HomeStreet, Inc.
Form 10-Q
May 11, 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: March 31, 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 May 1, 2015 was 22,057,794.6.

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)	March 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents (including interest-earning instruments of $28,597 and $10,271)	$56,864	$ 30,502
Investment securities (includes $449,330 and $427,326 carried at fair value)	476,102	455,332
Loans held for sale (includes $856,124 and $610,350 carried at fair value)	865,322	621,235
Loans held for investment (net of allowance for loan losses of $24,916 and $22,021; includes $52,580 and $0 carried at fair value)	2,828,177	2,099,129
Mortgage servicing rights (includes $110,709 and $112,439 carried at fair value)	121,722	123,324
Other real estate owned	11,589	9,448
Federal Home Loan Bank stock, at cost	34,996	33,915
Premises and equipment, net	49,808	45,251
Goodwill	11,945	11,945
Other assets	147,878	105,009
Total assets	$4,604,403	$ 3,535,090
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits	$3,344,223	$ 2,445,430
Federal Home Loan Bank advances	669,419	597,590
Federal funds purchased and securities sold under agreements to repurchase	9,450	50,000
Accounts payable and other liabilities	80,059	77,975
Long-term debt	61,857	61,857
Total liabilities	4,165,008	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, 22,038,748 shares and 14,856,611 shares	511	511
Additional paid-in capital	221,301	96,615
Retained earnings	213,870	203,566
Accumulated other comprehensive income	3,713	1,546
Total shareholders' equity	439,395	302,238
Total liabilities and shareholders' equity	$4,604,403	$ 3,535,090

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

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

(in thousands, except share data)	Three Months Ended March 31, 2015	2014
Interest income:		
Loans	$31,647	$22,683
Investment securities	2,394	2,970
Other	205	157
	34,246	25,810
Interest expense:		
Deposits	2,582	2,360
Federal Home Loan Bank advances	612	413
Federal funds purchased and securities sold under agreements to repurchase	5	—
Long-term debt	265	315
Other	48	10
	3,512	3,098
Net interest income	30,734	22,712
Provision (reversal of provision) for credit losses	3,000	(1,500)
Net interest income after provision for credit losses	27,734	24,212
Noninterest income:		
Net gain on mortgage loan origination and sale activities	61,887	25,510
Mortgage servicing income	4,297	7,945
Income (loss) from WMS Series LLC	564	(193)
Gain (loss) on debt extinguishment	—	(586)
Depositor and other retail banking fees	1,139	815
Insurance agency commissions	415	404
Gain on sale of investment securities available for sale (includes unrealized gain reclassified from accumulated other comprehensive income of $0 and $713)	—	713
Bargain purchase gain	6,628	—
Other	443	99
	75,373	34,707
Noninterest expense:		
Salaries and related costs	57,593	35,471
General and administrative	13,161	10,122
Legal	467	399
Consulting	5,565	951
Federal Deposit Insurance Corporation assessments	525	620
Occupancy	5,840	4,432
Information services	6,120	4,515
Net cost (income) from operation and sale of other real estate owned	211	(419)
	89,482	56,091
Income before income taxes	13,625	2,828
Income tax expense (includes reclassification adjustments of $0 and $250)	3,321	527
NET INCOME	$10,304	$2,301
Basic income per share	$0.60	$0.16
Diluted income per share	0.59	0.15
Dividends paid on common stock per share	$—	$0.11

Basic weighted average number of shares outstanding	17,158,303	14,784,424
Diluted weighted average number of shares outstanding	17,355,076	14,947,864

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 March 31, 2015	2014
Net income	$10,304	$2,301
Other comprehensive income, net of tax:		
Unrealized gain (loss) on investment securities available for sale:		
Unrealized holding gain arising during the period, net of tax expense of $1,167 and $3,541	2,167	6,575
Reclassification adjustment for net gains included in net income, net of tax expense of $0 and $250	—	(463)
Other comprehensive income	2,167	6,112
Comprehensive income	$12,471	$8,413

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	—	—	—	2,301	—	2,301
Dividends ($0.11 per share)	—	—	—	(1,626)	—	(1,626)
Share-based compensation expense	—	—	736	—	—	736
Common stock issued	46,528	—	61	—	—	61
Other comprehensive income	—	—	—	—	6,112	6,112
Balance, March 31, 2014	14,846,519	$511	$95,271	$183,610	$ (5,882)	$273,510
Balance, January 1, 2015	14,856,611	$511	$96,615	$203,566	$ 1,546	$302,238
Net income	—	—	—	10,304	—	10,304
Share-based compensation expense	—	—	407	—	—	407
Common stock issued	7,182,137	—	124,279	—	—	124,279
Other comprehensive income	—	—	—	—	2,167	2,167
Balance, March 31, 2015	22,038,748	$511	$221,301	$213,870	$ 3,713	$439,395

