WASHINGTON FEDERAL INC
Form 10-Q
August 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013
or

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

For the transition period from to
Commission file number 001-34654
WASHINGTON FEDERAL, INC.
(Exact name of registrant as specified in its charter)

Washington	91-1661606
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

425 Pike Street Seattle, Washington 98101
(Address of principal executive offices and zip code)
(206) 624-7930
(Registrant’s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)
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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
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
APPLICABLE ONLY TO CORPORATE ISSUERS
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Title of class:	at August 5, 2013

Common stock, $1.00 par value	103,502,520

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)

	June 30, 2013	September 30, 2012
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$646,857	$751,430
Available-for-sale securities, at fair value	2,058,144	1,781,705
Held-to-maturity securities, at amortized cost	1,589,779	1,191,487
Loans receivable, net	7,390,506	7,451,998
Covered loans, net	310,378	288,376
Interest receivable	48,016	46,857
Premises and equipment, net	206,157	178,845
Real estate held for sale	84,748	99,478
Covered real estate held for sale	27,514	29,549
FDIC indemnification asset	73,665	87,571
FHLB stock	150,533	149,840
Intangible assets, net	264,718	256,076
Federal and state income tax assets, net	36,709	22,513
Other assets	124,759	137,219
	$13,012,483	$12,472,944
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Customer accounts		
Transaction deposit accounts	$3,448,583	$2,946,453
Time deposit accounts	5,614,914	5,630,165
	9,063,497	8,576,618
FHLB advances	1,930,000	1,880,000
Advance payments by borrowers for taxes and insurance	25,654	40,041
Accrued expenses and other liabilities	70,440	76,533
	11,089,591	10,573,192
Stockholders' equity		
Common stock, $1.00 par value, 300,000,000 shares authorized; 132,389,831 and 129,950,223 shares issued; 103,422,427 and 106,177,615 shares outstanding	132,390	129,950
Paid-in capital	1,621,200	1,586,295
Accumulated other comprehensive income, net of taxes	5,131	13,306
Treasury stock, at cost; 28,967,404 and 23,772,608 shares	(397,616)	(310,579)
Retained earnings	561,787	480,780
	1,922,892	1,899,752
	$13,012,483	$12,472,944

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
INTEREST INCOME				
Loans	$112,932	$118,115	$342,654	$369,366
Mortgage-backed securities	11,951	25,101	34,325	80,079
Investment securities and cash equivalents	3,293	2,168	9,010	6,446
	128,176	145,384	385,989	455,891
INTEREST EXPENSE				
Customer accounts	16,385	20,903	51,851	66,868
FHLB advances and other borrowings	17,075	27,946	50,966	84,172
	33,460	48,849	102,817	151,040
Net interest income	94,716	96,535	283,172	304,851
Provision for loan losses	—	10,367	3,600	39,576
Net interest income after provision for loan losses	94,716	86,168	279,572	265,275
OTHER INCOME				
Gain on sale of investments	—	—	—	—
Other	5,059	3,590	16,062	13,263
	5,059	3,590	16,062	13,263
OTHER EXPENSE				
Compensation and benefits	24,582	19,281	68,731	58,141
Occupancy	4,530	3,952	13,801	11,977
FDIC insurance premiums	2,831	4,000	9,280	12,543
Other	9,667	8,730	29,261	24,479
	41,610	35,963	121,073	107,140
Gain (loss) on real estate acquired through foreclosure, net	176	1,146	(7,145)	(11,005)
Income before income taxes	58,341	54,941	167,416	160,393
Income tax provision	21,003	19,778	58,818	57,742
NET INCOME	$37,338	$35,163	$108,598	$102,651
PER SHARE DATA				
Basic earnings	$0.36	$0.33	$1.03	$0.96
Diluted earnings	0.36	0.33	1.03	0.96
Cash dividends per share	0.09	0.08	0.26	0.24
Basic weighted average number of shares outstanding	104,143,915	106,877,112	105,119,097	107,308,948
Diluted weighted average number of shares outstanding, including dilutive stock options	104,192,444	106,926,755	105,167,959	107,347,668

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$37,338	$35,163	$108,598	$102,651
Other comprehensive income (loss) net of tax:				
Net unrealized gain (loss) on available-for-sale securities	(10,697)	(3,869)	(12,925)	(36,447)
Related tax benefit (expense)	3,931	1,422	4,750	13,394
Reclassification adjustment of net gain (loss) from sale of available-for-sale securities included in net income	—	—	—	—
Related tax benefit (expense)	—	—	—	—
Other comprehensive income (loss)	(6,766)	(2,447)	(8,175)	(23,053)
Comprehensive income	$30,572	$32,716	$100,423	$79,598

