WASHINGTON FEDERAL INC
Form 10-Q
May 03, 2017

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 March 31, 2017
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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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:	May 2, 2017
Common stock, $1.00 par value	89,449,655

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I

Item 1. Financial Statements (Unaudited)

The Consolidated Financial Statements of Washington Federal, Inc. and Subsidiaries filed as a part of the report are as follows:

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

	March 31, 2017	September 30, 2016
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$266,397	$450,368
Available-for-sale securities, at fair value	1,388,782	1,922,894
Held-to-maturity securities, at amortized cost	1,697,650	1,417,599
Loans receivable, net of allowance for loan losses of $121,922 and $113,494	10,463,022	9,910,920
Interest receivable	40,573	37,669
Premises and equipment, net	271,727	281,951
Real estate owned	22,543	29,027
FHLB and FRB stock	119,990	117,205
Bank owned life insurance	210,873	208,123
Intangible assets, including goodwill of $291,503	296,070	296,989
Federal and state income tax assets, net	—	16,047
Other assets	183,049	199,271
	$14,960,676	$14,888,063
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Customer accounts		
Transaction deposit accounts	$6,212,699	$6,005,592
Time deposit accounts	4,418,108	4,595,260
	10,630,807	10,600,852
FHLB advances	2,150,000	2,080,000
Advance payments by borrowers for taxes and insurance	42,226	42,898
Accrued expenses and other liabilities	122,881	188,582
	12,945,914	12,912,332
Stockholders' equity		
Common stock, $1.00 par value, 300,000,000 shares authorized; 134,823,779 and 134,307,818 shares issued; 89,438,563 and 89,680,847 shares outstanding	134,824	134,308
Paid-in capital	1,658,548	1,648,388
Accumulated other comprehensive income (loss), net of taxes	2,279	(11,156)
Treasury stock, at cost; 45,385,216 and 44,626,971 shares	(760,087)	(739,686)
Retained earnings	979,198	943,877
	2,014,762	1,975,731
	$14,960,676	$14,888,063

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
	(In thousands, except share data)		(In thousands, except share data)	
INTEREST INCOME				
Loans receivable	$ 116,034	$ 113,211	$ 230,869	$ 226,074
Mortgage-backed securities	16,226	16,846	29,015	33,833
Investment securities and cash equivalents	3,938	5,006	9,078	10,280
	136,198	135,063	268,962	270,187
INTEREST EXPENSE				
Customer accounts	12,392	13,071	25,409	25,788
FHLB advances	16,079	15,667	32,674	31,205
	28,471	28,738	58,083	56,993
Net interest income	107,727	106,325	210,879	213,194
Provision (release) for loan losses	(1,600)	(1,500)	(1,600)	(1,500)
Net interest income after provision (release) for loan losses	109,327	107,825	212,479	214,694
OTHER INCOME				
Gain on sale of investment securities	—	—	968	—
Loan fee income	1,087	1,166	2,421	2,683
Deposit fee income	4,904	5,350	10,089	11,267
Other income	4,145	4,213	8,554	7,414
	10,136	10,729	22,032	21,364
OTHER EXPENSE				
Compensation and benefits	28,833	29,184	55,827	58,883
Occupancy	9,091	8,969	17,541	17,561
FDIC insurance premiums	2,910	2,785	5,749	5,374
Product delivery	3,489	4,294	6,850	9,817
Information technology	6,686	7,453	13,137	16,163
Other expense	6,458	6,541	12,704	15,937
	57,467	59,226	111,808	123,735
Gain on real estate owned, net	795	3,894	1,193	5,314
Income before income taxes	62,791	63,222	123,896	117,637
Income tax expense	20,721	21,499	40,580	40,816
NET INCOME	$ 42,070	$ 41,723	$ 83,316	$ 76,821
PER SHARE DATA				
Basic earnings per share	$ 0.47	$ 0.45	$ 0.93	$ 0.83
Diluted earnings per share	0.47	0.45	0.93	0.83
Dividends paid on common stock per share	0.40	0.14	0.54	0.27
Basic weighted average number of shares outstanding	89,382,416	91,777,771	89,346,294	92,385,367
Diluted weighted average number of shares outstanding	89,736,320	92,147,998	89,732,042	92,860,052

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Net income	$42,070	$41,723	$83,316	$76,821
Other comprehensive income (loss) net of tax:				
Net unrealized gain (loss) on available-for-sale investment securities	5,685	6,916	(11,394)	(3,445)
Reclassification adjustment of net gain (loss) from sale of available-for-sale securities included in net income	—	—	968	—
Related tax benefit (expense)	(2,089)	(2,542)	3,832	1,266
	3,596	4,374	(6,594)	(2,179)
Net unrealized gain (loss) on long-term borrowing hedge	2,395	(13,483)	31,666	(10,688)
Related tax benefit (expense)	(880)	4,955	(11,637)	3,928
	1,515	(8,528)	20,029	(6,760)
Other comprehensive income (loss) net of tax	5,111	(4,154)	13,435	(8,939)
Comprehensive income	$47,181	$37,569	$96,751	$67,882