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

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

(in thousands)	Three Months Ended March 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$10,304	$2,301
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	4,631	4,418
Provision (reversal of provision) for credit losses	3,000	(1,500)
Fair value adjustment of loans held for sale	(7,948)	(3,254)
Origination of mortgage servicing rights	(14,415)	(8,076)
Change in fair value of mortgage servicing rights	16,546	11,377
Net gain on sale of investment securities	—	(713)
Net fair value adjustment, gain on sale and provision for losses on other real estate owned	91	(487)
Loss on early retirement of long-term debt	—	586
Net deferred income tax (benefit) expense	(4,563)	(1,008)
Share-based compensation expense	393	476
Bargain purchase gain	(6,628)	—
Origination of loans held for sale	(1,575,683)	(676,630)
Proceeds from sale of loans originated as held for sale	1,359,798	625,747
Cash used by changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable and other assets	(6,208)	1,869
Increase (decrease) in accounts payable and other liabilities	4,655	(9,140)
Net cash (used in) operating activities	(216,027)	(54,034)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investment securities	—	54,305
Principal repayments and maturities of investment securities	7,561	6,200
Proceeds from sale of other real estate owned	1,375	2,949
Proceeds from sale of loans originated as held for investment	—	56,079
Mortgage servicing rights purchased from others	(3)	(2)
Origination of loans held for investment and principal repayments, net	(92,162)	(101,841)
Purchase of property and equipment	(4,136)	(5,871)
Net cash acquired from Simplicity acquisition	112,196	—
Net cash provided by investing activities	24,831	11,819

(in thousands)	Three Months Ended March 31, 2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits, net	$247,591	$160,537
Proceeds from Federal Home Loan Bank advances	1,440,000	966,300
Repayment of Federal Home Loan Bank advances	(1,434,000)	(1,066,300)
Federal funds purchased and proceeds from securities sold under agreements to repurchase	58,180	—
Repayment of securities sold under agreements to repurchase	(98,730)	—
Proceeds from Federal Home Loan Bank stock repurchase	4,438	330
Repayment of long-term debt	—	(3,541)
Dividends paid	—	(1,626)
Proceeds from stock issuance, net	65	61
Excess tax benefits related to the exercise of stock options	14	260
Net cash provided by financing activities	217,558	56,021
NET INCREASE IN CASH AND CASH EQUIVALENTS	26,362	13,806
CASH AND CASH EQUIVALENTS:		
Beginning of year	30,502	33,908
End of period	$56,864	$47,714
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest paid	$3,473	$3,572
Federal and state income taxes paid, net of refunds	7,819	—
Non-cash activities:		
Loans held for investment foreclosed and transferred to other real estate owned	3,562	2,007
Loans transferred from held for investment to held for sale	4,295	310,455
Loans transferred from held for sale to held for investment	24,549	—
Ginnie Mae loans recognized with the right to repurchase, net	603	473
Simplicity acquisition:		
Assets acquired, excluding cash acquired	737,570	—
Liabilities assumed	718,924	—
Bargain purchase gain	6,628	—
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, Union Street Holdings LLC and Lacey Gateway LLC. HomeStreet Bank was formed in 1986 and is a state-chartered savings bank.

The Company’s accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP). Inter-company balances and transactions have been eliminated in consolidation. In preparing the consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses during the reporting 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

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.

The following table presents the purchase price allocation reported as of the acquisition date:

(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	5,519	
Premises and equipment	3,038	
Bank-owned life insurance	14,501	
Core deposit intangibles	7,450	
Accounts receivable and other assets	15,089	
Total assets acquired	850,237	
Fair value of liabilities assumed:		
Deposits	651,202	
Federal Home Loan Bank advances	65,855	
Accounts payable and accrued expenses	1,867	
Total liabilities assumed	718,924	
Net assets acquired		$131,313
Preliminary bargain purchase (gain)		$(6,628)

The provisional application of the acquisition method of accounting resulted in a bargain purchase gain of $6.6 million which was reported as a component of noninterest income on our consolidated statement of operations for the first quarter of 2015. 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 March 31, 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 period ended March 31, 2015 and for the year ended December 31, 2014:

(in thousands)	Three Months Ended March 31, 2015	Year Ended December 31, 2014
Noninterest expense		
Salaries and related costs	$5,931	$23
General and administrative	749	179
Legal	284	245
Consulting	4,988	388
Occupancy	163	4
Information services	50	50
Total noninterest expense	$12,165	$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 amortization expense for the period ended March 31, 2015 was $114 thousand.