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended	
	June 30, 2013	June 30, 2012
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$108,598	$102,651
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) of fees, discounts, premiums and intangible assets, net	3,957	40,397
Cash received from FDIC under loss share	13,014	276
Depreciation	6,550	5,625
Stock option compensation expense	900	900
Provision for loan losses	3,600	39,576
Gain on real estate held for sale, net	(18)	(8,366)
Decrease (increase) in accrued interest receivable	872	(460)
Increase in FDIC loss share receivable	(1,346)	(5,742)
Increase (decrease) in income taxes payable	(9,446)	9,345
Decrease in other assets	36,665	15,908
Increase (decrease) in accrued expenses and other liabilities	(23,177)	1,229
Net cash provided by operating activities	140,169	201,339
CASH FLOWS FROM INVESTING ACTIVITIES		
Net principal collections (loan originations)	475,354	372,802
FHLB stock redemptions	4,391	1,830
Available-for-sale securities purchased	(506,966)	(1,499,227)
Principal payments and maturities of available-for-sale securities	198,555	1,065,254
Available-for-sale securities sold	43,198	3,500
Held-to-maturity securities purchased	(821,215)	—
Principal payments and maturities of held-to-maturity securities	428,827	11,899
Net cash received from acquisition	202,308	50,576
Proceeds from sales of real estate held for sale	87,144	138,689
Proceeds from sales of covered REO	17,216	28,343
Increase in intangible assets	—	(1,061)
Premises and equipment purchased and REO improvements	(22,941)	(14,157)
Net cash provided by investing activities	105,871	158,448
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in customer accounts	(250,364)	(118,505)
Net increase (decrease) in borrowings	27,529	(22,595)
Proceeds from exercise of common stock options	296	199
Dividends paid on common stock	(26,650)	(25,580)
Treasury stock purchased	(87,037)	(30,307)
Decrease in advance payments by borrowers for taxes and insurance	(14,387)	(15,235)
Net cash used by financing activities	(350,613)	(212,023)
Increase (decrease) in cash and cash equivalents	(104,573)	147,764
Cash and cash equivalents at beginning of period	751,430	816,002
Cash and cash equivalents at end of period	$646,857	$963,766

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(UNAUDITED)

	Nine Months Ended	
	June 30, 2013	June 30, 2012
	(In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities		
Non-covered real estate acquired through foreclosure	$72,762	$124,482
Covered real estate acquired through foreclosure	10,245	13,094
Cash paid during the period for		
Interest	104,370	151,805
Income taxes	48,111	48,331
The following summarizes the non-cash activities related to acquisitions		
Fair value of assets acquired	$819,904	$124,594
Fair value of liabilities assumed	(776,009)	(154,493)
Net fair value of assets (liabilities)	43,895	(29,899)

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
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NOTE A – Summary of Significant Accounting Policies
The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal, Inc. ("The Company"). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2012 Consolidated Statement of Financial Condition was derived from audited financial statements.
The information included in this Form 10-Q should be read in conjunction with Company's 2012 Annual Report on Form 10-K ("2012 Form 10-K") as filed with the SEC. Interim results are not necessarily indicative of results for a full year.
The significant accounting policies used in preparation of our consolidated financial statements are disclosed in our 2012 Form 10-K. Other than as discussed below, there have not been any material changes in our significant accounting policies compared to those contained in our 2012 Form 10-K.
Off-Balance-Sheet Credit Exposures – The only material off-balance-sheet credit exposures are loans in process and unused lines of credit, which had a combined balance at June 30, 2013, excluding covered loans, of $320,522,000. The Company estimates losses on off-balance-sheet credit exposures by including the exposures with the related principal balance outstanding and then applying its general reserve methodology.
Certain reclassifications have been made to the financial statements to conform prior periods to current classifications.

NOTE B - Acquisitions

South Valley Bank and Trust
Effective as of the close of business October 31, 2012, Washington Federal completed the acquisition of South Valley Bank and Trust, headquartered in Klamath Falls, Oregon ("South Valley"). The acquisition provided recorded book values of $383 million of net loans, $107 million of net covered loans, $735 million of deposit accounts, including $533 million in transaction deposit accounts and 24 branch locations in Central and Southern Oregon. Total consideration paid at closing was $44 million, including $34 million of Washington Federal, Inc. stock and $10 million of cash resulting from the collection of certain earn-out assets. If other earn-out assets are collected over time, the Company could pay up to $14 million, of which $5 million has been accrued .

The acquisition was accounted for under the acquisition method of accounting. The purchased assets and assumed liabilities were recorded at their respective acquisition date estimated fair values. All fair value adjustment amounts previously recognized in the financial statements at March 31, 2013 were determined provisionally as the purchase accounting fair value analysis was incomplete as of March 31, 2013. These amounts have been retrospectively adjusted to reflect the completion of the fair value analysis during the quarter ended June 30, 2013. The adjustments recorded in the quarter ended June 30, 2013 were a decrease in real estate held for sale of $2,394,000 offset by an increase in goodwill of $1,517,000 and other assets of $854,000 to reflect updated acquisition date valuations.

Loans that were classified as non-performing loans by South Valley are no longer classified as non-performing because, at acquisition, the carrying value of the loans was adjusted to reflect fair value. Management believes that the new book value reflects an amount that will ultimately be collected.

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period from November 1, 2012 to June 30, 2013.