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

(in thousands)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at October 1, 2016	$134,308	$1,648,388	$943,877	$ (11,156)	$(739,686)	$1,975,731
Net income			83,316			83,316
Other comprehensive income (loss)				13,435		13,435
Dividends on common stock			(47,995)			(47,995)
Proceeds from exercise of common stock options	282	6,223				6,505
Restricted stock expense	110	4,061				4,171
Exercise of stock warrants	124	(124)				—
Treasury stock acquired					(20,401)	(20,401)
Balance at March 31, 2017	$134,824	$1,658,548	$979,198	$ 2,279	$(760,087)	$2,014,762

(in thousands)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at October 1, 2015	$133,696	$1,643,712	$829,754	$ 353	$(651,836)	$1,955,679
Net income			76,821			76,821
Other comprehensive income (loss)				(8,939)		(8,939)
Dividends on common stock			(24,735)			(24,735)
Compensation expense related to common stock options		600				600
Proceeds from exercise of common stock options	250	5,149				5,399
Restricted stock expense	146	1,936				2,082
Treasury stock acquired					(44,447)	(44,447)
Balance at March 31, 2016	$134,092	$1,651,397	$881,840	$ (8,586)	$(696,283)	$1,962,460

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

	Six Months Ended March 31, 2017	2016
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$83,316	$76,821
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion, net	18,770	11,082
Cash received from (paid to) FDIC under loss share	264	2,153
Stock based compensation	4,171	600
Provision (release) for loan losses	(1,600)	(1,500)
Loss (gain) on sale of investment securities	(968)	—
Decrease (increase) in accrued interest receivable	(2,904)	2,858
Decrease (increase) in federal and state income tax receivable	16,047	8,163
Decrease (increase) in cash surrender value of bank owned life insurance	(3,332)	(2,159)
Gain on settlement of bank owned life insurance	(649)	—
Net realized (gain) loss on sales of premises, equipment, and real estate owned	(2,587)	(6,629)
Decrease (increase) in other assets	15,275	(5,551)
Increase (decrease) in accrued expenses and other liabilities	(41,839)	49,710
Net cash provided by (used in) operating activities	83,964	135,548
CASH FLOWS FROM INVESTING ACTIVITIES		
Origination of loans and principal repayments, net	(477,029)	(321,573)
Loans purchased	(72,856)	(51,646)
FHLB & FRB stock purchased	(17,209)	(32,329)
FHLB & FRB stock redemption	14,424	26,340
Available-for-sale securities purchased	—	(50,741)
Principal payments and maturities of available-for-sale securities	169,937	328,188
Proceeds on available-for-sale securities sold	350,890	—
Held-to-maturity securities purchased	(415,729)	—
Principal payments and maturities of held-to-maturity securities	131,556	82,536
Proceeds from sales of real estate owned	10,222	38,347
Proceeds from settlement of bank owned life insurance	1,231	—
Purchase of bank owned life insurance	—	(100,000)
Proceeds from sales of premises and equipment	3,956	40
Premises and equipment purchased and REO improvements	(4,872)	(34,288)
Net cash provided by (used in) investing activities	(305,479)	(115,126)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in customer accounts	30,107	(88,243)
Proceeds from borrowings	430,000	818,000
Repayments of borrowings	(360,000)	(668,000)
Proceeds from exercise of common stock options	6,505	5,399
Dividends paid on common stock	(47,995)	(24,735)
Treasury stock purchased	(20,401)	(44,447)
Increase (decrease) in advance payments by borrowers for taxes and insurance	(672)	(26,361)
Net cash provided by (used in) financing activities	37,544	(28,387)
Increase (decrease) in cash and cash equivalents	(183,971)	(7,965)

Cash and cash equivalents at beginning of period	450,368	284,049
Cash and cash equivalents at end of period	$266,397	$276,084

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SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	Six Months Ended March 31,	
	2017	2016
	(In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities		
Real estate acquired through foreclosure	$2,134	$10,535
Non-cash financing activities		
Stock issued upon exercise of warrants	4,036	—
Cash paid during the period for		
Interest	55,599	57,325
Income taxes	16,903	27,245

