FS Bancorp, Inc.
Form 10-K
March 25, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark one)

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

For the fiscal year ended December 31, 2015 OR

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

Commission File Number: 001-35589

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

Washington (State or other jurisdiction of incorporation or organization)	45-4585178 (I.R.S. Employer Identification Number)
6920 220th Street SW, Mountlake Terrace, Washington (Address of principal executive offices)	98043 (Zip Code)
Registrant's telephone number, including area code:	(425) 771-5299
Securities registered pursuant to Section 12(b) of the Act:	None
Securities registered pursuant to Section 12(g) of the Act:	Common Stock, par value $0.01 per share (Title of Each Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES [ ] NO [X]

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES [ ] NO [X]

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X]

NO [ ]

Indicate by check mark 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 [ ]

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

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2). YES [ ] NO [X]

As of March 21, 2016, there were 3,149,396 shares of the Registrant's common stock outstanding. The Registrant's common stock is listed on the NASDAQ Capital Market under the symbol "FSBW." The aggregate market value of the common stock held by non-affiliates of the Registrant was $67,961,493, based on the closing sales price of $22.45 per share of the Registrant's common stock as quoted on the NASDAQ Capital Market on June 30, 2015. For purposes of this calculation, common stock held only by executive officers and directors of the Registrant is considered to be held by affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the definitive Proxy Statement for the 2016 Annual Meeting of Shareholders ("Proxy Statement") are incorporated by reference into Part III.

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As used in this report, the terms "we," "our," "us," and "FS Bancorp" refer to FS Bancorp, Inc. and its consolidated subsidiary, 1st Security Bank of Washington, unless the context indicates otherwise.

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Forward-Looking Statements

This Form 10-K contains forward-looking statements, which can be identified by the use of words such as "believes," "expects," "anticipates," "estimates" or similar expressions. Forward-looking statements include:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- general economic conditions, either nationally or in our market area, that are worse than expected;
- the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets;
- secondary market conditions and our ability to sell loans in the secondary market;
- fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market area;
- increases in premiums for deposit insurance;
- the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation;
- changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- increased competitive pressures among financial services companies;
- our ability to execute our plans to grow our residential construction lending, our mortgage banking operations and our warehouse lending and the geographic expansion of our indirect home improvement lending;
- our ability to attract and retain deposits;
- our ability to control operating costs and expenses;
- changes in consumer spending, borrowing and savings habits;
- our ability to successfully manage our growth;
- legislative or regulatory changes that adversely affect our business, including the effect of the Dodd-Frank Wall Street Reform and Consumer Protection Act, changes in regulation policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III;
- adverse changes in the securities markets;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board;
- costs and effects of litigation, including settlements and judgments;
- our ability to implement our branch expansion strategy;
- inability of key third-party vendors to perform their obligations to us; and
- other economic, competitive, governmental, regulatory and technical factors affecting our operations, pricing, products and services and other risks described elsewhere in this Form 10-K and our other reports filed with the U.S. Securities and Exchange Commission.

Any of the forward-looking statements that we make in this Form 10-K and in other public statements we make may turn out to be wrong because of inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot foresee. Forward-looking statements are based upon management's beliefs and assumptions at the time they are made. We undertake no obligation to update or revise any forward-looking statement included in this report or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions,

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the forward-looking statements discussed in this report might not occur and you should not put undue reliance on any forward-looking statements.

Available Information

The Company provides a link on its investor information page at www.fsbwa.com to filings with the U.S. Securities and Exchange Commission ("SEC") for purposes of providing copies of its annual report to shareholders, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and press releases. Other than an investor's own internet access charges, these filings are available free of charge and also can be obtained by calling the SEC at 1-800-SEC-0330. The information contained on the Company's website is not included as part of, or incorporated by reference into, this Annual Report on Form 10-K.

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PART 1
Item 1. Business

General

FS Bancorp, Inc. (“FS Bancorp” or the “Company”), a Washington corporation, was organized in September 2011 for the purpose of becoming the holding company of 1st Security Bank of Washington (“1st Security Bank of Washington” or the “Bank”) upon the Bank’s conversion from a mutual to a stock savings bank (“Conversion”). The Conversion was completed on July 9, 2012. At December 31, 2015, the Company had consolidated total assets of $677.6 million, total deposits of $485.2 million, and stockholders’ equity of $75.3 million. The Company has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this Annual Report on Form 10-K (“Form 10-K”), including the consolidated financial statements and related data, relates primarily to the Bank.

1st Security Bank of Washington is a relationship-driven community bank. The Bank delivers banking and financial services to local families, local and regional businesses and industry niches within distinct Puget Sound area communities. The Bank emphasizes long-term relationships with families and businesses within the communities served, working with them to meet their financial needs. The Bank is also actively involved in community activities and events within these market areas, which further strengthens relationships within these markets. The Bank has been serving the Puget Sound area since 1936. Originally chartered as a credit union, and known as Washington’s Credit Union, the Bank served various select employment groups. On April 1, 2004, the Bank converted from a credit union to a Washington state-chartered mutual savings bank. Upon completion of the Conversion in July 2012, 1st Security Bank of Washington became a Washington state-chartered stock savings bank and the wholly owned subsidiary of the Company.

At December 31, 2015, the Bank maintained its main administrative office, seven bank branch locations and three loan production offices in suburban communities in the greater Puget Sound area. The Bank also has one loan production office in the Tri-Cities, Washington opened in the fourth quarter of 2014. On September 1, 2015, the Bank entered into a Purchase and Assumption Agreement for the acquisition of four retail bank branches from Bank of America, National Association, and on January 22, 2016, the Bank completed the purchase (the "Branch Purchase"). The four branches are located in the communities of Port Angeles, Sequim, Port Townsend, and Hadlock, Washington. In connection with the Branch Purchase, the Bank acquired approximately $186.4 million in deposits and $417,000 in loans based on January 22, 2016 financial information and subject to a post-closing confirmation and adjustment review. See Item 8, “Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 18 Recent Developments ” of this Form 10-K.

