE-guaranteed mortgage securitizations. In addition, the Company sells FHA-insured and VA-guaranteed mortgage loans that are sold to Ginnie Mae and are used to back Ginnie Mae-guaranteed securities. The Company has made representations and warranties that the loans sold meet certain requirements. The Company 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 the Company 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 the Company 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.

The Company does not typically receive repurchase requests from Ginnie Mae, FHA or VA. As an originator of FHA-insured or VA-guaranteed loans, the Company is 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, the Company may be required to indemnify FHA or VA against losses. The loans remain in Ginnie Mae pools unless and until they are repurchased by the Company. In general, once a FHA or VA loan becomes 90 days past due, the Company repurchases the FHA or VA residential mortgage 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.

The total unpaid principal balance of loans sold on a servicing-retained basis that were subject to the terms and conditions of these representations and warranties totaled $13.06 billion and $11.30 billion as of June 30, 2015 and December 31, 2014, respectively. At June 30, 2015 and December 31, 2014, the Company had recorded a mortgage repurchase liability for loans sold on a servicing-retained and servicing-released basis, included in accounts payable and other liabilities on the consolidated statements of financial condition, of $2.5 million and $2.0 million, respectively.

Contingencies

In the normal course of business, the Company may have various legal claims and other similar contingent matters outstanding for which a loss may be realized. For these claims, the Company establishes a liability for contingent losses when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. For claims determined to be reasonably possible but not probable of resulting in a loss, there may be a range of possible losses in excess of the established liability. At June 30, 2015, we reviewed our legal claims and determined that there were no claims that are considered to be probable or reasonably possible of resulting in a loss. As a result, the Company did not have any amounts reserved for legal claims as of June 30, 2015.

NOTE 9–FAIR VALUE MEASUREMENT:

For a further discussion of fair value measurements, including information regarding the Company’s valuation methodologies and the fair value hierarchy, see Note 18, Fair Value Measurement within our 2014 Annual Report on Form 10-K.

Valuation Processes

The Company has various processes and controls in place to ensure that fair value measurements are reasonably estimated. The Finance Committee provides oversight and approves the Company’s Asset/Liability Management Policy ("ALMP"). The Company's ALMP governs, among other things, the application and control of the valuation models used to measure fair value. On a quarterly basis, the Company’s 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. The Company obtains an MSR valuation from an independent valuation firm monthly to assist with the validation of the fair value estimate and the reasonableness of the assumptions used in measuring fair value.

The Company’s real estate valuations are overseen by the Company’s appraisal department, which is independent of the Company’s lending and credit administration functions. The appraisal department maintains the Company’s appraisal policy and recommends changes to the policy subject to approval by the Company’s Loan Committee and the Credit Committee of the Board. The Company’s appraisals are prepared by independent third-party appraisers and the Company’s internal appraisers. Single family appraisals are generally reviewed by the Company’s single family loan underwriters. Single family appraisals with unusual, higher risk or complex characteristics, as well as commercial real estate appraisals, are reviewed by the Company’s appraisal department.

We obtain pricing from third party service providers for determining the fair value of a substantial portion of our investment securities available for sale. We have processes in place to evaluate such third party pricing services to ensure information obtained and valuation techniques used are appropriate. For fair value measurements obtained from third party services, we monitor and review the results to ensure the values are reasonable and in line with market experience for similar classes of securities. While the inputs used by the pricing vendor in determining fair value are not provided, and therefore unavailable for our review, we do perform certain procedures to validate the values received, including comparisons to other sources of valuation (if available), comparisons to other independent market data and a variance analysis of prices by Company personnel that are not responsible for the performance of the investment securities.

Estimation of Fair Value
Fair value is based on quoted market prices, when available. In cases where a quoted price for an asset or liability is not available, the Company uses valuation models to estimate 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. The Company believes its 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.

The following table summarizes the fair value measurement methodologies, including significant inputs and assumptions, and classification of the Company's assets and liabilities.

Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Cash and cash equivalents	Carrying value is a reasonable estimate of fair value based on the short-term nature of the instruments.	Estimated fair value classified as Level 1.
Investment securities		
Investment securities available for sale	Observable market prices of identical or similar securities are used where available. If market prices are not readily available, value is based on discounted cash flows using the following significant inputs: • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Level 2 recurring fair value measurement
Investment securities held to maturity	Observable market prices of identical or similar securities are used where available. If market prices are not readily available, value is based on discounted cash flows using the following significant inputs: • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Carried at amortized cost. Estimated fair value classified as Level 2.
Loans held for sale		
Single-family loans, excluding loans transferred from held for investment	Fair value is based on observable market data, including: • Quoted market prices, where available • Dealer quotes for similar loans • Forward sale commitments	Level 2 recurring fair value measurement
Single-family loans transferred from held for investment	Fair value is based on observable market data, including: • Quoted market prices, where available • Dealer quotes for similar loans • Forward sale commitments	Carried at lower of amortized cost or fair value. Estimated fair value classified as Level 2.
Multifamily loans	The sale price is set at the time the loan commitment is made, and as such subsequent changes in market	Carried at lower of amortized cost or fair value.

	conditions have a very limited effect, if any, on the value of these loans carried on the consolidated statements of financial condition, which are typically sold within 30 days of origination.	Estimated fair value classified as Level 2.
Loans held for investment		
Loans held for investment, excluding collateral dependent loans and loans transferred from held for sale	Fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	For the carrying value of loans see Note 1–Summary of Significant Accounting Policies of the 2014 Annual Report on Form 10-K. Estimated fair value classified as Level 3.

Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Loans held for investment, collateral dependent	Fair value is based on appraised value of collateral, which considers sales comparison and income approach methodologies. Adjustments are made for various factors, which may include: • Adjustments for variations in specific property qualities such as location, physical dissimilarities, market conditions at the time of sale, income producing characteristics and other factors • Adjustments to obtain “upon completion” and “upon stabilization” values (e.g., property hold discounts where the highest and best use would require development of a property over time) • Bulk discounts applied for sales costs, holding costs and profit for tract development and certain other properties	Carried at lower of amortized cost or fair value of collateral, less the estimated cost to sell. Classified as a Level 3 nonrecurring fair value measurement in periods where carrying value is adjusted to reflect the fair value of collateral.
Loans held for investment transferred from loans held for sale	Fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Level 3 recurring fair value measurement
Mortgage servicing rights		
Single family MSRs	For information on how the Company measures the fair value of its single family MSRs, including key economic assumptions and the sensitivity of fair value to changes in those assumptions, see Note 7, Mortgage Banking Operations of this Form 10-Q.	Level 3 recurring fair value measurement
Multifamily MSRs	Fair value is based on discounted estimated future servicing fees and other revenue, less estimated costs to service the loans.	Carried at lower of amortized cost or fair value Estimated fair value classified as Level 3.
Derivatives		
Interest rate swaps Interest rate swaptions Forward sale commitments	Fair value is based on quoted prices for identical or similar instruments, when available. When quoted prices are not available, fair value is based on internally developed modeling techniques, which require the use of multiple observable market inputs including: • Forward interest rates • Interest rate volatilities	Level 2 recurring fair value measurement

Interest rate lock commitments	The fair value considers several factors including: • Fair value of the underlying loan based on quoted prices in the secondary market, when available. • Value of servicing • Fall-out factor	Level 3 recurring fair value measurement

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Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Other real estate owned (“OREO”)	Fair value is based on appraised value of collateral, less the estimated cost to sell. See discussion of "loans held for investment, collateral dependent" above for further information on appraisals.	Carried at lower of amortized cost or fair value of collateral (Level 3), less the estimated cost to sell.
Federal Home Loan Bank stock	Carrying value approximates fair value as FHLB stock can only be purchased or redeemed at par value.	Carried at par value. Estimated fair value classified as Level 2.
Deposits		
Demand deposits	Fair value is estimated as the amount payable on demand at the reporting date.	Carried at historical cost. Estimated fair value classified as Level 2.
Fixed-maturity certificates of deposit	Fair value is estimated using discounted cash flows based on market rates currently offered for deposits of similar remaining time to maturity.	Carried at historical cost. Estimated fair value classified as Level 2.
Federal Home Loan Bank advances	Fair value is estimated using discounted cash flows based on rates currently available for advances with similar terms and remaining time to maturity.	Carried at historical cost. Estimated fair value classified as Level 2.
Long-term debt	Fair value is estimated using discounted cash flows based on current lending rates for similar long-term debt instruments with similar terms and remaining time to maturity.	Carried at historical cost. Estimated fair value classified as Level 2.