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies
Nature of Operations - Washington Federal, Inc. is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through a federally-insured national bank subsidiary. The Bank is principally engaged in the business of holding deposits from the general public and investing these funds, together with borrowings and other funds, in one-to-four family residential mortgage and construction loans, home equity loans, lines of credit, commercial and industrial loans, multi-family and other forms of real estate loans. As used throughout this document, the terms "Washington Federal" or the "Company" refer to Washington Federal, Inc. and its consolidated subsidiaries and the term "Bank" refers to the operating subsidiary Washington Federal, National Association.
Basis of Presentation - The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal. All intercompany transactions and accounts have been eliminated in consolidation. 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 adjustments) necessary for a fair presentation are reflected in the interim financial statements.
The information included in this Form 10-Q should be read in conjunction with the financial statements and related notes in the Company's 2016 Annual Report on Form 10-K (“2016 Annual Financial Statements”). Interim results are not necessarily indicative of results for a full year.
Summary of Significant Accounting Policies - The significant accounting policies used in preparation of the Company's consolidated financial statements are disclosed in its 2016 Annual Financial Statements. There have not been any material changes in our significant accounting policies compared to those contained in our 2016 Annual Financial Statements for the year ended September 30, 2016.
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 of $1,669,658,000 and $1,278,829,000 at March 31, 2017 and September 30, 2016, respectively. The Company estimates losses on off-balance-sheet credit exposures by allocating a loss percentage derived from historical loss factors for each asset class.

NOTE B – New Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities. The ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The ASU is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The ASU clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments also define the term in substance nonfinancial asset. The amendments clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. A contract that includes the transfer of ownership interests in one or more consolidated subsidiaries is within the scope of Subtopic 610-20 if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets. The amendments clarify that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The ASU is effective for public business entities for annual periods beginning after December 15, 2017 and

interim periods therein. Entities may use either a full or modified approach to adopt the ASU. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.
In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. The ASU also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The ASU is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption being permitted for annual or interim goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations Clarifying the Definition of a Business (Topic 805), for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted for transactions that occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. The ASU must be applied prospectively and upon adoption the standard will impact how we assess acquisitions (or disposals) of assets or businesses. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash: a Consensus of the FASB Emerging Issues Task Force. This ASU requires a company’s cash flow statement to explain the changes during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Additionally, amounts for restricted cash and restricted cash equivalents are to be included with cash and cash equivalents if the cash flow statement includes a reconciliation of the total cash balances for a reporting period. This ASU is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017, with early application permitted. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendments in this ASU address eight specific cash flow issues with the objective of reducing diversity in practice. The specific issues identified include: debt prepayments or extinguishment costs; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This ASU is effective for fiscal years beginning after December 15, 2017 including interim periods within that reporting period; however, early adoption is permitted. The Company is currently evaluating the guidance to determine its adoption method and does not expect this guidance to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. The amendments in this ASU were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to- maturity debt securities, trade and other receivables, net investments in leases and other commitments to extend credit held by a reporting entity at each reporting date. The amendments require that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The ASU eliminates the current framework of recognizing probable incurred losses and instead requires an entity to use its current estimate of all expected credit losses over the contractual life. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets.

For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination (“PCD assets”) that are measured at amortized cost, an allowance for expected credit losses is recorded as an adjustment to the cost basis of the asset. Subsequent changes in estimated cash flows would be recorded as an adjustment to the allowance and through the statement of income.

Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security's cost basis.

The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For most debt securities, the transition approach requires a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period the guidance is effective. For other-than-temporarily impaired debt securities and PCD assets, the guidance will be applied prospectively. The Company is currently evaluating the provisions of this ASU to determine the impact the new standard will have on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The amendments require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The guidance also simplifies the accounting for sale and leaseback transactions. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently evaluating the provisions of this ASU to determine the impact this guidance will have on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, to require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this ASU also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017 including interim periods within that reporting period. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update was to be effective for interim and annual periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, which delayed the effective date of ASU 2014-09 by one year and permits companies to voluntarily adopt the new standard as of the original effective date. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

NOTE C – Dividends and Share Repurchases

On February 10, 2017, the Company paid a regular dividend on common stock of $0.15 per share, which represented the 136th consecutive quarterly cash dividend, as well as a special cash dividend on common stock of $0.25 per share. Dividends per share were $0.40 and $0.14 for the quarters ended March 31, 2017 and 2016, respectively. On April 24, 2017, the Company declared a regular dividend on common stock of $0.15 per share, which represents its 137th consecutive quarterly cash dividend. This dividend will be paid on May 19, 2017 to common shareholders of record on May 5, 2017.

For the three months ended March 31, 2017, the Company repurchased 477 shares at an average price of $33.55. Additionally, 73,995 shares of common stock were issued during the three months ended March 31, 2017 to investors that exercised warrants previously issued as part of the 2008 Troubled Asset Relief Program ("TARP"). As of March 31, 2017, 536,152 such warrants remain outstanding. Net of warrant repurchase and exercise activity, there are 4,157,081 remaining shares authorized to be repurchased under the current Board approved share repurchase program.