The Company is a diversified lender with a focus on the origination of indirect home improvement loans, also referred to as fixture secured loans, home loans, commercial real estate mortgage loans, commercial business loans and second mortgage/home equity loan products. Consumer loans, in particular indirect home improvement loans, represent the largest portion of the loan portfolio and have traditionally been the mainstay of the Company’s lending strategy, a carryover from its days as a credit union. Going forward, the Company plans to place more emphasis on certain lending products, such as commercial real estate loans including speculative residential construction loans, one-to-four-family loans, and commercial business loans, while growing the current size of the consumer loan portfolio. The Company reintroduced in-house originations of residential mortgage loans in 2012, primarily for sale into the secondary market, through a mortgage banking program. The Company's lending strategies are intended to take advantage of: (1) the Company’s historical strength in indirect consumer lending, (2) recent market consolidation that has created new lending opportunities, and (3) relationship lending. Retail deposits will continue to serve as an important funding source. For more information regarding the business and operations of 1st Security Bank of Washington, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

1st Security Bank of Washington is examined and regulated by the Washington State Department of Financial Institutions (“DFI”), its primary regulator, and by the Federal Deposit Insurance Corporation (“FDIC”). 1st Security Bank of Washington is required to have certain reserves set by the Board of Governors of the Federal Reserve System ("Federal Reserve") and is a member of the Federal Home Loan Bank of Des Moines ("FHLB" or "FHLB of Des Moines"), which is one of the 11 regional banks in the Federal Home Loan Bank System.

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The principal executive offices of the Company are located at 6920 220th Street SW, Mountlake Terrace, Washington 98043 and its telephone number is (425) 771-5299.

Market Area

The Company conducts operations out of its main administrative office, three loan production offices, and seven full-service bank branch offices in the Puget Sound region of Washington, as well as one loan production office in eastern Washington. The administrative office is located in Mountlake Terrace, in Snohomish County, Washington. The three stand-alone home lending offices in the Puget Sound region are located in Puyallup, in Pierce County, Bellevue, in King County, Port Orchard, in Kitsap County, and the one stand-alone home lending office is located in Tri-Cities (Kennewick), in Benton County, Washington. Regarding the seven full-service bank branches, three branch offices are located in Snohomish County, two branch offices are located in King County, one branch office is located in Pierce County to the south, and one in Kitsap County to the west. On September 1, 2015, the Bank entered into a Purchase and Assumption Agreement for the acquisition of four retail bank branches from Bank of America, National Association, and on January 22, 2016, the Bank completed the Branch Purchase. The four branches are located in the communities of Port Angeles, Sequim, Port Townsend, and Hadlock, Washington.

The primary market area for business operations is the Seattle-Tacoma-Bellevue, WA Metropolitan Statistical Area (the “Seattle MSA”). Kitsap County, though not in the Seattle MSA, is also part of the Company’s market area. This overall region is typically known as the Puget Sound region. The population of the Puget Sound region was an estimated 3.9 million in 2015, over half of the state’s population, representing a large population base for potential business. The region has a well-developed urban area in the western portion along Puget Sound, with the north, central and eastern portions containing a mixture of developed residential and commercial neighborhoods and undeveloped, rural neighborhoods.

The Puget Sound region is the largest business center in both the State of Washington and the Pacific Northwest. Currently, key elements of the economy are aerospace, military bases, clean technology, biotechnology, education, information technology, logistics, international trade and tourism. The region is well known for the long presence of The Boeing Corporation and Microsoft, two major industry leaders, and for its leadership in technology. Amazon.com has expanded significantly in the Seattle downtown area. The workforce in general is well-educated and strong in technology. Washington State’s location with regard to the Pacific Rim, along with a deepwater port has made international trade a significant part of the regional economy. Tourism has also developed into a major industry for the area, due to the scenic beauty, temperate climate and easy accessibility.

King County, the location of the city of Seattle, has the largest employment base and overall level of economic activity. Seven of the largest employers in the state are headquartered in King County including The Boeing Company, Microsoft Corporation, University of Washington, Alaska Airlines, Amazon.com, Costco, and Starbucks. Pierce County’s economy is also well diversified with the presence of military related government employment (Joint Base Lewis-McChord), along with health care (the Franciscan Health System and the Multicare Health System). In addition, there is a large employment base in the economic sectors of shipping (the Port of Tacoma) and aerospace employment (Boeing). Snohomish County to the north has an economy based on aerospace employment (Boeing), military (the Everett Naval Station) along with additional employment concentrations in biotechnology, electronics/computers, and wood products.

The United States Navy is a key element for Kitsap County’s economy. The United States Navy is the largest employer in the county, with installations at Puget Sound Naval Shipyard, Naval Undersea Warfare Center Keyport and Naval Base Kitsap (which comprises former Naval Submarine Base Bangor, and Naval Station Bremerton). The largest private employers in the county are the Harrison Medical Center, Wal-Mart, and Port Madison Enterprises.

In 2010, approximately 86.6% of King County households had income levels in excess of $50,000 annually, compared to 82.5% for the State of Washington and 79.2% for the United States. In 2008, the U.S. Census Bureau determined that Seattle had the highest percentage of college and university graduates of any U.S. city. Seattle has been listed in the top three most literate cities in the country every year since 2005 by an annual review conducted by

Central Connecticut State University. Seattle's high income and education levels, especially compared to other major cities, result in King County ranking in the top 100 wealthiest counties in the United States based on 2011 non-census U.S. Census Bureau gathered data.

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Unemployment in Washington was an estimated 5.5% as of December 31, 2015, down from a high of 10.2% in March 2010, closely paralleling national trends as disclosed in the U.S. Bureau of Labor Statistics. Unemployment rates in Pierce and Kitsap counties have improved in the last 24 months. King County had the lowest unemployment rate in the state at 4.5%, much lower than the state average of 5.5% and national average of 5.0%, respectively, yet rose slightly from 4.1% at year end 2014. At December 31, 2015, the estimated unemployment rate in Pierce County was 6.1%, down from 7.2% as of December 31, 2014. The estimated unemployment rate in Snohomish County at year end 2015 was 5.0%, up from 4.5% at year end 2014. Kitsap County's unemployment rate was down to an estimated 5.5% at December 31, 2015, from 6.2% at December 31, 2014. Of the four counties, Pierce and Kitsap counties reflected the largest improvement year over year with unemployment dropping 1.1% in Pierce County and 0.7% in Kitsap County. Outside of the Puget Sound area, the Tri-Cities market includes two counties, Benton and Franklin. The estimated unemployment rate in Benton County at year end 2015 was 7.1%, down from 7.7% at year end 2014. At December 31, 2015, the estimated unemployment rate in Franklin County was 9.4%, down from 11.3% at December 31, 2014.

