CAPITOL FEDERAL FINANCIAL
Form 10-K
December 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2006 OR

¨ 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 000-25391

CAPITOL FEDERAL FINANCIAL
(Exact name of registrant as specified in its charter)

United States	48-1212142
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 Kansas Avenue, Topeka, Kansas	66603
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (785) 235-1341
Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $.01 per share	The Nasdaq Stock Market LLC
(Title of class)	(Exchange on which registered)

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes ¨ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act. ¨ Yes þ No

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. þ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and

will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference
in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of
"accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes þ No

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant, computed by reference to the
average of the closing bid and asked price of such stock on the NASDAQ Stock Market as of March 31, 2006, was $707.5 million.
The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the
Registrant that such person is an affiliate of the registrant.

As of December 1, 2006, there were issued and outstanding 74,113,855 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Parts II and IV of Form 10-K - Portions of the Annual Report to Stockholders for the year ended September 30, 2006.
Part III of Form 10-K - Portions of the proxy statement for the Annual Meeting of Stockholders for the year ended September 30, 2006.

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FORWARD-LOOKING STATEMENTS

Capitol Federal Financial (the "Company"), and its wholly-owned subsidiary, Capitol Federal Savings Bank ("Capitol Federal Savings" or the "Bank"), may from time to time make written or oral "forward-looking statements", including statements contained in the Company's filings with the Securities and Exchange Commission ("SEC"). These forward-looking statements may be included in this Annual Report on Form 10-K and the exhibits attached to it, in the Company's reports to stockholders and in other communications by the Company, which are made in good faith by us pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements about our beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond our control. The words "may", "could", "should", "would", "believe", "anticipate", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify forward-looking statements The following factors, among others, could cause our future results to differ materially from the plans, objectives, goals, expectations, anticipations, estimates and intentions expressed in the forward-looking statements:

- our ability to continue to maintain overhead costs at reasonable levels;
- our ability to continue to originate a significant volume of one- to four-family mortgage loans in our market area;
- our ability to acquire funds from or invest funds in wholesale or secondary markets;
- the future earnings and capital levels of the Bank, which could affect the ability of the Company to pay dividends in accordance with its dividend policies;
- the credit risks of lending and investing activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
- the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;
- the effects of, and changes in, foreign and military policies of the United States Government;
- inflation, interest rate, market and monetary fluctuations;
- our ability to access cost-effective funding;
- the timely development of and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;
- the willingness of users to substitute competitors' products and services for our products and services;
- our success in gaining regulatory approval of our products and services, when required;
- the impact of changes in financial services laws and regulations, including laws concerning taxes, banking, securities and insurance;
- technological changes;
- acquisitions and dispositions;
- changes in consumer spending and saving habits; and
- our success at managing the risks involved in our business.

This list of important factors is not all inclusive. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or the Bank.

As used in this Form 10-K, unless we specify otherwise, "the Company," "we," "us," and "our" refer to Capitol Federal Financial, a United States corporation. "Capitol Federal Savings," and "the Bank," refer to Capitol Federal Savings Bank, a federal savings bank and the wholly-owned subsidiary of Capitol Federal Financial. "MHC" refers to Capitol Federal Savings Bank MHC, a mutual holding company and majority-owner of Capitol Federal Financial.

PART I
Item 1. Business

General

The Company is a federally chartered mid-tier mutual holding company incorporated in March 1999. The Bank is a wholly-owned subsidiary of the Company, which is majority owned by Capitol Federal Savings Bank MHC ("MHC"), a federally chartered mutual holding company. The Company's common stock is traded on the Global Select tier of the NASDAQ Stock Market under the symbol "CFFN."

The Bank is the only operating subsidiary of the Company. The Bank is a federally-chartered and insured savings bank headquartered in Topeka, Kansas and is examined and regulated by the Office of Thrift Supervision ("OTS"), its primary regulator. It is also regulated by the Federal Deposit Insurance Corporation ("FDIC"). We primarily serve the entire metropolitan areas of Topeka, Wichita, Lawrence, Manhattan, Emporia and Salina, Kansas and a portion of the metropolitan area of greater Kansas City through 29 traditional and nine in-store banking offices. At September 30, 2006, we had total assets of $8.20 billion, deposits of $3.90 billion and total equity of $863.2 million.