NOTE D – Loans Receivable

The following table is a summary of loans receivable.

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	March 31, 2017		September 30, 2016	
	(In thousands)		(In thousands)	
Gross loans by category				
Single-family residential	$5,693,072	48.9 %	$5,658,830	51.7 %
Construction	1,311,635	11.3	1,110,411	10.1
Construction - custom	527,319	4.5	473,069	4.3
Land - acquisition & development	118,726	1.0	118,497	1.1
Land - consumer lot loans	101,227	0.9	104,567	1.0
Multi-family	1,266,911	10.9	1,124,290	10.3
Commercial real estate	1,296,039	11.1	1,093,639	10.0
Commercial & industrial	1,071,629	9.2	978,589	8.9
HELOC	146,172	1.3	149,716	1.4
Consumer	107,759	0.9	139,000	1.3
Total gross loans	11,640,489	100.0%	10,950,608	100.0%
Less:				
Allowance for loan losses	121,922		113,494	
Loans in process	1,009,937		879,484	
Net deferred fees, costs and discounts	45,608		46,710	
Total loan contra accounts	1,177,467		1,039,688	
Net loans	$10,463,022		$9,910,920	

The following table sets forth information regarding non-accrual loans.

	March 31, 2017		September 30, 2016	
	(In thousands)			
Non-accrual loans:				
Single-family residential	$34,373	60.1%	$33,148	78.2%
Construction - custom	240	0.4	—	—
Land - acquisition & development	80	0.1	58	0.1
Land - consumer lot loans	1,129	2.0	510	1.2
Multi-family	1,364	2.4	776	1.8
Commercial real estate	10,507	18.4	7,100	16.7
Commercial & industrial	8,864	15.5	583	1.4
HELOC	583	1.0	239	0.6
Consumer	55	0.1	—	—
Total non-accrual loans	$57,195	100 %	$42,414	100 %

The Company recognized interest income on non-accrual loans of approximately $1,094,000 in the six months ended March 31, 2017. Had these loans been on accrual status and performed according to their original contract terms, the Company would have recognized interest income of approximately $1,134,000 for the six months ended March 31, 2017. Interest cash flows collected on non-accrual loans varies from period to period as those loans are brought current or get paid off.

For acquired loans included in the non-accrual loan table above, interest income is still recognized on such loans through accretion of the difference between the carrying amount of the loans and the expected cash flows.

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The following tables provide details regarding delinquent loans.

March 31, 2017	Loans Receivable	Days Delinquent Based on $ Amount of Loans					% based on $
Type of Loan	Net of Loans In Process	Current	30	60	90	Total	
	(In thousands)						
Single-family residential	$5,692,305	$5,639,158	$13,644	$7,660	$31,843	$53,147	0.93 %
Construction	593,479	592,877	601	—	—	601	0.10
Construction - custom	251,906	251,666	—	—	240	240	0.10
Land - acquisition & development	103,280	103,018	262	—	—	262	0.25
Land - consumer lot loans	101,168	99,907	360	333	568	1,261	1.25
Multi-family	1,266,845	1,265,622	—	—	1,224	1,224	0.10
Commercial real estate	1,296,019	1,289,677	1,802	298	4,242	6,342	0.49
Commercial & industrial	1,071,622	1,066,658	4,964	—	—	4,964	0.46
HELOC	146,169	145,355	124	20	670	814	0.56
Consumer	107,759	107,158	405	98	98	601	0.56
Total Loans	$10,630,552	$10,561,096	$22,162	$8,409	$38,885	$69,456	0.65 %
Delinquency %		99.35%	0.21%	0.08%	0.37%	0.65%	

September 30, 2016	Loans Receivable	Days Delinquent Based on $ Amount of Loans					% based on $
Type of Loan	Net of Loans In Process	Current	30	60	90	Total	
	(In thousands)						
Single-family residential	$5,658,122	$5,601,457	$20,916	$5,271	$30,478	$56,665	1.00 %
Construction	498,450	498,450	—	—	—	—	—
Construction - custom	229,957	229,419	538	—	—	538	0.23
Land - acquisition & development	94,928	94,928	—	—	—	—	—
Land - consumer lot loans	104,534	102,472	816	687	559	2,062	1.97
Multi-family	1,124,290	1,122,307	1,190	399	394	1,983	0.18
Commercial real estate	1,093,549	1,088,680	69	325	4,475	4,869	0.45
Commercial & industrial	978,582	978,540	—	42	—	42	—
HELOC	149,713	148,513	763	164	273	1,200	0.80
Consumer	138,999	138,078	715	126	80	921	0.66
Total Loans	$10,071,124	$10,002,844	$25,007	$7,014	$36,259	$68,280	0.68 %
Delinquency %		99.32%	0.25%	0.07%	0.36%	0.68%	

The percentage of total delinquent loans decreased from 0.68% as of September 30, 2016 to 0.65% as of March 31, 2017 and there are no loans greater than 90 days delinquent and still accruing interest as of either date.