According to the Washington Center for Real Estate Research, home values in the State of Washington continued to improve in 2015. For the quarter ended December 31, 2015, the average home value was $495,000 in King County, $360,000 in Snohomish County, $268,000 in Kitsap County, $255,000 in Pierce County, and $209,000 for both Benton and Franklin Counties. Compared to the statewide average increase in home values of 9.7% in the fourth quarter of 2015, King and Kitsap counties have outperformed the state averages, with 10.1% and 10.0% increases, respectively. Below the state average, Pierce County experienced a 9.4% increase in home values during 2015, Snohomish County was up 8.6%, and both Benton and Franklin Counties were up 5.4% year over year.

For a discussion regarding the competition in the Company’s primary market area, see “Competition.”

Lending Activities

General. Historically, the Company's primary emphasis was the origination of consumer loans (primarily indirect home improvement and automobile-secured loans), one-to-four-family residential first mortgages, and second mortgage/home equity loan products. As a result of the Company's initial public offering in 2012, while maintaining the active indirect consumer lending program, the Company shifted its lending focus to include non-mortgage commercial business loans, as well as commercial real estate which includes construction and development loans. The Company reintroduced in-house originations of residential mortgage loans in 2012, primarily for sale in the secondary market. While maintaining the Company’s historical strength in consumer lending, the Company has added management and personnel in the commercial and home lending areas to take advantage of the relatively favorable long-term business and economic environments prevailing in the markets.

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Loan Portfolio Analysis. The following table sets forth the composition of the loan portfolio by type of loan at the dates indicated.

	December 31,									
(Dollars in thousands)	2015		2014		2013		2012		2011	
Real estate loans	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Perce
Commercial	$50,034	9.78 %	$42,970	10.90 %	$32,970	11.48 %	$33,250	11.88 %	$28,931	13.09
Construction and development	80,806	15.80	57,813	14.67	41.633	14.49	31,893	11.39	10,144	4.59
Home equity	16,540	3.24	15,737	3.99	15.172	5.28	15,474	5.53	14,507	6.56
One-to-four-family(1)	102,921	20.13	46,801	11.87	20.809	7.25	13,976	4.99	8,752	3.96
Multi-family	22,223	4.35	16,201	4.11	4.682	1.63	3,202	1.14	1,175	0.53
Total real estate loans	272,524	53.30	179,522	45.54	115,266	40.13	97,795	34.93	63,509	28.73
Consumer loans										
Indirect home improvement	103,064	20.16	99,304	25.19	91,167	31.74	83,786	29.93	81,143	36.70
Solar	29,226	5.72	18,162	4.61	16,838	5.86	2,463	0.89	—	—
Marine	23,851	4.66	16,713	4.24	11,203	3.90	17,226	6.15	23,315	10.55
Other consumer	2,181	0.43	2,628	0.66	3,498	1.22	5,195	1.86	9,748	4.41
Total consumer loans	158,322	30.97	136,807	34.70	122,706	42.72	108,670	38.83	114,206	51.66
Commercial business loans	80,436	15.73	77,881	19.76	49,244	17.15	73,465	26.24	43,337	19.61
Total gross loans receivable	511,282	100.00%	394,210	100.00%	287,216	100.00%	279,930	100.00%	221,052	100.0
Less:										
Deferred costs, fees and discounts, net	(962)		(946)		(1,043)		(283)		424	
Allowance for loan losses	(7,785)		(6,090)		(5,092)		(4,698)		(4,345)	
Total loans receivable, net	$502,535		$387,174		$281,081		$274,949		$217,131	

(1) Excludes loans held for sale.

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

(Dollars in thousands)	December 31,									
Fixed-rate loans:	2015		2014		2013		2012		2011	
Real estate loans	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Perce
Commercial	$26,189	5.12 %	$23,144	5.87 %	$23,210	8.08 %	$20,947	7.48 %	$17,578	7.95
Construction and development	315	0.06	322	0.08	525	0.18	3,958	1.41	3,407	1.54
Home equity	2,146	0.42	2,677	0.68	2,664	0.93	2,557	0.91	2,154	0.97
One-to-four-family(1)	9,305	1.82	8,108	2.06	19,981	6.96	8,328	2.98	5,452	2.47
Multi-family	2,659	0.52	3,240	0.82	3,467	1.21	2,053	0.73	1,175	0.53
Total real estate loans	40,614	7.94	37,491	9.51	49,847	17.36	37,843	13.51	29,766	13.46
Consumer loans	157,805	30.87	136,368	34.59	122,346	42.60	108,500	38.76	114,201	51.65
Commercial business loans	17,440	3.41	16,197	4.11	19,792	6.89	16,959	6.06	8,971	4.07
Total fixed-rate loans	215,859	42.22	190,056	48.21	191,985	66.85	163,302	58.33	152,938	69.18
Adjustable-rate loans:										
Real estate loans										
Commercial	23,845	4.66	19,826	5.03	9,760	3.40	12,303	4.40	11,353	5.14
Construction and development	80,491	15.74	57,491	14.58	41,108	14.31	27,935	9.98	6,737	3.05
Home equity	14,394	2.82	13,060	3.31	12,508	4.35	12,917	4.61	12,353	5.59
One-to-four-family(1)	93,616	18.31	38,693	9.82	828	0.29	5,648	2.02	3,300	1.49
Multi-family	19,564	3.83	12,961	3.29	1,215	0.42	1,149	0.41	—	—
Total real estate loans	231,910	45.36	142,031	36.03	65,419	22.77	59,952	21.42	33,743	15.27
Consumer loans	517	0.10	439	0.11	360	0.12	170	0.06	5	0.01
Commercial business loans	62,996	12.32	61,684	15.65	29,452	10.26	56,506	20.19	34,366	15.54
Total adjustable-rate loans	295,423	57.78	204,154	51.79	95,231	33.15	116,628	41.67	68,114	30.82
Total gross loans receivable	511,282	100.00 %	394,210	100.00 %	287,216	100.00 %	279,930	100.00 %	221,052	100.0
Less:										
Deferred costs, fees and discounts, net	(962)		(946)		(1,043)		(283)		424	
Allowance for loan losses	(7,785)		(6,090)		(5,092)		(4,698)		(4,345)	
Total loans receivable, net	$502,535		$387,174		$281,081		$274,949		$217,131	

(1) Excludes loans held for sale.