We have been, and intend to continue to be, a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. We attract retail deposits from the general public and invest those funds primarily in permanent loans secured by first mortgages on owner-occupied, one- to four-family ("single-family") residences. We also originate consumer loans, loans secured by first mortgages on nonowner-occupied one- to four-family residences, permanent and construction loans secured by one- to four-family residences, commercial real estate loans and multi-family real estate loans. While our primary business is the origination of one- to four-family mortgage loans funded through retail deposits, we also purchase one- to four-family mortgage loans from nationwide lenders and correspondent lenders located within our Kansas City and Wichita market areas and market areas within our geographic region, and invest in certain investment and mortgage-related securities funded through retail deposits and advances from Federal Home Loan Bank Topeka ("FHLB"). We may originate loans outside our market area on occasion, and most of the whole loans we purchase are secured by properties located outside of our market area.

Our revenues are derived principally from interest on loans and mortgage-related securities and interest and dividends on investment securities. Our primary sources of funds are customer deposits, borrowings, scheduled amortization and prepayments of mortgage loan principal and mortgage-backed securities and calls and maturities of investment securities and funds provided by operations.

We offer a variety of deposit accounts having a wide range of interest rates and terms, which generally include passbook and passcard savings accounts, money market accounts, interest bearing and non-interest bearing checking accounts and certificates of deposit with terms ranging from 91 days to 96 months.

Our executive offices are located at 700 South Kansas Avenue, Topeka, Kansas 66603, and our telephone number at that address is (785) 235-1341.

Available Information

Our Internet website address is www.capfed.com. Financial information, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports can be obtained free of charge from our website. The above reports are available on our website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. These reports are also available on the SEC's website at http://www.sec.gov.

Market Area and Competition

Our corporate office is located in Topeka, Kansas. We have a network of 38 branches located in 8 counties throughout the State of Kansas. We operate in three primary market areas: Johnson County, Kansas, the city of Wichita, Kansas and the cities of Topeka and Lawrence, Kansas. In addition to providing full service banking offices, we also provide our customers telephone and Internet banking capabilities. Management considers our strong retail banking network, together with our reputation for financial strength and customer service, as our major strengths in attracting and retaining customers in our market areas.

Johnson County, Kansas is located in the south central area of the Kansas City metropolitan area. According to the U.S. Census Bureau Population Estimates Program, Johnson County's population increased approximately 12% from 2000 to 2005. Johnson County's economy is well diversified. The 2005 inflation-adjusted local median household income in Johnson County was estimated to be $67 thousand compared to the estimated national average of $46 thousand and the estimated Kansas average of $43 thousand as reported by the U.S. Census Bureau. The Johnson County market represents the greatest concentration of the Bank's retail operations, both lending and deposit gathering. Approximately half of the Bank's branches are located in the Johnson County market. The Bank ranked first in deposit market share in Johnson County, with 12.1% market share based on the FDIC "Summary of Deposits - Market Share Report" dated June 30, 2006. The Bank's market share percentage in Johnson County has been decreasing over the past 5 years, but we have continued to rank first in total deposit market share each of those years. The decrease in market share percentage has been a result of aggressive pricing in the market by other financial institutions and the entrance of new competitors such as credit unions, de novo institutions and increased banking locations. The Bank is consistently one of the top three lenders in Johnson County with regards to loan volume. We believe Johnson County's highly diversified economy reduces our potential to a downturn in one or a handful of economic sectors.

Wichita is the largest city in Kansas. Approximately 70% of the U.S. general aviation aircraft is produced in Wichita. The Bank's second greatest concentration in retail operations is in Wichita. The Bank has six branches located in Wichita, which is located in Sedgwick County. The Bank ranked seventh in deposit market share in Wichita, with 6.2% market share based on the FDIC "Summary of Deposits - Market Share Report" dated June 30, 2006. The Bank's market share percentage and overall market ranking in Wichita has decreased over the past 5 years as a result of aggressive pricing by competitors and an increased number of financial institutions and banking locations. The decline in commercial airline and general aviation airplane sales following the 2001 terrorist attacks on the United States has had an impact on the Wichita-area economy, but we have not felt the impact of that downturn in the credit quality of our loan portfolio in Wichita. We believe this is a result of the majority of families having dual incomes and the gradual appreciation in the value of homes in Wichita. The Bank is consistently one of the top five lenders in Sedgwick County with regards to loan volume.

