BLUE LION CAPITAL

September 20, 2023

To my fellow HomeStreet Bank shareholders,

During a recent call with Jim Mitchell (Lead Independent Director) and Mark Mason, they detailed the options currently being considered by HMST to address their capital and liquidity problems. The four "hypothetical" options were:

1) Do nothing and hope the environment changes
2) Balance sheet restructuring involving the sale of a large amount of loans and securities
3) Merger with a healthy partner
4) Designed change of control transaction whereby another entity recapitalizes the company by purchasing more than 50% of the pro forma equity. Current shareholders would get massively diluted and Mark Mason presumably would get his 2.5x change of control payment (by the way, every shareholder, investor and research analyst that I've spoken with believes this is Mark's sole motivation at present).

I told Jim that contacts have told me Mark has been aggressively pursuing Option 4 above - the designed change of control. I've heard that transaction has fallen on deaf ears in the PE community.

So, assuming Option 4 above is unlikely to occur, let's evaluate the other three options. Option 1 - waiting and hoping the environment gets better is not a strategy. And, given the complete failure of risk management by the ERM committee, it would be wholly irresponsible. Option 3 is a merger - given the level of interest rate and credit marks that would be required, I don't believe that type of transaction would attract much interest either.

So, let's evaluate Option 2 - the balance sheet restructuring – HMST has two ways to accomplish this:

a) Raise equity and use the proceeds to restructure the balance sheet – essentially a derivative of Option 4. If HMST were to raise $75 million, the company would likely need to issue 15 – 20 million shares on a base of 18.8 million shares. This would be a massively dilutive transaction and I'm not sure it could even be accomplished much less receive shareholder approval. But would it trigger a $5M change of control payment for Mark Mason? What investment bank worth their weight in salt would ever recommend such a risky proposition in this environment?

b) Sell the FNMA DUS license + MSRs for more than $100 million. **This would be very easy to accomplish with no market risk, would be accretive to earnings (the business is currently unprofitable) and there would be zero dilution.** HMST could use the gain from the sale to offset dollar for dollar losses (tax free) in the securities and loan portfolios.

During our call, I also asked Mark if he had received any indications of interest in the past 60 days for the FNMA DUS license and MSRs. After much hemming and hawing, Mark admitted he had but no one had specifically offered $100M or more. Was the Board aware of these inquiries? Did Mark ever ask how much they would be willing to pay? Mark also stated he believed the license was only worth $15-20M. Mark seemed to forget that Dwight Capital offered $32M for the license more than four years ago. Why would Mark intentionally attempt to de-value such a scarce and valuable asset?

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I then asked if a $100M offer was made for the license and the MSRs, would HMST accept it. Both Mark and Jim expressed great skepticism that anyone would pay that amount. However, they did state they would very much entertain an offer of that amount if they received it. They both encouraged me to have interested buyers call Mark if I found someone willing to pay that amount. I told them I would be happy to assist and that I would instruct interested parties to notify **both** Mark and the independent members of the Board.

As of this writing, I know HMST has received at least one letter of intent from an interested buyer for the DUS license and MSRs and believe that it meets the valuation threshold above. More offers are likely.

Will the BoD and management do the right thing? Or will they further destroy shareholder capital by attempting a risky and incredibly dilutive equity offering. Is the BoD truly looking out for the best interest of shareholders? Just what is so special about owning a license that HMST can't possibly maximize the value of – even in the best of times. Just how and why is this unprofitable business so important to the company when the bank is in such dire straits?

Monetizing the value of the DUS license and MSRs is the only responsible and achievable solution for the bank and its shareholders. A price of $100 million or more would allow HMST to sell low-yielding loans and securities and use the proceeds to pay down as much as $1 billion of high-cost borrowings (FHLB, BTFP, wholesale CDs). The higher the price for the license, the more the balance sheet can be re-positioned.

Further, I've been told that at least one interested buyer would be willing to "partner" with HMST so the company could participate in the industry economics prospectively. That is an ideal scenario for all involved – taking failure off the table, removing the boot from HMST's proverbial throat, solving the capital and liquidity problems, **and** HMST gets to continue to be involved in the DUS business.

To the extent you agree with our assessment, I would strongly encourage you to contact the independent directors of the board and voice your support. Simply send an email to CorporateSecretary@homestreet.com and it will be distributed.

Sincerely,

Chuck Griege
Managing Partner
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