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Loan Maturity. The following table sets forth certain information at December 31, 2015, regarding the dollar amount and current rates of interest for the loans maturing in the portfolio based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments. Loan balances do not include undisbursed loan proceeds, unearned discounts, unearned income, and allowance for loan losses.

(Dollars in thousands)	Real Estate										Consumer		Commercial Business	
	Commercial		Construction and Development		Home Equity		One-to-Four-Family (2)		Multi-family					
Due During Years Ending December 31,	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate (3)	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weig Avera Rate
2016(1)	$3,391	4.44%	$75,015	6.16%	$14,553	4.50%	$994	7.20%	$—	— %	$1,597	9.75%	$67,144	4.65
2017	2,779	4.61	1,935	6.17	—	—	848	3.75	367	4.38	1,861	7.32	1,194	2.51
2018	6,408	5.34	315	7.00	—	—	1,665	4.34	1	5.25	4,473	7.32	460	5.32
2019 and 2020	8,326	3.78	—	—	71	7.00	1,082	5.20	6	4.48	8,336	8.59	8,144	4.51
2021 to 2025	27,024	4.97	—	—	834	7.44	5,385	4.61	19,595	4.12	45,398	8.72	2,241	4.46
2026 to 2030	1,608	4.87	2,694	5.00	—	—	3,007	4.03	2,093	4.88	92,641	7.63	1,253	5.34
2031 and following	498	6.00	847	3.85	1,082	8.03	89,940	4.02	161	5.46	4,016	7.13	—	—
Total	$50,034	4.77%	$80,806	6.10%	$16,540	4.89%	$102,921	4.10%	$22,223	4.21%	$158,322	7.99%	$80,436	4.62

(1) Includes demand loans, loans having no stated maturity and overdraft loans.
(2) Excludes loans held for sale.
(3) Includes one loan at default interest rate.

The total amount of loans due after December 31, 2016, which have predetermined interest rates is $201.1 million, while the total amount of loans due after this date which have floating or adjustable interest rates is $147.5 million.

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Lending Authority. The Chief Credit Officer has the authority to approve multiple loans to one borrower up to $6.0 million in aggregate. Loans in excess of $6.0 million require an additional signature from the Chief Executive Officer and/or Chief Financial Officer. All loans that are approved over $2.5 million are reported to the Asset Quality Committee ("AQC") on a monthly basis. The Chief Credit Officer may delegate lending authority to other individuals at levels consistent with their responsibilities.

The Board of Directors has implemented a lending limit policy that it believes matches the Washington State legal lending limit. At December 31, 2015, the Company's policy limits loans to one borrower and the borrower's related entities to 20% of the Bank's unimpaired capital and surplus, or $17.3 million at December 31, 2015. Management has adopted an internal lending limit of a maximum of 80% of the Bank's legal lending limit for risk mitigation purposes and all loans over this limit require approval from the AQC. The Bank's largest lending relationship at December 31, 2015, consisted of four commercial real estate loans having combined commitments of $10.9 million to two limited liability companies as borrower on two of these loans, and one corporation as borrower on the remaining two loans. Three of these loans are secured by commercial real estate construction projects located in King County, Washington, having a combined outstanding balance of $3.0 million at December 31, 2015. The fourth loan had an outstanding balance of $4.7 million, at December 31, 2015, secured by a multi-family building located in King County, Washington. The second largest lending relationship consisted of two commercial lines of credit to a corporation and an individual having a combined outstanding balance of $6.8 million, one unsecured for $1.0 million, and the other loan secured by accounts receivables located in King County, Washington. The third largest lending relationship consisted of six loans to two limited liability companies having a combined outstanding balance of $5.8 million, all of which are secured by construction and development projects in King County, Washington. All of the loans listed above were current at December 31, 2015.

At December 31, 2015, the Company had $33.0 million approved in warehouse lending lines for six companies. The commitments ranged from $3.0 million to $9.0 million. As of December 31, 2015, there was $5.4 million in warehouse lines outstanding, compared to $34.0 million approved in warehouse lending lines with $10.1 million outstanding at December 31, 2014.

Commercial Real Estate Lending. The Company offers a variety of commercial real estate loans. Most of these loans are secured by income producing properties, including retail centers, warehouses and office buildings located in the market areas. The Company also has a limited amount of loans secured by multi-family residences. At December 31, 2015, commercial real estate loans (including multi-family residential loans) totaled $72.3 million, or 14.1%, of the gross loan portfolio.

The Company's loans secured by commercial real estate are originated with a fixed or variable interest rate for up to a 15-year term and a 30-year amortization. The variable rate loans are indexed to the prime rate of interest or a short-term LIBOR rate, or five or seven-year FHLB rate, with rates equal to the prevailing index rate to 5.0% above the prevailing rate. Loan-to-value ratios on the Company's commercial real estate loans typically do not exceed 80% of the appraised value of the property securing the loan. In addition, personal guarantees are obtained from the primary borrowers on substantially all credits.

Loans secured by commercial real estate are generally underwritten based on the net operating income of the property and the financial strength of the borrower. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt plus an additional coverage requirement. The Company generally requires an assignment of rents or leases in order to be assured that the cash flow from the project will be sufficient to repay the debt. Appraisals on properties securing commercial real estate loans are performed by independent state certified or licensed fee appraisers. The Company does not generally maintain insurance or tax escrows for loans secured by commercial real estate. In order to monitor the adequacy of cash flows on income-producing properties, the borrower is required to provide financial information on at least an annual basis.

Loans secured by commercial real estate properties generally involve a greater degree of credit risk than one-to-four-family residential mortgage loans. These loans typically involve large balances to single borrowers or groups of related borrowers. Because payments on loans secured by commercial and multi-family real estate properties are often dependent on the successful operation or management of the properties, repayment of these loans may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced, or if leases are not obtained or renewed, the borrower’s ability to repay the loan may be impaired.