Topeka is the Kansas state capital and therefore houses numerous state agencies. The University of Kansas is located in Lawrence. Topeka and Lawrence represent the third greatest concentration of the Bank's retail operations. The Bank has six branches, including the home office, located in Topeka and four branches located in Lawrence. The Bank ranked first in deposit market share in Topeka and Lawrence combined, with 33.0% market share based on the FDIC "Summary of Deposits - Market Share Report" dated June 30, 2006. The Bank's market share percentage has been decreasing over the past 5 years, but we have continued to rank first in total deposit market share each of those years. The reason for the decrease in market share is the same as in our other major market areas. The Bank is consistently one of the top three lenders in this market area with regards to loan volume.

Deposit market share is measured by total deposits, without consideration for type of deposit. We do not have commercial deposit accounts because of our focus on retail deposits, while many of our competitors have both commercial and retail deposits in their total deposit base. This will tend to show the Bank underperforming in this category compared to other institutions in our market areas. We have lost market share when measured by total deposits.

We are one of the largest originators of one- to four-family mortgage loans in the state of Kansas. We attract customers through our strong relationships with real estate agents, our reputation, pricing, existing and walk-in customers and customers that apply on the Internet. Competition in originating one- to four-family mortgage loans primarily comes from other savings institutions, commercial banks, credit unions and mortgage bankers. Other savings institutions, commercial banks, credit unions and finance companies provide vigorous competition in consumer lending.

We purchase one- to four-family mortgage loans from nationwide lenders and correspondent lenders located within our Kansas City and Wichita market areas and market areas within our geographic region. Purchasing loans from nationwide lenders provides geographic diversification, reducing our exposure to concentrations of credit risk. At September 30, 2006 all loans purchased from nationwide lenders were secured by properties located in 48 states, including Kansas, and Washington, D.C. At September 30, 2006, purchases from nationwide lenders in the following states comprised greater than 5% of total loans purchased from nationwide lenders: Illinois 13.9%; Florida 7.5%; Arizona 6.0%; Texas 5.7%, and Virginia 5.5%.

Lending Activities

General. Our primary lending activity is the origination of loans secured by first mortgages on one- to four-family residential properties. We also make consumer loans, construction loans secured by residential properties, commercial properties and multi-family real estate and loans secured by multi-family dwellings or commercial properties. Our mortgage loans carry either a fixed or an adjustable-rate of interest. Mortgage loans are generally long-term and amortize on a monthly basis with principal and interest due each month. At September 30, 2006, our net loan portfolio totaled $5.22 billion, which constituted 63.7% of our total assets. For a discussion of our market risk associated with loans, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosure about Market Risk" in the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K.

All originated loans are generated by our own employees or loan agents. Loans over $500 thousand must be underwritten by two senior level underwriters. Any mortgage loan over $750 thousand must be approved by the Asset and Liability Management Committee ("ALCO") and loans over $1.5 million must be approved by the board of directors. For loans requiring ALCO and/or board of directors' approval, management is responsible for presenting to the ALCO and/or board of directors information about the creditworthiness of the borrower and the estimated value of the subject property. Information pertaining to the creditworthiness of the borrower generally consists of a summary of the borrower's credit history, employment, employment stability, net worth and income. The estimated value of the property must be supported by an independent appraisal report prepared in accordance with our appraisal policy.

At September 30, 2006, the maximum amount which we could have loaned to any one borrower and the borrower's related entities was approximately $116.9 million. Our largest lending relationship to a single borrower or a group of related borrowers on that date consisted of 14 multi-family real estate projects, two single-family homes and four commercial real estate projects located in Kansas and Texas, totaling $33.6 million. No single loan in this group exceeded $3.7 million at that date. Most of the multi-family real estate loans qualify for the low income housing tax credit program. We have 25 years experience with this group of borrowers, who usually build and manage their own properties. All of these loans were current and performing in accordance with their terms at September 30, 2006.