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The following tables provide information related to loans that were restructured in a troubled debt restructuring ("TDR") during the periods presented:

	Three Months Ended March 31,					
	2017			2016		
	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	8	$ 1,712	$ 1,712	7	$ 1,101	$ 1,101
	8	$ 1,712	$ 1,712	7	$ 1,101	$ 1,101

	Six Months Ended March 31,					
	2017			2016		
	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	20	$ 3,846	$ 3,846	10	$ 1,830	$ 1,830
Land - consumer lot loans	1	204	204	—	—	—
Commercial real estate	—	—	—	5	965	965
HELOC	1	228	228	—	—	—
	22	$ 4,278	$ 4,278	15	$ 2,795	$ 2,795

The following tables provide information on payment defaults occurring during the periods presented where the loan had been modified in a TDR within 12 months of the payment default.

	Three Months Ended March 31,			
	2017		2016	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
		(In thousands)		(In thousands)
TDRs That Subsequently Defaulted:				
Single-family residential	7	$ 1,192	6	$ 871
Land - consumer lot loans	—	—	1	146
Commercial real estate	—	—	1	152
	7	$ 1,192	8	$ 1,169

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	Six Months Ended March 31,			
	2017		2016	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(In thousands)		(In thousands)	
TDRs That Subsequently Defaulted:				
Single-family residential	13	$ 3,185	8	$ 1,095
Land - consumer lot loans	—	—	1	146
Commercial real estate	2	267	1	152
	15	$ 3,452	10	$ 1,393

Most loans restructured in TDRs are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. As of March 31, 2017, 95.0% of the Company's $233,901,000 in TDRs were classified as performing. Each request for modification is individually evaluated for merit and likelihood of success. The concession granted in a loan modification is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twenty four months. Interest-only payments may also be approved during the modification period. Principal forgiveness is not an available option for restructured loans. As of March 31, 2017, single-family residential loans comprised 87.6% of TDRs.

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 remaining outstanding balance of covered loans was $24,428,000 at March 31, 2017 compared to $28,974,000 as of September 30, 2016. The FDIC loss share coverage for single family residential loans related to the Horizon Bank and Home Valley Bank acquisitions will continue for another four years.

The following table shows activity for the FDIC indemnification asset:

	Six Months Ended March 31, 2017	Twelve Months Ended September 30, 2016
	(In thousands)	
Balance at beginning of period	$12,769	$ 16,275
Payments made (received)	(264)	(1,730)
Amortization	(802)	(2,012)
Accretion	118	236
Balance at end of period	$11,821	$ 12,769

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NOTE E – Allowance for Losses on Loans
The following tables summarize the activity in the allowance for loan losses.

Three Months Ended March 31, 2017	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$38,206	$ (381)	$ 223	$ (884)	$ 37,164
Construction	21,934	—	—	3,127	25,061
Construction - custom	1,110	(3)	—	69	1,176
Land - acquisition & development	6,665	(43)	4,211	(4,164)	6,669
Land - consumer lot loans	2,501	—	180	(168)	2,513
Multi-family	7,629	—	—	300	7,929
Commercial real estate	10,168	—	1,164	(560)	10,772
Commercial & industrial	27,736	(105)	217	517	28,365
HELOC	832	(53)	—	47	826
Consumer	1,675	(508)	314	(34)	1,447
	$118,456	$ (1,093)	$ 6,309	$ (1,750)	$ 121,922

Three Months Ended March 31, 2016	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$47,756	$ (1,026)	$ 111	$ (5,013)	$ 41,828
Construction	7,014	—	(5)	8,717	15,726
Construction - custom	1,062	—	—	(40)	1,022
Land - acquisition & development	6,778	—	3,371	(2,897)	7,252
Land - consumer lot loans	3,001	(268)	—	(267)	2,466
Multi-family	5,047	—	—	1,737	6,784
Commercial real estate	10,344	(9)	992	(3,544)	7,783
Commercial & industrial	24,096	(331)	590	(531)	23,824
HELOC	820	(26)	—	34	828
Consumer	1,983	(278)	397	304	2,406
	$107,901	$ (1,938)	$ 5,456	$ (1,500)	$ 109,919