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The Company intends to continue to emphasize commercial real estate lending and, as a result, the Company has assembled a highly experienced team, with an average of over 20 years experience. The Bank's Chief Credit Officer and Chief Lending Officer are both senior bankers with over 25 years of commercial lending experience in the northwestern U.S. region. Management has also hired experienced commercial loan officers to support the Company’s commercial real estate lending objectives. As the commercial loan portfolio expands, the Company intends to bring in additional experienced personnel in the areas of loan analysis and commercial deposit relationship management, as needed.

Construction and Development Lending. The Company expanded its residential construction lending team in 2011 with a focus on vertical, in-city one-to-four-family development in our market area. This team has over 60 years of combined experience and expertise in acquisition, development and construction (“ADC”) lending in the Puget Sound market area. The Company has implemented this strategy to take advantage of what is believed to be an unmet demand for construction and ADC loans to experienced, successful and relationship driven builders in our market area after many other banks abandoned this segment because of previous overexposure. At December 31, 2015, construction and development loans totaled $80.8 million, or 15.8%, of the gross loan portfolio and consisted of loans for residential and commercial construction projects, primarily for vertical construction and $2.2 million of land acquisition and development loans. At December 31, 2015, $57.5 million of our construction portfolio was comprised of speculative one-to-four-family construction loans.

The Company's residential commercial construction lending program focuses on the origination of loans for the purpose of constructing, on both a pre-sold and speculative basis, and selling primarily one-to-four-family residences within the market area. The Company generally limits these types of loans to known builders and developers in the market area. Construction loans generally provide for the payment of interest only during the construction phase, which is typically up to 12 months. At the end of the construction phase, the construction loan is generally paid off through the sale of the newly constructed home and a permanent loan from another lender, although commitments to convert to a permanent loan may be made by us. Construction loans are generally made with a maximum loan-to-value ratio of the lower of 95% of cost or 75% of appraised value at completion. During the term of construction, the accumulated interest on the loan is typically added to the principal balance of the loan through an interest reserve of 3% to 5.5% of the loan commitment amount.

Commitments to fund construction loans generally are made subject to an appraisal of the property by an independent licensed appraiser. The Company also reviews and has a licensed third-party inspect each property before disbursement of funds during the term of the construction loan. Loan proceeds are disbursed after inspection by a third party inspector based on the percentage of completion method.

The Company may also make land acquisition and development loans to builders or residential lot developers on a limited basis. These loans involve a higher degree of credit risk, similar to commercial construction loans. At December 31, 2015, included in the $80.8 million of construction loans, were six residential land acquisition and development loans for finished lots totaling $2.2 million, with total commitments of $2.7 million. These land loans also involve additional risks because the loan amount is based on the projected value of the lots after development. Loans are made for up to 75% of the estimated value with a term of up to two years. These loans are required to be paid on an accelerated basis as the lots are sold, so that the Company is repaid before all the lots are sold.

Construction financing is generally considered to involve a higher degree of credit risk than longer-term financing on improved, owner-occupied real estate.

Construction and development lending contains the inherent difficulty in estimating both a property’s value at completion of the project and the estimated cost (including interest) of the project. Changes in the demand, such as for new housing and higher than anticipated building costs may cause actual results to vary significantly from those estimated. If the estimate of construction cost proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the project. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. In addition, during the term of most of our construction loans, an interest reserve is created at origination and is added to the principal of the loan through the construction phase. If the estimate of value upon completion proves to be inaccurate, we may be confronted at, or prior to, the maturity of the loan with a project the value of which is insufficient to assure full repayment. Because construction loans require active monitoring of the building process, including cost comparisons and on-site inspections, these loans are more difficult and costly to monitor. Increases in market rates of interest may have a more pronounced effect on construction loans by rapidly increasing the end-purchasers' borrowing costs, thereby reducing the overall demand for the project. Properties under construction are often difficult to sell and typically must be completed in order to be successfully sold which also complicates the process of working out problem construction loans. This may require us to advance additional funds and/or contract with another builder to complete construction. Furthermore, speculative construction loans to a builder are often associated with homes that are not pre-sold, and thus pose a greater potential risk than construction loans to individuals on their personal residences as there is the added risk associated with identifying an end-purchaser for the finished project. Loans on land under development or held for future construction pose additional risk because of the lack of income being produced by the property and the potential illiquid nature of the collateral. These risks can be significantly impacted by supply and demand. As a result, this type of lending often involves the disbursement of substantial funds with repayment dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor themselves to repay principal and interest.

The Company seeks to address the forgoing risks associated with construction development lending by developing and adhering to underwriting policies, disbursement procedures and monitoring practices. Specifically, the Company (i) seeks to diversify the number of loans and projects in the market area, (ii) evaluate and document the creditworthiness of the borrower and the viability of the proposed project, (iii) limit loan-to-value ratios to specified levels, (iv) control disbursements on construction loans on the basis of on-site inspections by a licensed third-party, and (v) monitor economic conditions and the housing inventory in each market. No assurances, however, can be given that these practices will be successful in mitigating the risks of construction development lending.

Home Equity Lending. The Company has been active in second mortgage and home equity lending, with the focus of this lending being conducted in the Company’s primary market area. The home equity lines of credit generally have adjustable rates tied to the prime rate of interest with a draw term of ten years and a term to maturity of 15 years. Monthly payments are based on 1.0% of the outstanding balance with a maximum combined loan-to-value ratio of up to 90%, including any underlying first mortgage. Second mortgage home equity loans are typically fixed rate, amortizing loans with terms of up to 15 years. Total second mortgage/home equity loans totaled $16.5 million, or 3.2% of the gross loan portfolio, at December 31, 2015, $14.4 million of which were adjustable rate home equity lines of credit. Unfunded commitments on loans and lines of credit at December 31, 2015, was $18.1 million.

Residential. The Company originates loans secured by first mortgages on one-to-four-family residences primarily in the market area. The Company originates one-to-four-family residential mortgage loans through referrals from real estate agents, financial planners, builders and from existing customers. Walk-in customers are also an important source of the Company’s loan originations. The Company originated $624.0 million of one-to-four-family mortgages during 2015, of which $527.2 million were sold to investors. Of the loans sold to investors, $344.0 million were sold to Fannie Mae, Ginnie Mae, and/or Freddie Mac with servicing rights retained in order to further build the relationship with the customer. At December 31, 2015, one-to-four-family residential mortgage loans totaled $102.9 million, or 20.1%, of the gross loan portfolio, excluding loans held for sale of $44.9 million.