The table below displays the adjusted fair value as of the acquisition date for each major class of assets acquired and liabilities assumed:

	Adjusted Fair Value Recorded by Washington Federal (In thousands)
Assets:	
Cash and cash equivalents	$212,711
Available for sale securities	43,198
FHLB stock	5,211
Loans receivable, net	361,200
Covered loans receivable, net	107,946
FDIC indemnification asset	16,619
Property and equipment, net	24,259
Core deposit intangible	1,433
Real estate held for sale	7,400
Covered real estate held for sale	5,224
Goodwill	8,624
Other assets	26,079
Total Assets	819,904
Liabilities:	
Customer accounts	737,395
FHLB advances	22,471
Other liabilities	16,143
Total Liabilities	776,009
Net assets acquired	$43,895
Consideration provided:	
Equity Issued	$33,492
Cash paid	10,403
	$43,895

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NOTE C – Dividends
On July 19, 2013, the Company paid its 122nd consecutive quarterly cash dividend on common stock. Dividends per share were $.09 and $.08 for the quarters ended June 30, 2013 and 2012, respectively.

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NOTE D – Loans Receivable (excluding Covered Loans)

	June 30, 2013			September 30, 2012		
	(In thousands)					
Non-acquired loans						
Single-family residential	$5,253,604	67.6	%	$5,778,922	73.5	%
Construction - speculative	116,363	1.5		129,637	1.6	
Construction - custom	237,952	3.1		211,690	2.7	
Land - acquisition & development	85,248	1.1		124,677	1.6	
Land - consumer lot loans	128,745	1.7		141,844	1.8	
Multi-family	741,870	9.5		710,140	9.0	
Commercial real estate	398,130	5.1		319,210	4.1	
Commercial & industrial	239,469	3.1		162,823	2.1	
HELOC	111,418	1.4		112,902	1.4	
Consumer	51,515	0.7		63,374	0.8	
Total non-acquired loans	7,364,314	94.8		7,755,219	98.6	
Acquired loans						
Single-family residential	15,354	0.2		—	—	
Construction - speculative	—	—		—	—	
Construction - custom	—	—		—	—	
Land - acquisition & development	3,720	—		—	—	
Land - consumer lot loans	3,615	0.1		—	—	
Multi-family	7,383	0.1		—	—	
Commercial real estate	162,724	2.1		—	—	
Commercial & industrial	88,768	1.1		—	—	
HELOC	11,466	0.1		—	—	
Consumer	9,035	0.1		—	—	
Total acquired loans	302,065	3.8		—	—	
Credit-impaired acquired loans						
Single-family residential	335	—		342	—	
Construction - speculative	—	—		1,889	—	
Land - acquisition & development	2,484	—		3,702	0.1	
Multi-family	—	—		601	—	
Commercial real estate	78,519	1.1		87,154	1.1	
Commercial & industrial	8,606	0.1		3,292	—	
HELOC	12,015	0.2		14,040	0.2	
Consumer	79	—		97	—	
Total credit-impaired acquired loans	102,038	1.4		111,117	1.4	
Total loans						
Single-family residential	5,269,293	67.8		5,779,264	73.5	
Construction - speculative	116,363	1.5		131,526	1.6	
Construction - custom	237,952	3.1		211,690	2.7	
Land - acquisition & development	91,452	1.1		128,379	1.7	
Land - consumer lot loans	132,360	1.8		141,844	1.8	

Multi-family	749,253	9.6	710,741	9
Commercial real estate	639,373	8.3	406,364	5.2
Commercial & industrial	336,843	4.3	166,115	2.1

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HELOC	134,899	1.7		126,942	1.6	
Consumer	60,629	0.8		63,471	0.8	
Total loans	7,768,417	100	%	7,866,336	100	%
Less:						
Allowance for probable losses	118,104			133,147		
Loans in process	189,677			213,286		
Discount on acquired loans	37,568			33,484		
Deferred net origination fees	32,562			34,421		
	377,911			414,338		
	$7,390,506			$7,451,998		

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Changes in the carrying amount and accretable yield for acquired impaired and non-impaired loans for the nine months ended June 30, 2013 and the fiscal year ended September 30, 2012 were as follows:

June 30, 2013	Credit impaired acquired loans		Acquired Non-impaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
	(In thousands)			
Balance as of beginning of period	$16,928	$77,613	$—	$—
Reclassification from nonaccretable balance, net (1)	30,026			
Additions (2)	614	9,865	10,804	351,335
Accretion	(7,131)	7,131	(297)	297
Transfers to REO	—	(3,704)	—	(3,475)
Payments received, net	—	(19,432)	—	(53,165)
Balance as of end of period	$40,437	$71,473	$10,507	$294,992

(1) reclassification due to improvements in expected cash flows of the underlying loans.
(2) includes acquired loans which were acquired as part of the South Valley acquisition.

September 30, 2012	Credit impaired acquired loans		Acquired Non-impaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
	(In thousands)			
Balance as of beginning of period	$—	$—	$—	$—
Additions (1)	21,384	93,691	—	—
Accretion	(4,456)	4,456	—	—
Transfers to REO	—	(2,616)	—	—
Payments received, net	—	(17,918)	—	—
Balance as of end of period	$16,928	$77,613	$—	$—

(1) includes acquired impaired loans which were acquired as part of the WNB acquisition.