The second largest lending relationship at September 30, 2006, consisted of eight loans totaling $13.5 million. Four loans are secured by multi-family real estate units and four are secured by single-family homes. We have 25 years of experience with the borrowers. All units were built and are presently being managed by the borrowers. Each of the loans to this group of borrowers were current and performing in accordance with required terms at September 30, 2006.

Loan Portfolio. The following table presents information concerning the composition of our loan portfolio in dollar amounts and in percentages (before deductions for loans in process, net deferred fees and discounts and allowances for losses) as of the dates indicated.

	September 30,									
	2006		2005		2004		2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percen
	(Dollars in thousands)									
Real Estate Loans:										
One- to four-family	$ 4,931,505	93.80%	$ 5,189,006	94.44%	$ 4,492,205	93.70%	$ 4,069,197	93.43%	$ 4,612,543	93.9
Multi-family	48,331	0.92	40,636	0.74	35,421	0.74	38,464	0.88	45,985	0.9
Commercial	8,443	0.16	8,927	0.16	8,698	0.18	7,881	0.18	5,514	0.1
Construction and development[1]	45,452	0.87	45,312	0.83	54,782	1.14	48,537	1.11	48,023	0.9
Total real estate loans	5,033,731	95.75	5,283,881	96.17	4,591,106	95.76	4,164,079	95.60	4,712,065	95.9
Other Loans:										
Consumer Loans:										
Savings	6,250	0.12	8,377	0.15	9,141	0.19	10,963	0.25	11,931	0.2
Automobile	3,660	0.07	2,555	0.05	2,274	0.05	3,798	0.09	6,913	0.1
Home equity	210,008	3.99	197,626	3.60	189,861	3.96	173,656	3.99	175,551	3.5
Other	3,762	0.07	1,878	0.03	1,931	0.04	2,484	0.07	3,474	0.0
Total consumer loans	223,680	4.25	210,436	3.83	203,207	4.24	190,901	4.40	197,869	4.0
Commercial business loans	62	--	70	--	129	--	201	--	151	
Total other loans	223,742	4.25	210,506	3.83	203,336	4.24	191,102	4.40	198,020	4.0
Total loans receivable	5,257,473	100.00%	5,494,387	100.00%	4,794,442	100.00%	4,355,181	100.00%	4,910,085	100.0
Less:										
Loans in process	22,605		14,803		23,623		27,039		21,764	
Net deferred fees and discounts	9,318		10,856		18,794		15,896		15,678	
Allowance for losses	4,433		4,598		4,495		4,550		4,825	
Total loans receivable, net	$ 5,221,117		$ 5,464,130		$ 4,747,530		$ 4,307,696		$ 4,867,818	

(1) At September 30, 2006, there were no development loans in the loan portfolio.

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

	September 30,									
	2006		2005		2004		2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percen
	(Dollars in thousands)									
Fixed-Rate Loans:										
Real estate:										
One- to four-family	$ 3,031,734	57.67%	$ 3,273,627	59.58%	$ 3,118,912	65.06%	$ 3,005,475	69.01%	$ 3,418,360	69.6
Multi-family	47,669	0.91	40,100	0.73	34,828	0.73	37,819	0.87	44,494	0.9
Commercial	8,407	0.16	8,887	0.16	8,654	0.18	7,834	0.18	4,996	0.1
Construction and development(1)	30,685	0.58	26,418	0.49	38,058	0.79	36,588	0.84	31,944	0.6
Total real estate loans	3,118,495	59.32	3,349,032	60.96	3,200,452	66.76	3,087,716	70.90	3,499,794	71.2
Consumer	67,021	1.27	39,617	0.72	26,439	0.55	26,817	0.62	38,828	0.7
Commercial business	62	--	70	--	129	--	201	--	151	
Total fixed-rate loans	3,185,578	60.59	3,388,719	61.68	3,227,020	67.31	3,114,734	71.52	3,538,773	72.0
Adjustable-Rate Loans:										
Real estate:										
One- to four-family	1,899,771	36.13	1,915,379	34.86	1,373,293	28.64	1,063,722	24.42	1,194,183	24.3
Multi-family	662	0.02	536	0.01	593	0.01	645	0.01	1,491	0.0
Commercial	36	--	40	--	44	--	47	--	518	0.0
Construction and development(1)	14,767	0.28	18,894	0.34	16,724	0.35	11,949	0.28	16,079	0.3
Total real estate loans	1,915,236	36.43	1,934,849	35.21	1,390,654	29.00	1,076,363	24.71	1,212,271	24.6
Consumer	156,659	2.98	170,819	3.11	176,768	3.69	164,084	3.77	159,041	3.2
Total adjustable-rate loans	2,071,895	39.41	2,105,668	38.32	1,567,422	32.69	1,240,447	28.48	1,371,312	27.9
Total loans	5,257,473	100.00%	5,494,387	100.00%	4,794,442	100.00%	4,355,181	100.00%	4,910,085	100.0
Less:										
Loans in process	22,605		14,803		23,623		27,039		21,764	
Net deferred fees and discounts	9,318		10,856		18,794		15,896		15,678	