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Six Months Ended March 31, 2017	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$37,796	$ (496)	$ 374	$ (510)	$ 37,164
Construction	19,838	—	—	5,223	25,061
Construction - custom	1,080	(3)	—	99	1,176
Land - acquisition & development	6,023	(63)	8,229	(7,520)	6,669
Land - consumer lot loans	2,535	(17)	250	(255)	2,513
Multi-family	6,925	—	—	1,004	7,929
Commercial real estate	8,588	(11)	1,520	675	10,772
Commercial & industrial	28,008	(163)	942	(422)	28,365
HELOC	813	(90)	1	102	826
Consumer	1,888	(654)	693	(480)	1,447
	$113,494	$ (1,497)	$ 12,009	$ (2,084)	$ 121,922

Six Months Ended March 31, 2016	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$47,347	$ (2,165)	$ 2,577	$ (5,931)	$ 41,828
Construction	6,680	—	150	8,896	15,726
Construction - custom	990	(60)	—	92	1,022
Land - acquisition & development	5,781	—	3,406	(1,935)	7,252
Land - consumer lot loans	2,946	(676)	—	196	2,466
Multi-family	5,304	—	—	1,480	6,784
Commercial real estate	8,960	(32)	1,115	(2,260)	7,783
Commercial & industrial	24,980	(579)	591	(1,168)	23,824
HELOC	902	(27)	21	(68)	828
Consumer	2,939	(520)	789	(802)	2,406
	$106,829	$ (4,059)	$ 8,649	$ (1,500)	$ 109,919

The Company recorded a release of allowance for loan losses of $1,600,000 during the three months ended March 31, 2017, compared to a $1,500,000 release of allowance for loan losses recorded during the three months ended March 31, 2016. A release of allowance for loan losses of $1,600,000 and $1,500,000 was recorded during the six months ended March 31, 2017 or March 31, 2016, respectively. Reserving for new loan originations as the loan portfolio grows has been largely offset by recoveries of previously charged-off loans. Recoveries, net of charge-offs, totaled $5,216,000 for the three months ended March 31, 2017, compared with $3,518,000 of net recoveries for the same period one year ago. Recoveries, net of charge-offs, totaled $10,512,000 for the six months ended March 31, 2017, compared with $4,590,000 of net recoveries for the same period one year ago.
Non-performing assets were $79,738,000, or 0.53%, of total assets at March 31, 2017, compared to $71,441,000, or 0.48%, of total assets at September 30, 2016. Non-accrual loans were $57,195,000 at March 31, 2017, compared to $42,414,000 at September 30, 2016. Delinquencies, as a percent of total loans, were 0.65% at March 31, 2017, compared to 0.68% at September 30, 2016.

The reserve for unfunded commitments was $5,050,000 as of March 31, 2017, which is an increase from $3,235,000 at September 30, 2016.

Management believes the allowance for loan losses plus the reserve for unfunded commitments, totaling $126,972,000, or 1.09% of gross loans as of March 31, 2017, is sufficient to absorb estimated inherent losses.

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The following tables show loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves.

March 31, 2017	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment		
	Allowance Allocation	Recorded Investment of Loans (1)	Ratio	Allowance Allocation	Recorded Investment of Loans (1)	Ratio
	(In thousands)			(In thousands)		
Single-family residential	$ 37,164	$ 5,661,673	0.7 %	$ —	$ 25,370	— %
Construction	25,061	593,479	4.2	—	—	—
Construction - custom	1,176	251,801	0.5	—	105	—
Land - acquisition & development	6,666	102,281	6.5	2	438	0.1
Land - consumer lot loans	2,513	91,402	2.7	—	794	—
Multi-family	7,919	1,264,130	0.6	10	2,496	0.3
Commercial real estate	10,685	1,226,228	0.9	88	26,112	0.3
Commercial & industrial	28,365	1,059,310	2.7	—	9,606	—
HELOC	826	137,124	0.6	—	722	—
Consumer	1,447	107,472	1.3	—	15	—
	$ 121,822	$ 10,494,900	1.2 %	$ 100	$ 65,658	0.2 %

(1) Excludes $70 million in acquired loans and covered loans with discounts sufficient to cover incurred losses.

September 30, 2016	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment		
	Allowance Allocation	Recorded Investment of Loans (1)	Ratio	Allowance Allocation	Recorded Investment of Loans (1)	Ratio
	(In thousands)			(In thousands)		
Single-family residential	$ 37,536	$ 5,585,912	0.7 %	$ 260	$ 19,629	1.3 %
Construction	19,838	498,450	4.0	—	—	—
Construction - custom	1,080	229,298	0.5	—	330	—
Land - acquisition & development	6,022	90,850	6.6	2	850	0.2
Land - consumer lot loans	2,535	92,828	2.7	—	558	—
Multi-family	6,911	1,091,974	0.6	13	1,505	0.9
Commercial real estate	8,497	957,380	0.9	91	11,157	0.8
Commercial & industrial	28,008	966,930	2.9	—	—	—
HELOC	813	133,203	0.6	—	239	—
Consumer	1,888	137,315	1.4	—	3	—
	$ 113,128	$ 9,784,140	1.2 %	$ 366	$ 34,271	1.1 %

(1) Excludes acquired impaired loans and covered loans with discounts sufficient to cover incurred losses.