The following table sets forth information regarding non-accrual loans held by the Company as of the dates indicated:

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	June 30, 2013			September 30, 2012		
	(In thousands)					
Non-accrual loans:						
Single-family residential	$104,252	70.1	%	$131,193	75.7	%
Construction - speculative	3,776	2.5		10,634	6.1	
Construction - custom	—	—		539	0.3	
Land - acquisition & development	9,586	6.4		13,477	7.8	
Land - consumer lot loans	3,712	2.5		5,149	3.0	
Multi-family	6,653	4.5		4,185	2.4	
Commercial real estate	14,348	9.7		7,653	4.4	
Commercial & industrial	5,072	3.4		16	—	
HELOC	871	0.6		198	0.1	
Consumer	385	0.3		383	0.2	
Total non-accrual loans	$148,655	100	%	$173,427	100	%

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
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The following tables provide an analysis of the age of loans in past due status as of June 30, 2013 and September 30, 2012, respectively.

June 30, 2013	Amount of Loans	Days Delinquent Based on $ Amount of Loans					% based	
Type of Loan	Net of LIP & Chg.-Offs	Current	30	60	90	Total	on $	
	(In thousands)							
Non-acquired loans								
Single-Family Residential	$5,250,621	$5,127,074	$26,315	$14,354	$82,878	$123,547	2.35	%
Construction - Speculative	78,505	75,506	1,042	—	1,957	2,999	3.82	
Construction - Custom	127,978	127,738	240	—	—	240	0.19	
Land - Acquisition & Development	80,994	73,252	797	—	6,945	7,742	9.56	
Land - Consumer Lot Loans	128,571	124,284	588	195	3,504	4,287	3.33	
Multi-Family	716,299	714,161	—	539	1,599	2,138	0.30	
Commercial Real Estate	389,348	384,193	1,277	70	3,808	5,155	1.32	
Commercial & Industrial	239,456	239,440	—	—	16	16	0.01	
HELOC	111,419	110,324	820	69	206	1,095	0.98	
Consumer	51,516	49,268	938	959	351	2,248	4.36	
Total non-acquired loans	7,174,707	7,025,240	32,017	16,186	101,264	149,467	2.08	%
Acquired loans								
Single-Family Residential	15,354	15,291	$5	15	43	63	0.41	%
Construction - Speculative	—	—	—	—	—	—	—	
Construction - Custom	—	—	—	—	—	—	—	
Land - Acquisition & Development	3,720	2,783	412	1	524	937	25.19	
Land - Consumer Lot Loans	3,614	3,095	311	—	208	519	14.36	
Multi-Family	7,383	3,569	509	—	3,305	3,814	51.66	
Commercial Real Estate	162,689	155,178	1,059	2,560	3,892	7,511	4.62	
Commercial & Industrial	88,746	88,028	453	265	—	718	0.81	
HELOC	11,465	10,619	140	131	575	846	7.38	
Consumer	9,035	8,899	83	19	34	136	1.51	
Total acquired loans	302,006	287,462	2,972	2,991	8,581	14,544	4.82	%
Credit-impaired acquired loans								

Single-Family Residential	335	335	—	—	—	—	—	%
Construction - Speculative	—	—	—	—	—	—	—	
Construction - Custom	—	—	—	—	—	—	—	
Land - Acquisition & Development	2,483	2,483	—	—	—	—	—	
Land - Consumer Lot Loans	—	—	—	—	—	—	—	
Multi-Family	—	—	—	—	—	—	—	
Commercial Real Estate	78,509	75,920	639	173	1,777	2,589	3.30	
Commercial & Industrial	8,606	3,320	230	—	5,056	5,286	61.42	

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HELOC	12,015	11,906	—	19	90	109	0.91	
Consumer	79	79	—	—	—	—	—	
Total credit-impaired acquired loans	102,027	94,043	869	192	6,923	7,984	7.83	%
Total loans	$7,578,740	$7,406,745	$35,858	$19,369	$116,768	$171,995	2.27	%

September 30, 2012 Type of Loan	Amount of Loans Net of LIP & Chg.-Offs (In thousands)	Days Delinquent Based on $ Amount of Loans Current	30	60	90	Total	% based on $	
Single-Family Residential	$5,776,002	$5,618,261	$34,035	$16,276	$107,430	$157,741	2.73	%
Construction - Speculative	88,849	85,785	142	190	2,732	3,064	3.45	
Construction - Custom	107,882	107,215	128	—	539	667	0.62	
Land - Acquisition & Development	119,192	106,321	853	1,004	11,014	12,871	10.80	
Land - Consumer Lot Loans	141,772	134,560	1,688	375	5,149	7,212	5.09	
Multi-Family	676,917	672,263	718	67	3,869	4,654	0.69	
Commercial Real Estate	292,261	284,427	699	3,153	3,982	7,834	2.68	
Commercial & Industrial	162,802	162,778	8	—	16	24	0.01	
HELOC	112,902	112,482	158	64	198	420	0.37	
Consumer	63,374	61,405	1,155	431	383	1,969	3.11	
Total non-acquired loans	$7,541,953	$7,345,497	$39,584	$21,560	$135,312	$196,456	2.60	%
Credit-impaired acquired loans								
Single-Family Residential	342	342	—	—	—	—	—	%
Construction - Speculative	1,889	1,889	—	—	—	—	—	
Construction - Custom	—	—	—	—	—	—	—	
Land - Acquisition & Development	3,702	3,219	365	—	118	483	13.05	
Land - Consumer Lot Loans	—	—	—	—	—	—	—	
Multi-Family	601	—	601	—	—	601	—	
Commercial Real Estate	87,134	78,959	412	2,549	5,214	8,175	9.38	
Commercial & Industrial	3,292	3,054	238	—	—	238	7.23	
HELOC	14,040	13,950	—	90	—	90	0.64	
Consumer	97	95	2	—	—	2	2.06	

Total credit-impaired acquired loans	111,097	101,508	1,618	2,639	5,332	9,589	8.63	%
Total loans	$7,653,050	$7,447,005	$41,202	$24,199	$140,644	$206,045	2.69	%

Most loans restructured in troubled debt restructurings ("TDRs") are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. The concession for these loans is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twelve months. Interest-only payments may also be approved during the modification period. Principal forgiveness is not an available option for restructured loans. As of June 30, 2013, single-family residential loans comprised 87.4% of TDRs.