Allowance for loan losses	4,433	4,598	4,495	4,550	4,825
Total loans receivable, net	$ 5,221,117	$ 5,464,130	$ 4,747,530	$ 4,307,696	$ 4,867,818

(1) At September 30, 2006, there were no development loans in the loan portfolio.

The following table presents the contractual maturity of our loan portfolio at September 30, 2006, net of loans in process. Mortgage loans which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract is due. The table does not reflect the effects of possible prepayments or enforcement of due on sale clauses.

	One- to Four-Family		Multi-family and Commercial		Construction [2]		Consumer		Commercial Business		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)											
Amounts due:												
Within one year[1]	$ 827	6.80%	$ --	--%	$ 22,037	5.80%	$ 3,551	6.26%	$ --	--%	$ 26,415	5.89%
After one year:												
One through five years	29,257	6.11	554	7.64	810	6.38	10,316	7.21	27	7.00	40,964	6.41
After five years	4,901,421	5.41	56,220	6.47	--	--	209,813	8.40	35	6.50	5,167,489	5.54
Total due after one year	4,930,678	5.41	56,774	6.48	810	6.38	220,129	8.34	62	6.72	5,208,453	5.55
Total loans	$ 4,931,505	5.41%	$ 56,774	6.48%	$ 22,847	5.82%	$ 223,680	8.31%	$ 62	6.72%	5,234,868	5.55%
Less:												
Deferred loan fees											9,318	
Allowance for loan losses											4,433	
Total loans receivable, net											$ 5,221,117	

[1] Includes demand loans, loans having no stated maturity and overdraft loans.
[2] Construction loans are presented based upon the term to complete construction.

The following table presents, as of September 30, 2006, the amount of loans due after September 30, 2007, and whether these loans have fixed or adjustable interest rates.

	Fixed	Adjustable	Total
Real Estate Loans:			
One- to four-family	$ 3,030,953	$ 1,899,725	$ 4,930,678
Multi-family and Commercial	56,075	699	56,774
Construction	810	--	810
Consumer	63,722	156,407	220,129
Commercial Business	62	--	62
Total	$ 3,151,622	$ 2,056,831	$ 5,208,453

One- to Four-Family Residential Real Estate Lending. We focus our lending efforts primarily on the origination and purchase of loans secured by first mortgages on owner-occupied one- to four-family residences in our market areas. We generate additional lending volume by purchasing whole one- to four-family mortgage loans from nationwide lenders. These purchases allow us to attain geographic diversification and manage credit concentration risks in our loan portfolio. At September 30, 2006, one- to four-family mortgage loans totaled $4.93 billion, or 93.8% of our total loan portfolio.