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 and $242 thousand was amortized during the period ended March 31, 2015.

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 and $26 thousand was amortized during the period ended March 31, 2015.

The Company determined that the disclosure requirements related to the amounts of revenues and earnings of the acquiree included in the consolidated statement 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 March 31,	
(in thousands, except share data)	2015	2014
Net interest income	$35,217	$30,442
Total noninterest income	69,494	42,706
Total noninterest expense	85,591	74,540
Net income	$11,215	$3,538
Basic income per share	$0.51	$0.16
Diluted income per share	$0.51	$0.16
Basic weighted average number of shares outstanding	22,038,748	21,818,707
Diluted weighted average number of shares outstanding	22,038,748	22,007,592

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 March 31, 2015			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	$113,549	$1,007	$(381)	$114,175
Commercial	12,941	726	—	13,667
Municipal bonds	119,315	3,324	(205)	122,434
Collateralized mortgage obligations:				
Residential	59,050	293	(867)	58,476
Commercial	19,818	61	(85)	19,794
Corporate debt securities	79,634	903	(768)	79,769
U.S. Treasury securities	40,981	34	—	41,015
	$445,288	$6,348	$(2,306)	$449,330

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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 entities ("GSEs"). Each of the MBS and CMO securities in our investment portfolio are guaranteed by Fannie Mae, Ginnie Mae or Freddie Mac. Municipal bonds are comprised of general obligation bonds (i.e., backed by the general credit of the issuer) and revenue bonds (i.e., backed by revenues from the specific project being financed) issued by various municipal corporations. As of March 31, 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 March 31, 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.

(in thousands)	At March 31, 2015 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	$(90)	$10,607	$(291)	$23,483	$(381)	$34,090
Municipal bonds	(60)	10,815	(145)	5,858	(205)	16,673
Collateralized mortgage obligations:						
Residential	(13)	8,711	(854)	29,855	(867)	38,566
Commercial	(5)	5,468	(80)	5,068	(85)	10,536
Corporate debt securities	(90)	9,238	(678)	28,049	(768)	37,287
	$(258)	$44,839	$(2,048)	$92,313	$(2,306)	$137,152

(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 March 31, 2015 and December 31, 2014, the Company does not expect any credit losses on its debt securities. In addition, as of March 31, 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 March 31, 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	$—	— %	$6	0.46 %	$6,535	1.76 %	$107,634	1.77 %	$114,175	1.77 %
Commercial	—	—	—	—	—	—	13,667	4.82	13,667	4.82
Municipal bonds	—	—	2,506	3.89	22,337	3.52	97,591	4.24	122,434	4.10
Collateralized mortgage obligations:										
Residential	—	—	—	—	181	0.83	58,295	1.43	58,476	1.43
Commercial	—	—	—	—	9,892	1.97	9,902	1.68	19,794	1.83
Corporate debt securities	—	—	10,129	2.37	37,551	3.39	32,089	3.84	79,769	3.44

U.S. Treasury securities	26,010	0.28		15,005	0.46		—	—		—	—		41,015	0.35	
Total available for sale	$26,010	0.28	%	$27,646	1.46	%	$76,496	3.10	%	$319,178	2.78	%	$449,330	2.61	%

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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 March 31,	
(in thousands)	2015	2014
Proceeds	$—	$54,305
Gross gains	—	777
Gross losses	—	(64)

There were $119.5 million and $44.3 million in investment securities pledged to secure advances from the Federal Home Loan Bank of Seattle ("FHLB") at March 31, 2015 and December 31, 2014, respectively. At March 31, 2015 and December 31, 2014, there were $44.4 million and $33.4 million, respectively, of securities pledged to secure derivatives in a liability position.

At March 31, 2015, there were $10.0 million of two-year U.S. Treasury securities pledged under repurchase agreements with a contractual maturity of 14 days. 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 at December 31, 2014.

Tax-exempt interest income on securities available for sale totaling $784 thousand and $921 thousand for the three months ended March 31, 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 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 March 31, 2015		At December 31, 2014
Consumer loans			
Single family	$1,198,605	(1)	$896,665
Home equity	205,200		