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The Company reserves for restructured loans within its allowance for loan loss methodology by taking into account the following performance indicators: 1) time since modification, 2) current payment status and 3) geographic area.

The following tables provide information related to loans that were restructured during the periods indicated:

	Quarter Ended June 30, 2013			2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:						
Single-Family Residential	111	$27,619	$ 27,619	199	$43,104	$ 43,104
Construction - Speculative	—	—	—	—	—	—
Construction - Custom	—	—	—	1	1,196	1,196
Land - Acquisition & Development	—	—	—	—	—	—
Land - Consumer Lot Loans	4	685	685	8	965	965
Multi-Family	—	—	—	1	389	389
Commercial Real Estate	1	2,411	2,411	2	5,572	5,572
Commercial & Industrial	—	—	—	—	—	—
HELOC	—	—	—	2	113	113
Consumer	1	11	11	—	—	—
	117	$30,726	$ 30,726	213	$51,339	$ 51,339

	Nine Months Ended June 30, 2013			2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)			(In thousands)	
Troubled Debt Restructurings:						
Single-Family Residential	337	$88,085	$ 88,085	681	$159,651	$ 159,651
Construction - Speculative	1	2,481	2,481	22	6,253	6,253
Construction - Custom	—	—	—	1	1,196	1,196
Land - Acquisition & Development	—	—	—	26	5,565	5,565
Land - Consumer Lot Loans	20	3,027	3,027	30	3,906	3,906
Multi-Family	1	44	44	3	2,257	2,257
Commercial Real Estate	1	2,411	2,411	3	5,881	5,881
Commercial & Industrial	—	—	—	1	2	2
HELOC	1	199	199	2	113	113
Consumer	1	11	11	—	—	—
	362	$96,258	$ 96,258	769	$184,824	$ 184,824

The following tables provide information on restructured loans for which a payment default occurred during the periods indicated and that had been modified as a TDR within 12 months or less of the payment default:

	Quarter Ended June 30, 2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(In thousands)		(In thousands)	
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-Family Residential	25	$6,833	30	$8,225
Construction - Speculative	—	—	—	—
Construction - Custom	—	—	—	—
Land - Acquisition & Development	—	—	—	—
Land - Consumer Lot Loans	1	109	—	—
Multi-Family	—	—	—	—
Commercial Real Estate	—	—	—	—
Commercial & Industrial	—	—	—	—

HELOC	1	79	—	—
Consumer	—	—	—	—
	27	$7,021	30	$8,225

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	Nine Months Ended June 30,			
	2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(In thousands)		(In thousands)	
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-Family Residential	65	$15,366	97	$21,687
Construction - Speculative	—	—	—	—
Construction - Custom	—	—	—	—
Land - Acquisition & Development	1	838	—	—
Land - Consumer Lot Loans	2	237	4	603
Multi-Family	—	—	—	—
Commercial Real Estate	—	—	—	—
Commercial & Industrial	—	—	—	—
HELOC	2	113	—	—
Consumer	—	—	—	—
	70	$16,554	101	$22,290

NOTE E – Allowance for Losses on Loans

The Company has an asset quality review function that analyzes its loan portfolios and reports the results of the review to the Board of Directors on a quarterly basis. The single-family residential, HELOC and consumer portfolios are evaluated based on their performance as a pool of loans, since no single loan is individually significant or judged by its risk rating, size or potential risk of loss. The construction, land, multi-family, commercial real estate and commercial and industrial loans are risk rated on a loan by loan basis to determine the relative risk inherent in specific borrowers or loans. Based on that risk rating, the loans are assigned a grade and classified as follows:

- Pass – the credit does not meet one of the definitions below.
- Special mention – A special mention credit is considered to be currently protected from loss but is potentially weak. No loss of principal or interest is foreseen; however, proper supervision and Management attention is required to deter further deterioration in the credit. Assets in this category constitute some undue and unwarranted credit risk but not to the point of justifying a risk rating of substandard. The credit risk may be relatively minor yet constitutes an unwarranted risk in light of the circumstances surrounding a specific asset.
- Substandard – A substandard credit is an unacceptable credit. Additionally, repayment in the normal course is in jeopardy due to the existence of one or more well defined weaknesses. In these situations, loss of principal is likely if the weakness is not corrected. A substandard asset is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified will have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets risk rated substandard.
- Doubtful – A credit classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weakness makes collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The probability of loss is high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its

classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

- Loss – Credits classified loss are considered uncollectible and of such little value that their continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be affected in the

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future. Losses should be taken in the period in which they are identified as uncollectible. Partial charge-off versus full charge-off may be taken if the collateral offers some identifiable protection.