We generally underwrite our loans using an automated underwriting system developed by a third party, which closely resembles our manual underwriting standards, with emphasis on the applicant's credit history, employment and income history, asset reserves and loan-to-value ratio. All information used for an automated decision is validated with supporting documentation. Loans that do not meet our automated underwriting standards are referred to a staff underwriter for manual underwriting. Presently, we lend up to 103% of the lesser of the appraised value or purchase price for one- to four-family mortgage loans. At September 30, 2006, less than 1% of our loan portfolio had a loan-to-value ratio greater than 100%. For loans with a loan-to-value ratio in excess of 80%, we require private mortgage insurance in order to reduce our loss exposure. Properties securing our one- to four-family loans are appraised by either staff appraisers or independent fee appraisers approved by the board of directors. We generally require our borrowers to obtain title insurance, hazard insurance and flood insurance, if necessary, in an amount not less than the value of the property and improvements. We require borrowers to maintain escrow accounts for property taxes with the Bank if their loan-to-value ratio exceeds 80%.

We originate one- to four-family mortgage loans on either a fixed or adjustable-rate basis, as consumer demand dictates. We primarily originate fixed-rate one- to four-family mortgage loans in our market areas. We purchase both fixed- and adjustable-rate one- to four-family loans, but we primarily purchase one- to four-family adjustable-rate mortgage ("ARM") loans to supplement our ARM portfolio. At September 30, 2006, our fixed-rate one- to four-family mortgage loan portfolio totaled $3.03 billion, or 57.7% of our total loan portfolio. At that date the ARM one- to four-family loan portfolio totaled $1.90 billion, or 36.1% of our total loan portfolio.

Our pricing strategy for mortgage loans includes setting interest rates that are competitive with the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC") and local financial institutions, and consistent with our internal needs. ARM loans are offered with either a one-year, three-year, five-year or seven-year term to the initial repricing date. After the initial period, the interest rate for each ARM loan generally adjusts annually for the remainder of the term of the loan. We use a number of different indices to reprice our ARM loans.

Fixed-rate loans secured by one- to four-family residences have contractual maturities of up to 30 years, and are fully amortizing, with payments due monthly. However, these loans normally remain outstanding for a substantially shorter period of time because of refinancing and other prepayments. A significant change in the current level of interest rates could alter the average life of a mortgage loan in our portfolio considerably. Our one- to four-family mortgage loans are generally not assumable and do not contain prepayment penalties. Our real estate loans generally contain a "due on sale" clause allowing us to declare the unpaid principal balance due and payable upon the sale of the security property.

Our one- to four-family ARM loans are fully amortizing loans with contractual maturities of up to 30 years, with payments due monthly. Our current ARM loans generally provide for specified minimum and maximum interest rates,

with a lifetime cap and floor, a limit on the periodic adjustment on the interest rate over the rate in effect prior to adjustment and do not permit negative amortization of principal. As a consequence of using caps, the interest rates on these loans may not be as rate sensitive as our cost of funds. We also offer interest-only ARM loans that do not require principal payments for a period of up to ten years. At September 30, 2006, 8.5% of our loan portfolio consisted of interest-only ARM loans. As of September 30, 2006, approximately 83% of our interest-only ARM loans were purchased from nationwide lenders. Loan repayment schedules are determined at the repricing date for the remaining term of the ARM loan. Our ARM loans are not automatically convertible into fixed-rate loans. We do allow borrowers to pay a modification fee to convert an ARM loan to a fixed-rate loan. As of September 30, 2006, we have not experienced performance problems with our interest-only loans. See "Loan Originations, Purchases, Sales and Repayments."

In order to remain competitive in its market areas, the Bank currently originates ARM loans at introductory rates that are in effect until the first repricing date. The Bank qualifies borrowers based on this initial discounted rate for our three, five and seven year ARM loans. For our interest-only loans, the Bank qualifies the borrower at the fully indexed rate. ARM loans can pose different credit risks than fixed-rate loans, primarily because as interest rates rise, the borrower's monthly payment also rises, increasing the likelihood of default. This specific risk type is known as repricing risk. An increasing rate environment is not a favorable scenario for borrowers with ARM loans. In the current economic environment, repricing risk is an especially valid concern because the Federal Reserve has indicated that inflationary concerns were a factor behind many recent rate increases. The Federal Reserve has recently halted additional rate increases but has indicated that the halt may be temporary, citing potential remaining inflationary concerns. Except for our variable rate equity loans, we do not have loans that price off of indices directly related to the actions of the Federal Reserve.