The Company generally underwrites the one-to-four-family loans based on the applicant’s ability to repay. This includes employment and credit history and the appraised value of the subject property. The Company will lend up to 100% of the lesser of the appraised value or purchase price for one-to-four-family first mortgage loans. For first mortgage loans with a loan-to-value ratio in excess of 80%, the Company generally requires either private mortgage insurance or government sponsored insurance in order to mitigate the higher risk level associated with higher loan-to-value loans. Fixed-rate loans secured by one-to-four-family residences have contractual maturities of up to 30 years and are generally fully amortizing, with payments due monthly. Adjustable-rate mortgage loans generally pose different credit risks than fixed-rate loans, primarily because as interest rates rise the borrower’s payments rise, increasing the potential for default. Properties securing the one-to-four-family loans are appraised by independent fee appraisers who are selected in accordance with industry and regulatory standards. The Company requires borrowers to obtain title and hazard insurance, and flood insurance, if necessary. Loans are generally underwritten to the secondary market guidelines with overlays as determined by the internal underwriting department.

Consumer Lending. Consumer lending represents a significant and important historical activity for the Company, primarily reflecting the indirect lending through home improvement contractors and dealers. At December 31, 2015, consumer loans totaled $158.3 million, or 31.0% of the gross loan portfolio.

The Company’s indirect home improvement loans, also referred to as fixture secured loans, represent the largest portion of the consumer loan portfolio and have traditionally been the mainstay of the Company’s lending strategy. These loans totaled $103.1 million, or 20.2% of total loans, and 65.1% of total consumer loans, at December 31, 2015. Indirect home improvement loans are originated through a network of 88 home improvement contractors and dealers located in Washington, Oregon, Idaho, and California. Four dealers are responsible for a majority (53.2%) of the loan volume. These fixture secured loans consist of loans for a wide variety of products, such as replacement windows, siding, roofs, HVAC systems, and roofing materials.

In order to grow the Company's indirect home improvement loan volume, the Company expanded into the State of California in 2012 with a limited number of contractors and dealers of solar loans. Solar loans are the second largest portion of the consumer loan portfolio which totaled $29.2 million, or 5.7% of total loans. As of December 31, 2015, the Company had $22.6 million in loans to borrowers that reside in California, or 77.3% of total solar loans, 4.4% of total loans, and 14.3% of total consumer loans. The Company's primary home improvement focus in California is on consumer solar panel installations which comprise 100% of the volume originated in California.

In connection with fixture secured loans, the Company receives loan applications from the dealers, and originates the loans based on pre-defined lending criteria. The loans are processed through the loan origination software, with approximately 20% of the loan applications receiving an automated approval based on the information provided, and the remaining loans processed by the Company’s credit analysts. The Company follows the internal underwriting guidelines in evaluating loans obtained through the indirect dealer program, including using a Fair Isaac and Company, Incorporated ("FICO"), credit score to approve loans. A FICO score is a principal measure of credit quality and is one of the significant criteria we rely upon in our underwriting in addition to the borrower's debt to income.

The Company’s fixture secured loans generally range in amounts from $2,500 to $50,000, and generally carry terms of up to 15 years with fixed rates of interest. In some instances, the participating dealer may pay a fee to buy down the borrower's interest rate to a rate below the Company's published rate. Fixture secured loans are secured by the personal property installed in, on or at the borrower’s real property, and may be perfected with a UCC-2 financing statement filed in the county of the borrower’s residence. The Company generally files a UCC-2 financing statement to perfect the security interest in the personal property in situations where the borrower’s credit score is below 720 or the home improvement loan is for an amount in excess of $10,000. Perfection gives the Company a claim to the collateral that is superior to someone that obtains a lien through the judicial process subsequent to the perfection of a security interest. The failure to perfect a security interest does not render the security interest unenforceable against the borrower. However, failure to perfect a security interest risks avoidance of the security interest in bankruptcy or subordination to the claims of third parties.

The Company also offers consumer marine loans secured by boats. Marine loans represent the third largest segment of the consumer loan portfolio. As of December 31, 2015, the marine loan portfolio totaled $23.9 million, or 4.7% of total loans and 15.1% of total consumer loans. Marine loans are originated with borrowers on both a direct and indirect basis, and generally carry terms of up to 20 years with fixed rates of interest. The Company requires a 10% down payment, and the loan amount may be up to the lesser of 120% of factory invoice or 90% of the purchase price.

The Company originates other consumer loans which totaled $2.2 million as of December 31, 2015. These loans primarily include personal lines of credit, automobile, direct home improvement, loans on deposit, and recreational loans.

In evaluating any consumer loan application, a borrower’s FICO score is utilized as an important indicator of credit risk. The FICO score represents the creditworthiness of a borrower based on the borrower’s credit history, as reported by an independent third party. A higher FICO score indicates a greater degree of creditworthiness. Over the last several years the Company has emphasized originations of loans to consumers with higher credit scores. This has resulted in a lower level of loan charge-offs in recent periods. As of December 31, 2015, 70.7% of the consumer loan portfolio was originated with borrowers having a FICO score over 720 at the time of origination, and 96.4% was originated with borrowers having a FICO score over 660 at the time of origination. Generally, a FICO score of 660 or higher indicates the borrower has an acceptable credit reputation. A credit score at the time of loan origination of less than 660 is considered “subprime” by federal banking regulators. Borrowers of our one-to-four-family loans had an average FICO score of 724 at the time of loan origination. Consideration for loans with FICO scores below 660 require additional management oversight and approval.

Consumer loans generally have shorter terms to maturity, which reduces the Company's exposure to changes in interest rates. In addition, management believes that offering consumer loan products helps to expand and create stronger ties to existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

Consumer and other loans generally entail greater risk than do one-to-four-family residential mortgage loans, particularly in the case of consumer loans that are secured by rapidly depreciable assets, such as boats, automobiles and other recreational vehicles. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. As a result, consumer loan collections are dependent on the borrower's continuing financial stability and, thus, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. In the case of fixture secured loans, it is very difficult to repossess the personal property securing these loans as they are typically attached to the borrower's personal residence. Accordingly, if a borrower defaults on a fixture secured loan the only practical recourse, due to the general small size of these loans, is to wait until the borrower wants to sell or refinance the home, at which time if there is a perfected security interest the Company generally will be able to collect.