The following table summarizes the activity in the allowance for loan losses for the quarter ended June 30, 2013 and fiscal year ended September 30, 2012:

Quarter Ended June 30, 2013	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$77,422	$(5,969)	$2,081	$(6,148)	$67,386
Construction - speculative	7,757	(124)	109	(9)	7,733
Construction - custom	262	(481)	—	498	279
Land - acquisition & development	12,221	(864)	489	(462)	11,384
Land - consumer lot loans	3,941	(212)	1	245	3,975
Multi-family	4,272	—	156	(1,070)	3,358
Commercial real estate	4,156	—	3	1,132	5,291
Commercial & industrial	8,628	(23)	18	5,231	13,854
HELOC	1,031	(24)	—	(13)	994
Consumer	3,194	(571)	631	596	3,850
	$122,884	$(8,268)	$3,488	$—	$118,104

Fiscal Year Ended September 30, 2012	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$83,307	$(53,789)	$8,164	$44,133	$81,815
Construction - speculative	13,828	(4,916)	711	2,437	12,060
Construction - custom	623	—	—	(276)	347
Land - acquisition & development	32,719	(16,978)	1,341	(1,484)	15,598
Land - consumer lot loans	5,520	(2,670)	—	2,087	4,937
Multi-family	7,623	(1,393)	504	(1,454)	5,280
Commercial real estate	4,331	(814)	225	(1,786)	1,956
Commercial & industrial	5,099	(249)	2,366	410	7,626
HELOC	1,139	(232)	66	(8)	965
Consumer	2,971	(3,538)	1,480	1,650	2,563
	$157,160	$(84,579)	$14,857	$45,709	$133,147

The Company recorded a $0 provision for loan losses during the quarter ended June 30, 2013, while a $10,367,000 provision was recorded for the same quarter one year ago. Non-performing assets (“NPAs”) amounted to $233,403,000, or 1.79%, of total assets at June 30, 2013, compared to $278,490,000, or 2.07%, of total assets one year ago. Acquired loans, including covered loans, are not classified as non-performing loans because, at acquisition, the carrying value of these loans was adjusted to reflect fair value. There was no additional provision for loan losses recorded on acquired or covered loans during the quarter ended June 30, 2013 as the associated discount is adequate to absorb potential losses. Non-accrual loans decreased from $171,033,000 at June 30, 2012, to $148,655,000 at June 30, 2013, a 13.1% decrease. The Company had net charge-offs of $4,780,000 for the quarter ended June 30, 2013, compared with $16,235,000 of net charge-offs for the same quarter one year ago. A loan is charged-off when the loss is estimable and it is confirmed that the borrower will not be able to meet its contractual obligations. $111,617,000 of the allowance was calculated under our general allowance methodology and the remaining $6,487,000 was made up of specific reserves on loans that were deemed to be impaired at June 30, 2013. For the period ending June 30, 2012, $116,164,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining $21,787,000 was made up of specific reserves on loans that were deemed to be impaired. The primary reasons for the shift in total allowance allocation from specific reserves to general reserves is due to the Company having already addressed many of the problem loans focused in the speculative construction and land A&D portfolios, combined with an increase in delinquencies and elevated charge-offs in the single family residential portfolio.

The following tables shows a summary of loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves as of June 30, 2013 and September 30, 2012:

June 30, 2013	Loans Collectively Evaluated for Impairment				Loans Individually Evaluated for Impairment			
	General Reserve Allocation	Gross Loans Subject to General Reserve (1)	Ratio		Specific Reserve Allocation	Gross Loans Subject to Specific Reserve (1)	Ratio	
	(In thousands)				(In thousands)			
Single-family residential	$67,386	$ 5,159,449	1.3	%	$—	$ 94,155	—	%
Construction - speculative	6,093	96,589	6.3		1,640	19,774	8.3	
Construction - custom	279	237,832	0.1		—	120	—	
Land - acquisition & development	7,444	66,516	11.2		3,940	18,732	21.0	
Land - consumer lot loans	3,664	112,060	3.3		311	16,685	1.9	
Multi-family	3,018	733,836	0.4		340	8,034	4.2	
Commercial real estate	5,035	383,358	1.3		256	14,772	1.7	
Commercial & industrial	13,854	239,407	5.8		—	62	—	
HELOC	994	110,322	0.9		—	1,096	—	
Consumer	3,850	51,515	7.5		—	—	—	
	$111,617	$ 7,190,884	1.6		$6,487	$ 173,430	3.7	

(1) Excludes acquired and covered loans

September 30, 2012	Loans Collectively Evaluated for Impairment				Loans Individually Evaluated for Impairment			
	General Reserve Allocation	Gross Loans Subject to General Reserve (1)	Ratio		Specific Reserve Allocation	Gross Loans Subject to Specific Reserve (1)	Ratio	
	(In thousands)				(In thousands)			
Single-family residential	$81,737	$ 5,694,337	1.4	%	$78	$ 84,584	0.1	%
Construction - speculative	9,079	104,312	8.7		2,981	25,325	11.8	
Construction - custom	347	211,690	0.2		—	—	—	
Land - acquisition & development	6,697	47,294	14.2		8,901	77,383	11.5	
Land - consumer lot loans	4,176	138,666	3.0		761	3,178	23.9	
Multi-family	2,818	694,140	0.4		2,462	16,000	15.4	
Commercial real estate	1,158	292,550	0.4		798	26,660	3.0	
Commercial & industrial	7,624	161,689	4.7		2	1,134	0.2	
HELOC	965	112,812	0.9		—	90	—	
Consumer	2,563	63,374	4.0		—	—	—	