The following table presents the levels of the fair value hierarchy for the Company's assets and liabilities measured at fair value on a recurring basis.

(in thousands)	Fair Value at June 30, 2015	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	$108,627	$—	$108,627	$—
Commercial	13,352	—	13,352	—
Municipal bonds	137,249	—	137,249	—
Collateralized mortgage obligations:				
Residential	80,612	—	80,612	—
Commercial	19,271	—	19,271	—
Corporate debt securities	82,698	—	82,698	—
U.S. Treasury securities	41,023	—	41,023	—
Single family mortgage servicing rights	140,588	—	—	140,588
Single family loans held for sale	955,726	—	955,726	—
Single family loans held for investment	38,224	—	—	38,224
Derivatives				
Forward sale commitments	9,785	—	9,785	—
Interest rate swaptions	31	—	31	—
Interest rate lock commitments	24,004	—	—	24,004
Interest rate swaps	1,504	—	1,504	—
Total assets	$1,652,694	$—	$1,449,878	$202,816
Liabilities:				
Derivatives				
Forward sale commitments	$3,190	$—	$3,190	$—
Interest rate lock commitments	517	—	—	517
Interest rate swaps	12,877	—	12,877	—
Total liabilities	$16,584	$—	$16,067	$517

(in thousands)	Fair Value at December 31, 2014	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	$107,280	$—	$107,280	$—
Commercial	13,671	—	13,671	—
Municipal bonds	122,334	—	122,334	—
Collateralized mortgage obligations:				
Residential	43,166	—	43,166	—
Commercial	20,486	—	20,486	—
Corporate debt securities	79,400	—	79,400	—
U.S. Treasury securities	40,989	—	40,989	—
Single family mortgage servicing rights	112,439	—	—	112,439
Single family loans held for sale	610,350	—	610,350	—
Derivatives				
Forward sale commitments	1,071	—	1,071	—
Interest rate lock commitments	11,939	—	—	11,939
Interest rate swaps	11,689	—	11,689	—
Total assets	$1,174,814	$—	$1,050,436	$124,378
Liabilities:				
Derivatives				
Forward sale commitments	$5,658	$—	$5,658	$—
Interest rate lock commitments	6	—	—	6
Interest rate swaps	972	—	972	—
Total liabilities	$6,636	$—	$6,630	$6

There were no transfers between levels of the fair value hierarchy during the three and six months ended June 30, 2015 and 2014.

Level 3 Recurring Fair Value Measurements

The Company's level 3 recurring fair value measurements consist of single family mortgage servicing rights, single family loans held for investment where fair value option was elected and interest rate lock commitments, which are accounted for as derivatives. For information regarding fair value changes and activity for single family MSRs during the three and six months ended June 30, 2015 and 2014, see Note 7, Mortgage Banking Operations of this Form 10-Q.

During the first quarter of 2015, the Company transferred certain loans from held for sale to held for investment. These loans were originated as held for sale loans where the Company has elected fair value option. The Company determined these loans to be level 3 recurring assets as the valuation technique included a significant unobservable input. The total amount of held for investment loans where fair value option election was made was $38.2 million at June 30, 2015.
The following information presents significant Level 3 unobservable inputs used to measure fair value of single family loans held for investment where fair value option was elected.

(dollars in thousands)	At June 30, 2015				
	Fair Value	Valuation	Significant Unobservable	Low	High

		Technique	Input			Weighted Average
Loans held for investment, fair value option	$38,224	Income approach	Implied spread to benchmark interest rate curve	3.98%	4.98%	4.34%

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The following table presents fair value changes and activity for level 3 interest rate lock commitments.

(in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Beginning balance, net	$26,019	$10,094	$11,933	$5,972
Total realized/unrealized gains[1]	32,160	34,495	88,146	54,662
Settlements	(34,692)	(27,183)	(76,592)	(43,228)
Ending balance, net	$23,487	$17,406	$23,487	$17,406

(1) All realized and unrealized gains and losses are recognized in earnings as net gain from mortgage loan origination and sale activities on the consolidated statements of operations. There were net unrealized gains of $399 thousand and $17.1 million for the three months ended June 30, 2015 and 2014, respectively, and $508 thousand and $26.9 million for the six months ended June 30, 2015 and 2014, respectively, recognized on interest rate lock commitments outstanding at the beginning of the period and still outstanding at June 30, 2015 and 2014, respectively.