Commercial Business Lending. The Company originates commercial business loans and lines of credit to local small- and mid-sized businesses in the Puget Sound market area that are secured by accounts receivable, inventory or property, plant and equipment. Consistent with management's objectives to expand commercial business lending, in 2009, the Company commenced a mortgage warehouse lending program through which the Company funds third-party mortgage bankers. Under this program the Company provides short term funding to the mortgage banking companies for the purpose of originating residential mortgage loans for sale into the secondary market. The Company's warehouse lending lines are secured by the underlying notes associated with mortgage loans made to borrowers by the mortgage banking company and generally require guarantees from the principle shareholder(s) of the mortgage banking company. These loans are repaid when the note is sold by the mortgage bank into the secondary market, with the proceeds from the sale used to pay down the outstanding loan before being dispersed to the mortgage bank. At December 31, 2015, the Company had approved warehouse lending lines for six companies with varying limits from $3.0 million up to $9.0 million for an aggregate amount of $33.0 million. During the year ended December 31, 2015, the Company processed approximately 1,000 loans and funded approximately $347.5 million under this program, with $5.4 million outstanding at December 31, 2015.

Commercial business loans may be fixed-rate, but are usually adjustable-rate loans indexed to the prime rate of interest, plus a margin. Some of the commercial business loans, such as those made pursuant to the warehouse lending program, are structured as lines of credit with terms of 12 months and interest only payments required during the term, while other loans may reprice on an annual basis and amortize over a two to five year period. Due to the current interest rate environment, these loans and lines of credit are generally originated with a floor, which is generally set between 3.5% and 5.5%. Loan fees are generally charged at origination depending on the credit quality and account relationships of the borrower. Advance rates on these types of lines are generally limited to 80% of accounts receivable and 50% of inventory. The Company also generally requires the borrower to establish a deposit relationship as part of the loan approval process. At December 31, 2015, the commercial business loan portfolio totaled $80.4 million, or 15.7%, of the gross loan portfolio including warehouse lending loans.

At December 31, 2015, most of the commercial business loans were secured. The Company's commercial business lending policy includes credit file documentation and analysis of the borrower's background, capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as an evaluation of other conditions affecting the borrower. Analysis of the borrower's past, present and future cash flows is also an important aspect of credit analysis. The Company generally requires personal guarantees on commercial business loans. Nonetheless, commercial business loans are believed to carry higher credit risk than residential mortgage loans. The largest two commercial business lending relationships consisted of one line of credit per borrower. The first to a single borrower consisting of a warehouse line of credit secured by the underlying notes associated with mortgage loans, having a commitment of $9.0 million, and an outstanding balance of $1.9 million at December 31, 2015. The other line of credit was to two borrowers secured by accounts receivable, along with an unsecured line having a combined commitment of $10.0 million, and an outstanding balance of $6.8 million at December 31, 2015.

Unlike residential mortgage loans, commercial business loans, particularly unsecured loans, are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business and, therefore, are of higher risk. The Company makes commercial loans secured by business assets, such as accounts receivable, inventory,

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equipment, real estate and cash as collateral with loan-to-value ratios in most cases up to 80%, based on the type of collateral. This collateral depreciates over time, may be difficult to appraise and may fluctuate in value based on the specific type of business and equipment used. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself (which, in turn, is often dependent in part upon general economic conditions).

Loan Originations, Servicing, Purchases and Sales

The Company originates both fixed-rate and adjustable-rate loans. The ability to originate loans, however, is dependent upon customer demand for loans in the market areas. Over the past few years, the Company has continued to originate consumer loans, and increased emphasis on commercial real estate loans, including construction and development lending, as well as commercial business loans. Demand is affected by competition and the interest rate environment. In periods of economic uncertainty, the ability of financial institutions, including us, to originate large dollar volumes of commercial business and real estate loans may be substantially reduced or restricted, with a resultant decrease in interest income. In addition to interest earned on loans and loan origination fees, the Company receives fees for loan commitments, late payments and other miscellaneous services. The fees vary from time to time, generally depending on the supply of funds and other competitive conditions in the market.

From time to time to supplement our loan originations and based on our asset/liability objectives we will purchase bulk loans or pools of loans from other financial institutions. Loans purchased are reviewed for their individual credit quality but are not re-underwritten prior to purchase. In the third quarter of 2015, the Company purchased $16.3 million of adjustable rate one-to-four-family, non-owner occupied loans secured by properties located in the Puget Sound market.

The Company will sell long-term, fixed-rate residential real estate loans in the secondary market to mitigate interest rate risk. These loans are generally sold for cash in amounts equal to the unpaid principal amount of the loans determined using present value yields to the buyer. These sales allowed for a servicing fee on loans when the servicing is retained by the Company. A majority of residential real estate loans sold by the Company were sold with servicing retained. The Company earned gross mortgage servicing fees of $1.2 million for the year ended December 31, 2015. At December 31, 2015, the Company was servicing a $631.9 million one-to-four-family portfolio. These mortgage servicing rights constituted a $5.8 million asset on the books on that date, which is amortized in proportion to and over the period of the net servicing income. These mortgage servicing rights are periodically evaluated for impairment based on their fair value, which takes into account the rates and potential prepayments of those sold loans being serviced. The fair value of the servicing rights at December 31, 2015 was $6.8 million. See Notes 4 and 14 of the Notes to Consolidated Financial Statements included in Item 8, “Financial Statements and Supplementary Data” of this Form 10-K.

The following table presents the activity during the year ended December 31, 2015, related to loans serviced for others.

Beginning balance at January 1, 2015	(In thousands)	
One-to-four-family	$340,243	
Consumer	3,079	
Commercial	2,534	
Subtotal	345,856	
Additions		
One-to-four-family	344,038	
Repayments		
One-to-four-family	(52,341	)
Consumer	(888	)
Commercial	(546	)
Subtotal	(53,775	)

Ending balance at December 31, 2015	
One-to-four-family	631,940
Consumer	2,191
Commercial	1,988
Total	$636,119

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The following table shows total loans originated, purchased, sold and repaid during the periods indicated.