$117,164	$ 7,520,864	1.6	$15,983	$ 234,354	6.8

(1) Excludes acquired and covered loans

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The following tables provide information on loans based on credit quality indicators (defined in Note A) as of June 30, 2013 and September 30, 2012:
Credit Risk Profile by Internally Assigned Grade (excludes covered loans):

June 30, 2013	Internally Assigned Grade					Total
	Pass	Special mention	Substandard	Doubtful	Loss	Gross Loans
	(In thousands)					
Non-acquired loans						
Single-family residential	$5,071,745	$3,134	$178,725	$—	$—	$5,253,604
Construction - speculative	83,989	771	31,603	—	—	116,363
Construction - custom	237,952	—	—	—	—	237,952
Land - acquisition & development	62,903	819	21,526	—	—	85,248
Land - consumer lot loans	127,867	—	878	—	—	128,745
Multi-family	721,538	1,254	19,078	—	—	741,870
Commercial real estate	361,726	15,312	21,092	—	—	398,130
Commercial & industrial	236,082	916	2,432	—	39	239,469
HELOC	111,418	—	—	—	—	111,418
Consumer	50,747	411	357	—	—	51,515
	7,065,967	22,617	275,691	—	39	7,364,314
Acquired loans						
Single-family residential	15,354	—	—	—	—	15,354
Construction - speculative	—	—	—	—	—	—
Construction - custom	—	—	—	—	—	—
Land - acquisition & development	2,164	—	1,556	—	—	3,720
Land - consumer lot loans	3,615	—	—	—	—	3,615
Multi-family	3,389	—	3,994	—	—	7,383
Commercial real estate	129,891	4,097	28,736	—	—	162,724
Commercial & industrial	77,114	1,793	9,851	—	10	88,768
HELOC	11,466	—	—	—	—	11,466
Consumer	9,035	—	—	—	—	9,035
	252,028	5,890	44,137	—	10	302,065
Credit impaired acquired loans						
Pool 1 - Construction and land A&D	1,478	473	533	—	—	2,484
Pool 2 - Single-family residential	335	—	—	—	—	335
Pool 3 - Multi-family	—	—	—	—	—	—
Pool 4 - HELOC & other consumer	12,094	—	—	—	—	12,094
Pool 5 - Commercial real estate	51,503	805	25,285	926	—	78,519

Pool 6 - Commercial & industrial	924	3,871	3,451	360	—	8,606
Total credit impaired acquired loans	66,334	5,149	29,269	1,286	—	102,038
Total gross loans	$7,384,329	$33,656	$349,097	$1,286	$49	$7,768,417
Total grade as a % of total gross loans	95.1 %	0.4 %	4.5 %	— %	— %	

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September 30, 2012	Internally Assigned Grade					Total
	Pass	Special mention	Substandard	Doubtful	Loss	Gross Loans
	(In thousands)					
Non-acquired loans						
Single-family residential	$5,588,252	$844	$189,826	$—	$—	$5,778,922
Construction - speculative	86,126	10,113	33,398	—	—	129,637
Construction - custom	211,690	—	—	—	—	211,690
Land - acquisition & development	73,661	4,637	46,379	—	—	124,677
Land - consumer lot loans	140,006	223	1,615	—	—	141,844
Multi-family	684,649	5,098	20,393	—	—	710,140
Commercial real estate	278,022	16,282	24,906	—	—	319,210
Commercial & industrial	158,421	1,071	3,331	—	—	162,823
HELOC	112,902	—	—	—	—	112,902
Consumer	62,611	354	409	—	—	63,374
	7,396,340	$38,622	$320,257	$—	$—	$7,755,219
Credit impaired acquired loans						
Pool 1 - Construction and land A&D	2,466	—	3,125	—	—	5,591
Pool 2 - Single-family residential	342	—	—	—	—	342
Pool 3 - Multi-family	—	—	601	—	—	601
Pool 4 - HELOC & other consumer	14,137	—	—	—	—	14,137
Pool 5 - Commercial real estate	53,683	4,308	28,200	963	—	87,154
Pool 6 - Commercial & industrial	1,566	58	733	935	—	3,292
Total credit impaired acquired loans	72,194	4,366	32,659	1,898	—	111,117
Total gross loans	$7,468,534	$42,988	$352,916	$1,898	$—	$7,866,336
Total grade as a % of total gross loans	94.9 %	0.6 %	4.5 %	— %	— %	

Credit Risk Profile Based on Payment Activity (excludes acquired and covered loans):