During the second quarter of 2015, the Company recorded an out-of-period adjustment of $2.4 million, recorded as an increase to net gain on mortgage loan origination and sale activities, resulting in a $1.5 million increase to net income, or $0.07 per share, which represented a correction of an error.

The following information presents significant Level 3 unobservable inputs used to measure fair value of interest rate lock commitments.

(dollars in thousands)	At June 30, 2015 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock commitments, net	$23,487	Income approach	Fall out factor	1.10%	57.41%	17.04%
			Value of servicing	0.62%	2.51%	0.99%

(dollars in thousands)	At December 31, 2014 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock commitments, net	$11,933	Income approach	Fall out factor	0.6%	77.9%	21.4%
			Value of servicing	0.56%	1.94%	0.93%

Nonrecurring Fair Value Measurements

Certain assets held by the Company are not included in the tables above, but are measured at fair value on a nonrecurring basis. These assets include certain loans held for investment and other real estate owned that are carried at the lower of cost or fair value of the underlying collateral, less the estimated cost to sell. The estimated fair values of real estate collateral are generally based on internal evaluations and appraisals of such collateral, which use the market approach and income approach methodologies. All impaired loans are subject to an internal evaluation completed quarterly by management as part of the allowance process.

The fair value of commercial properties are generally based on third-party appraisals that consider recent sales of comparable properties, including their income-generating characteristics, adjusted (generally based on unobservable inputs) to reflect the general assumptions that a market participant would make when analyzing the property for purchase. The Company uses a fair value of collateral technique to apply adjustments to the appraisal value of certain commercial loans held for investment that are collateralized by real estate. During the three and six months ended June 30, 2015 and June 30, 2014, the Company recorded no adjustments to the appraisal values of certain commercial loans held for investment that are collateralized by real estate.

The Company uses a fair value of collateral technique to apply adjustments to the stated value of certain commercial loans held for investment that are not collateralized by real estate. During the three months ended June 30, 2015, the Company applied a range of stated value adjustments of 42.4% to 51.4%, with a weighted average rate of 48.2%. During the six months ended June 30, 2015, the Company applied a range of stated value adjustments of 25.0% to 51.4%, with a weighted average of 36.8%. During the three months ended June 30, 2014, the Company applied a range of stated value adjustments of 6.3% to 68.1%, with a weighted average of 35.2%. During the six months ended June 30, 2014, the Company applied a range of stated value adjustments of 6.3% to 68.1%, with a weighted average of 24.4%.

Residential properties are generally based on unadjusted third-party appraisals. Factors considered in determining the fair value include geographic sales trends, the value of comparable surrounding properties as well as the condition of the property.

These adjustments include management assumptions that are based on the type of collateral dependent loan and may increase or decrease an appraised value. Management adjustments vary significantly depending on the location, physical characteristics and income producing potential of each individual property. The quality and volume of market information available at the time of the appraisal can vary from period-to-period and cause significant changes to the nature and magnitude of the unobservable inputs used. Given these variations, changes in these unobservable inputs are generally not a reliable indicator for how fair value will increase or decrease from period to period.

The following tables present assets that had changes in their recorded fair value during the three and six months ended June 30, 2015 and 2014 and still held at the end of the respective reporting period.

	Three Months Ended June 30, 2015				
(in thousands)	Fair Value of Assets Held at June 30, 2015	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$8,955	$—	$—	$8,955	$170
Total	$8,955	$—	$—	$8,955	$170

	Three Months Ended June 30, 2014				
(in thousands)	Fair Value of Assets Held at June 30, 2014	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$21,890	$—	$—	$21,890	$(899)
Other real estate owned[2]	6,772	—	—	6,772	24
Total	$28,662	$—	$—	$28,662	$(875)

	Six Months Ended June 30, 2015
(in thousands)	Fair Value of Assets Held at June 30, 2015