As of March 31, 2017, $121,822,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining $100,000 was specific reserves on loans deemed to be individually impaired. As of September 30, 2016, $113,128,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining $366,000 was specific reserves on loans deemed to be individually impaired.

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

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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 collection or 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 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 tables provide information on loans based on risk rating categories as defined above.

March 31, 2017	Internally Assigned Grade					
	Pass	Special mention	Substandard	Doubtful	Loss	Total Gross Loans
	(In thousands)					
Loan type						
Single-family residential	$5,643,124	$ —	$49,948	$ —	$—	$5,693,072
Construction	1,302,209	5,875	3,551	—	—	1,311,635
Construction - custom	527,079	—	240	—	—	527,319
Land - acquisition & development	115,816	—	2,910	—	—	118,726
Land - consumer lot loans	100,098	—	1,129	—	—	101,227
Multi-family	1,251,583	3,206	12,122	—	—	1,266,911
Commercial real estate	1,251,520	6,918	37,601	—	—	1,296,039
Commercial & industrial	1,041,903	8,018	21,708	—	—	1,071,629
HELOC	144,972	—	1,200	—	—	146,172
Consumer	107,698	—	61	—	—	107,759
Total gross loans	$11,486,002	$ 24,017	$130,470	$ —	$—	$11,640,489
Total grade as a % of total gross loans	98.7 %	0.2 %	1.1 %	— %	—%	

September 30, 2016	Internally Assigned Grade					
	Pass	Special mention	Substandard	Doubtful	Loss	Total Gross Loans
	(In thousands)					
Loan type						
Single-family residential	$5,607,521	$ —	$51,309	$ —	$—	$5,658,830
Construction	1,098,549	8,595	3,267	—	—	1,110,411
Construction - custom	473,069	—	—	—	—	473,069
Land - acquisition & development	111,225	—	7,272	—	—	118,497
Land - consumer lot loans	103,528	—	1,039	—	—	104,567
Multi-family	1,117,437	3,237	3,616	—	—	1,124,290
Commercial real estate	1,033,880	13,446	46,313	—	—	1,093,639
Commercial & industrial	930,776	7,207	40,606	—	—	978,589
HELOC	149,195	—	521	—	—	149,716
Consumer	138,917	—	83	—	—	139,000
Total gross loans	$10,764,097	$ 32,485	$154,026	$ —	$—	$10,950,608
Total grade as a % of total gross loans	98.3 %	0.3 %	1.4 %	— %	—%	

The balance of loans internally graded as 'substandard' above includes $25,668,000 as of March 31, 2017 and $35,910,000 as of September 30, 2016 of acquired loans and covered loans.

The following tables provide information on loans (excluding acquired and covered loans) based on borrower payment activity.

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March 31, 2017	Performing Loans		Non-Performing Loans	
	Amount	% of Total Gross Loans	Amount	% of Total Gross Loans
	(In thousands)			
Single-family residential	$5,626,725	99.4 %	$ 34,373	0.6 %
Construction	1,311,636	100.0	—	—
Construction - custom	527,079	100.0	240	—
Land - acquisition & development	116,857	99.9	80	0.1
Land - consumer lot loans	97,537	98.9	1,129	1.1
Multi-family	1,263,004	99.9	1,364	0.1
Commercial real estate	1,173,483	99.1	10,507	0.9
Commercial & industrial	1,021,889	99.1	8,864	0.9
HELOC	134,376	99.6	583	0.4
Consumer	106,466	99.9	55	0.1
	$11,379,052	99.5 %	$ 57,195	0.5 %

September 30, 2016	Performing Loans		Non-Performing Loans	
	Amount	% of Total Gross Loans	Amount	% of Total Gross Loans
	(In thousands)			
Single-family residential	$5,587,919	99.4 %	$ 33,148	0.6 %
Construction	1,110,411	100.0	—	—
Construction - custom	473,069	100.0	—	—
Land - acquisition & development	116,097	99.9	58	0.1
Land - consumer lot loans	101,343	99.5	510	0.5
Multi-family	1,118,025	99.9	776	0.1
Commercial real estate	949,064	99.3	7,100	0.7
Commercial & industrial	946,065	99.9	583	0.1
HELOC	134,546	99.8	239	0.2
Consumer	137,450	100.0	—	—
	$10,673,989	99.6 %	$ 42,414	0.4 %

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The following tables provide information on impaired loan balances and the related allowances by loan types.