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June 30, 2013	Performing Loans			Non-Performing Loans		
	Amount	% of Total Gross Loans		Amount	% of Total Gross Loans	
	(In thousands)					
Single-family residential	$5,149,352	98.0	%	$104,252	2.0	%
Construction - speculative	112,587	96.8		3,776	3.2	
Construction - custom	237,952	100.0		—	—	
Land - acquisition & development	75,662	88.8		9,586	11.2	
Land - consumer lot loans	125,033	97.1		3,712	2.9	
Multi-family	735,217	99.1		6,653	0.9	
Commercial real estate	383,782	96.4		14,348	3.6	
Commercial & industrial	234,397	97.9		5,072	2.1	
HELOC	110,547	99.2		871	0.8	
Consumer	51,130	99.3		385	0.7	
	$7,215,659	98.0		$148,655	2.0	

September 30, 2012	Performing Loans			Non-Performing Loans		
	Amount	% of Total Gross Loans		Amount	% of Total Gross Loans	
	(In thousands)					
Single-family residential	$5,647,729	97.7	%	$131,193	2.3	%
Construction - speculative	119,003	91.8		10,634	8.2	
Construction - custom	211,151	99.7		539	0.3	
Land - acquisition & development	111,200	89.2		13,477	10.8	
Land - consumer lot loans	136,695	96.4		5,149	3.6	
Multi-family	705,955	99.4		4,185	0.6	
Commercial real estate	311,557	97.6		7,653	2.4	
Commercial & industrial	162,807	100.0		16	—	
HELOC	112,704	99.8		198	0.2	
Consumer	62,991	99.4		383	0.6	
	$7,581,792	97.8	%	$173,427	2.2	%

The following table provides information on impaired loan balances and the related allowances by loan types as of June 30, 2013 and September 30, 2012:

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June 30, 2013	Recorded Investment	Unpaid Principal Balance	Related Allowance		Average Recorded Investment Quarter Ended June 30, 2013	Nine Months Ended June 30, 2013
	(In thousands)					
With no related allowance recorded:						
Single-family residential	$37,903	$42,938	$—		$31,322	$23,985
Construction - speculative	3,808	4,621	—		3,812	3,693
Construction - custom	—	—	—		—	—
Land - acquisition & development	8,177	20,135	—		7,739	7,607
Land - consumer lot loans	3,294	3,909	—		2,886	2,271
Multi-family	4,923	4,923	—		3,274	2,107
Commercial real estate	13,214	15,383	—		9,092	6,793
Commercial & industrial	7,296	31,197	—		3,711	2,091
HELOC	892	1,277	—		487	284
Consumer	36	45	—		18	9
	79,543	124,428	—		62,341	48,840
With an allowance recorded:						
Single-family residential	359,124	366,099	20,437		353,027	342,111
Construction - speculative	15,729	16,179	1,640		15,781	15,860
Construction - custom	—	—	—		—	—
Land - acquisition & development	11,721	13,193	3,940		12,055	12,914
Land - consumer lot loans	13,165	13,323	311		13,097	12,894
Multi-family	8,882	9,492	340		9,244	10,456
Commercial real estate	9,846	9,846	256		9,859	9,911
Commercial & industrial	—	—	—		—	—
HELOC	939	939	—		940	839
Consumer	11	11	—		6	3
	419,417	429,082	26,924	(1)	414,009	404,988
Total:						
Single-family residential	397,027	409,037	20,437		384,349	366,096
Construction - speculative	19,537	20,800	1,640		19,593	19,553
Construction - custom	—	—	—		—	—
Land - acquisition & development	19,898	33,328	3,940		19,794	20,521
Land - consumer lot loans	16,459	17,232	311		15,983	15,165
Multi-family	13,805	14,415	340		12,518	12,563
Commercial real estate	23,060	25,229	256		18,951	16,704
Commercial & industrial	7,296	$31,197	—		3,711	2,091
HELOC	1,831	2,216	—		1,427	1,123
Consumer	47	56	—		24	12

$498,960	$553,510	$26,924	(1) $476,350	$453,828

(1)Includes $6,487,000 of specific reserves and $20,437,000 included in the general reserves.

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September 30, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance		Average Recorded Investment
	(In thousands)				
With no related allowance recorded:					
Single-family residential	$106,955	$124,342	$—		$49,524
Construction - speculative	13,726	16,568	—		13,581
Construction - custom	—	—	—		—
Land - acquisition & development	18,000	30,209	—		16,417
Land - consumer lot loans	1,677	2,185	—		487
Multi-family	8,792	8,991	—		6,935
Commercial real estate	31,190	42,656	—		12,946
Commercial & industrial	1,146	7,363	—		581
HELOC	90	1,066	—		36
Consumer	—	4	—		—
	181,576	233,384	—		100,507
With an allowance recorded:					
Single-family residential	317,901	317,901	25,723		305,350
Construction - speculative	12,836	12,836	2,981		12,822
Construction - custom	—	—	—		—
Land - acquisition & development	20,750	20,750	8,901		21,650
Land - consumer lot loans	13,881	13,881	761		13,126
Multi-family	14,153	14,555	2,462		14,279
Commercial real estate	3,722	3,722	798		2,897
Commercial & industrial	—	2	2		22
HELOC	734	734	—		743
Consumer	—	—	—		—
	383,977	384,381	41,628	(1)	370,889
Total:					
Single-family residential	424,856	442,243	25,723		354,874
Construction - speculative	26,562	29,404	2,981		26,403
Construction - custom	—	—	—		—
Land - acquisition & development	38,750	50,959	8,901		38,067
Land - consumer lot loans	15,558	16,066	761		13,613
Multi-family	22,945				