Warehouse Lines of Credit

Mortgage warehouse lines of credit provide short-term, revolving credit facilities to mortgage bankers across the Nation. These credit facilities are secured by single family, first lien residential real estate loans. The credit facility enables mortgage banking clients to originate single family, first lien residential real estate loans in their own names and temporarily fund their inventory of these originated loans until the loans are sold to investors approved by the Bank. The individual loans are expected to remain on the Bank's warehouse line for an average of 15 to 30 days. Interest income and loan fees are accrued for each individual loan during the time the loan remains on the Bank's warehouse line and are collected when the loan is sold to the secondary market investor. The Bank receives the sale proceeds of each loan directly from the investor and applies the funds to pay off the warehouse advance and related accrued interest and fees. The remaining proceeds are credited to the mortgage banking client. Outstanding balances on these credit facilities may be subject to significant fluctuations consistent with the overall market demand for mortgage loans.

As of December 31, 2015, the Bank had $387 million outstanding on total committed Warehouse credit lines of $728 million. As of December 31, 2014, the Bank had $319 million outstanding on total committed Warehouse credit lines of $528 million. The $67 million, or 21%, increase in outstanding balances was due primarily to the increase in overall usage of the Bank's Warehouse lines during the 2015. The average Warehouse line commitment was approximately $33 million and $26 million at December 31, 2015 and 2014. The average Warehouse line usage increased to 55% during 2015 compared to 47% for 2014. The increased usage during 2015 was primarily driven by an increase in home loan purchase activity across the Nation as long-term mortgage rates reached multi-year lows during 2015.

The Bank's Warehouse Lending business is significantly influenced by the overall residential mortgage market and the volume and composition of residential mortgage purchase and refinance transactions among the Bank's mortgage banking clients. For 2015, the Bank's Warehouse volume consisted of 61% purchase transactions, in which the mortgage company's borrower was purchasing a new residence, and 39% refinance transactions, in which the mortgage company's client was refinancing an existing mortgage loan. For 2014, Warehouse volume consisted of 70% purchase and 30% refinance transactions. Purchase volume is driven by a number of factors, including but not limited to, the overall economy, the housing market, and long-term residential mortgage interest rates, while refinance volume is primarily driven by long-term residential mortgage interest rates.

The growth of the Bank's Warehouse Lending business greatly depends on the overall mortgage market and typically follows industry trends. Since its entrance into this business segment during 2011, the Bank has experienced volatility in the Warehouse portfolio consistent with overall demand for mortgage products. Weighted average quarterly usage rates on the Bank's Warehouse lines have ranged from a low of 31% during the fourth quarter of 2013 to a high of 64% during the second quarter of 2015. On an annual basis, weighted average usage rates on the Bank's Warehouse lines have ranged from a low of 40% during 2013 to a high of 55% during 2015. The Mortgage Bankers Association's economic forecast released in February 2016 projected mortgage originations to decline 9% across the Nation from 2015 to 2016, which leads management to believe that usage rates among the Bank's Warehouse Lending clients may also decrease. A decline as predicted, along with a very competitive landscape, will likely negatively impact the Bank's ability to maintain its existing Warehouse Lending clients and to attract new mortgage companies to its warehouse platform.

Due to the volatility and seasonality of the mortgage market, it is difficult to project future outstanding balances of Warehouse lines of credit.

Retail Mortgage Lending

The Bank's retail mortgage lending consists of single family, residential real estate loan classes as well as home equity lines of credit ("HELOCs"). Retail mortgage loans increased $50 million, or 3%, during 2015. Generally, growth in the retail mortgage portfolio was concentrated in HELOCs and Correspondent loans, which grew $44 million and $23 million, respectively. Growth in HELOCs was primarily driven by promotions during 2015, as the Bank embarked on an aggressive marketing campaign to increase its HELOCs utilizing a promotional rate product to substantially drive volume. Under the terms of the promotional product during 2015, clients received a fixed interest rate of 1.99% for the first twelve months of the HELOC with no upfront closing costs. When the promotional rate expires after twelve months, clients' rates are adjusted to an index based on the New York Prime Rate ("Prime"). During January 2016, the Company increased its offering rate on the promotional product to 2.99% for the first twelve months with no upfront closing costs.

The growth in HELOCs was partially offset by a $36 million, or 3%, decline in owner occupied organically originated loans, as a decrease in mortgage rates during 2015 incentivized a higher volume of clients to refinance into the secondary market.