March 31, 2017	Recorded Investment	Unpaid Principal Balance	Related Allowance		Average Recorded Investment
	(In thousands)				
Impaired loans with no related allowance recorded:					
Single-family residential	$25,928	$28,378	$ —		$ 14,350
Construction - custom	296	300	—		99
Land - acquisition & development	123	8,346	—		130
Land - consumer lot loans	524	587	—		490
Multi-family	1,364	4,904	—		1,100
Commercial real estate	9,920	18,978	—		10,182
Commercial & industrial	9,606	16,096	—		6,772
HELOC	718	1,856	—		443
Consumer	59	1,366	—		47
	48,538	80,811	—		33,613
Impaired loans with an allowance recorded:					
Single-family residential	204,955	209,294	4,316		202,838
Land - acquisition & development	594	594	3		510
Land - consumer lot loans	9,410	10,315	—		9,324
Multi-family	1,131	1,131	10		1,138
Commercial real estate	16,290	17,930	88		16,491
HELOC	1,414	1,487	—		1,283
Consumer	107	297	—		100
	233,901	241,048	4,417	(1)	231,684
Total impaired loans:					
Single-family residential	230,883	237,672	4,316		217,188
Construction - custom	296	300	—		99
Land - acquisition & development	717	8,940	3		640
Land - consumer lot loans	9,934	10,902	—		9,814
Multi-family	2,495	6,035	10		2,238
Commercial real estate	26,210	36,908	88		26,673
Commercial & industrial	9,606	16,096	—		6,772
HELOC	2,132	3,343	—		1,726
Consumer	166	1,663	—		147
	$282,439	$321,859	$ 4,417	(1)	$ 265,297

(1) Includes $100,000 of specific reserves and $4,317,000 included in the general reserves.

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September 30, 2016	Recorded Investment	Unpaid Principal Balance	Related Allowance		Average Recorded Investment
	(In thousands)				
Impaired loans with no related allowance recorded:					
Single-family residential	$9,627	$11,366	$ —		$ 6,511
Land - acquisition & development	138	9,001	—		614
Land - consumer lot loans	499	609	—		317
Multi-family	394	3,972	—		638
Commercial real estate	11,741	21,301	—		6,260
Commercial & industrial	1,030	3,082	—		863
HELOC	209	315	—		165
Consumer	74	550	—		111
	23,712	50,196	—		15,479
Impaired loans with an allowance recorded:					
Single-family residential	228,186	232,595	3,809		216,632
Land - acquisition & development	1,154	2,094	1		1,766
Land - consumer lot loans	9,630	10,678	1		9,548
Multi-family	1,505	1,505	13		1,522
Commercial real estate	19,434	22,848	91		19,311
HELOC	1,506	1,521	—		1,413
Consumer	116	306	—		100
	261,531	271,547	3,915	(1)	250,292
Total impaired loans:					
Single-family residential	237,813	243,961	3,809		223,143
Land - acquisition & development	1,292	11,095	1		2,380
Land - consumer lot loans	10,129	11,287	1		9,865
Multi-family	1,899	5,477	13		2,160
Commercial real estate	31,175	44,149	91		25,571
Commercial & industrial	1,030	3,082	—		863
HELOC	1,715	1,836	—		1,578
Consumer	190	856	—		211
	$285,243	$321,743	$ 3,915	(1)	$ 265,771

(1) Includes $366,000 of specific reserves and $3,549,000 included in the general reserves.

NOTE F – Fair Value Measurements

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active exchange markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

We have established and documented the Company's process for determining the fair values of the Company's assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, fair value is determined using valuation models or third-party appraisals. The following is a description of the valuation methodologies used to measure and report the fair value of financial assets and liabilities on a recurring or nonrecurring basis:

Measured on a Recurring Basis

Securities

Securities available for sale are recorded at fair value on a recurring basis. The fair value of debt securities are priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and under GAAP are considered a Level 2 input method. Securities that are traded on active exchanges, including the Company's equity securities, are measured using the closing price in an active market and are considered a Level 1 input method.

The Bank offers interest rate swaps to its variable rate borrowers who want to manage their interest rate risk. At the same time, the Bank enters into the opposite trade with a counter party to offset its interest rate risk. The Bank has also entered into a commercial loan hedge as well as long term borrowing hedges using interest rate swaps. The fair value of these interest rate swaps are estimated by a third party pricing service using a discounted cash flow technique. These are considered a Level 2 input method.

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The following tables present the balance of assets and liabilities measured at fair value on a recurring basis.

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Financial Assets				
Available-for-sale securities:				