(In thousands)	Years Ended December 31,	
Originations by type:	2015	2014
Fixed-rate:		
Commercial	$5,172	$5,442
Home equity	1,256	810
One-to-four-family [(1)]	3,309	9,186
Loans held for sale	531,460	277,334
Multi-family	784	948
Consumer	79,789	66,976
Commercial business (excluding warehouse lines)	4,709	8,204
Total fixed-rate	626,479	368,900
Adjustable- rate:		
Commercial	9,691	14,169
Construction and development	126,095	103,917
Home equity	8,498	7,854
One-to-four-family [(1)]	54,992	43,621
Loans held for sale	40,285	—
Multi-family	7,001	11,916
Consumer	973	415
Commercial business (excluding warehouse lines)	65,695	56,806
Warehouse lines, net	(4,685)	6,082
Total adjustable-rate	308,545	244,780
Total loans originated	935,024	613,680
Purchases by type:		
Adjustable-rate:		
One-to-four-family [(1)]	16,255	—
Total loans purchased	16,255	—
Sales and repayments:		
Commercial	—	(3,250)
Loans held for sale	(551,455)	(263,229)
Consumer	—	(21,995)
Total loans sold	(551,455)	(288,474)
Total principal repayments	(263,810)	(206,393)
Total reductions	(815,265)	(494,867)
Net increase	$136,014	$118,813

(1) One-to-four-family portfolio loans.

Sales of whole real estate loans and participations in real estate loans can be beneficial to us since these sales systematically generate income at the time of sale, produce future servicing income on loans where servicing is retained, provide funds for additional lending and other investments, and increase liquidity.

Sales of whole consumer loans, specifically longer term consumer loans, can be beneficial to us since these sales generate income at the time of sale, can potentially create future servicing income where servicing is retained, and provide a mitigation of interest rate risk associated with holding 15-20 year maturity consumer loans.

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Asset Quality

When a borrower fails to make a required payment on a residential real estate loan, the Company attempts to cure the delinquency by contacting the borrower. In the case of loans secured by residential real estate, a late notice typically is sent 16 days after the due date, and the borrower is contacted by phone within 16 to 25 days after the due date. When the loan is 30 days past due, an action plan is formulated for the credit under the direction of the Manager of the Loan Control department. Generally, a delinquency letter is mailed to the borrower. All delinquent accounts are reviewed by a loan control representative who attempts to cure the delinquency by contacting the borrower once the loan is 30 days past due. If the account becomes 60 days delinquent and an acceptable repayment plan has not been agreed upon, a loan control representative will generally refer the account to legal counsel with instructions to prepare a notice of intent to foreclose. The notice of intent to foreclose allows the borrower up to 30 days to bring the account current. Between 90 - 120 days past due, a value is obtained for the loan collateral. At that time, a mortgage analysis is completed to determine the loan-to-value ratio and any collateral deficiency. If foreclosed, the Company customarily takes title to the property and sells it directly through a real estate broker.

Delinquent consumer loans are handled in a similar manner. Appropriate action is taken in the form of phone calls and notices to collect any loan payment that is delinquent more than 16 days. Once the loan is 90 days past due, it is classified as non-accrual. Generally, credits are charged off if past due 120 days, unless the collections department provides support for continuing its collection efforts. Bank procedures for repossession and sale of consumer collateral are subject to various requirements under the applicable consumer protection laws as well as other applicable laws and the determination by us that it would be beneficial from a cost basis.

Delinquent commercial business loans and loans secured by commercial real estate are handled by the loan officer in charge of the loan, who is responsible for contacting the borrower. The loan officer works with outside counsel and, in the case of real estate loans, a third party consultant to resolve problem loans. In addition, management meets as needed and reviews past due and classified loans, as well as other loans that management feels may present possible collection problems, which are reported to the loan committee and the board on a monthly basis. If an acceptable workout of a delinquent commercial loan cannot be agreed upon, the Company customarily will initiate foreclosure or repossession proceedings on any collateral securing the loan.

The following table shows delinquent loans by the type of loan and number of days delinquent at December 31, 2015. Categories not included in the table below did not have any delinquent loans at December 31, 2015.

	Loans Delinquent For:								
(Dollars in thousands)	60-89 Days			Non-Accrual 90 Days and Over			Total Loans Delinquent 60 Days or More		
Real estate loans	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category
Home equity	1	$20	0.12 %	1	$47	0.28 %	2	$67	0.41 %
One-to-four-family	—	—	—	1	525	0.51	1	525	0.51
Total real estate loans	1	20	0.01	2	572	0.21	3	592	0.22
Consumer loans									
Indirect home improvement	20	154	0.15	48	408	0.40	68	562	0.55
Solar	—	—	—	1	37	0.13	1	37	0.13
Total consumer loans	20	154	0.10	49	445	0.28	69	599	0.38
Total	21	$174	0.03 %	51	$1,017	0.20 %	72	$1,191	0.23 %

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Non-performing Assets. The following table sets forth information with respect to the Company's non-performing assets.

(Dollars in thousands)	December 31,				
Non-accruing loans:	2015	2014	2013	2012	2011
Real estate loans					
Commercial	$—	$—	$567	$783	$—
Construction and development	—	—	—	—	623
Home equity	47	61	172	248	267
One-to-four-family	525	73	104	344	412
Total real estate loans	572	134	843	1,375	1,302
Consumer loans					
Indirect home improvement	408	250	258	295	454
Solar	37	29	—	—	—
Marine	—	19	—	—	—
Other consumer	—	1	—	42	44
Total consumer loans	445	299	258	337	498
Commercial business loans	—	—	—	194	427
Total non-accruing loans	1,017	433	1,101	1,906	2,227
Real estate owned	—	—	2,075	2,127	4,589
Repossessed consumer property	—	—	32	31	78
Total non-performing assets	$1,017	$433	$3,208	$4,064	$6,894
Restructured loans	$734	$783	$815	$3,260	$3,249
Total non-performing assets as a percentage of total assets	0.15 %	0.08 %	0.77 %	1.13 %	2.43 %

For the year ended December 31, 2015, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms was $95,000. The amount of interest income on these non-accrual loans that was included in net income was $58,000.

Real Estate Owned. Real estate acquired by the Company as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until it is sold. When the property is acquired, it is recorded at the lower of its cost, which is the unpaid principal balance of the related loan plus foreclosure costs, or the fair market value of the property less selling costs. The Company had no real estate owned properties as of December 31, 2015.