ARM loans can pose different credit risks than fixed-rate loans, primarily because as interest rates rise the borrower's payment also rises, increasing the potential for default. Historically, we have not experienced increased delinquencies with these loans in a rising rate environment. See "Asset Quality - Non-performing Assets" and "Asset Quality - Classified Assets."

Multi-family and Commercial Real Estate Lending. We offer a variety of multi-family and commercial real estate loans. These loans are secured primarily by multi-family dwellings and small office buildings generally located in our market areas. At September 30, 2006, multi-family and commercial real estate loans totaled $56.8 million, or 1.1% of our total loan portfolio.

Our loans secured by multi-family and commercial real estate are originated with either a fixed or adjustable interest rate. The interest rate on ARM loans is based on a variety of indices, generally determined through negotiation with the borrower. Loan-to-value ratios on our multi-family and commercial real estate loans usually do not exceed 80% of the appraised value of the property securing the loan. While maximum maturities may extend to 30 years, loans frequently have shorter maturities and may not be fully amortizing, requiring balloon payments of unamortized principal at maturity.

Loans secured by multi-family and commercial real estate are granted based on the income producing potential of the property and the financial strength of the borrower. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt. We generally require personal guarantees of the borrowers covering a portion of the debt in addition to the security property as collateral for such loans. We generally require an assignment of rents or leases in order to be assured that the cash flow from the project will be used to repay the debt. Appraisals on properties securing multi-family and commercial real estate loans are performed by independent state certified fee appraisers approved by the board of directors. See "Loan Originations, Purchases, Sales and Repayments."

We generally do not maintain a tax or insurance escrow account for loans secured by multi-family or commercial real estate. In order to monitor the adequacy of cash flows on income-producing properties of $1.5 million or more, the borrower is notified annually to provide financial information including rental rates and income, maintenance costs and an update of real estate property tax payments, as well as personal financial information.

Loans secured by multi-family and commercial real estate properties generally are larger and involve a greater degree of credit risk than one- to four-family mortgage loans. Such loans typically involve large balances to single borrowers or groups of related borrowers. Because payments on loans secured by multi-family and commercial real estate

properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced, or if leases are not obtained or renewed, the borrower's ability to repay the loan may be impaired. See "Asset Quality - Non-performing Loans."

Construction Lending. At September 30, 2006, we had $45.5 million in construction permanent loans outstanding, representing 0.9% of our total loan portfolio. We originate construction loans primarily secured by one- to four-family residential real estate. Presently, all of the loans are secured by property located within our market areas. None of these loans were made to builders for speculative purposes. Construction loans are obtained principally by homeowners who will occupy the property when construction is complete. The application process includes submission of complete plans, specifications and costs of the project to be constructed. These items are used as a basis to determine the appraised value of the subject property. Loans are based on the lesser of current appraised value and/or the cost of construction, including the land and the building. We also conduct regular inspections of the construction project being financed.

Consumer Lending. Consumer loans generally have shorter terms to maturity or reprice more frequently, which reduces our exposure to changes in interest rates, and usually carry higher rates of interest than do one- to four-family mortgage loans. In addition, management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities. At September 30, 2006, our consumer loan portfolio totaled $223.7 million, or 4.3% of our total loan portfolio.

We offer a variety of secured consumer loans, including home equity loans and lines of credit, home improvement loans, auto loans, student loans and loans secured by savings deposits. We also originate a very limited amount of unsecured loans. We currently originate all of our consumer loans in our market areas. Our home equity loans, including lines of credit and home improvement loans, comprised 4.0% of our total loan portfolio, or $210.0 million at September 30, 2006. These loans may be originated in amounts, together with the amount of the existing first mortgage, of up to 100% of the value of the property securing the loan. As of September 30, 2006, 4.0% of the home equity portfolio was interest only. In order to minimize risk of loss, home equity loans of 90% or greater of the value of the property require private mortgage insurance. The term-to-maturity of our home equity and home improvement loans may be up to 20 years. Home equity lines of credit have no stated term-to-maturity and require the payment of 1 1/2% of the outstanding loan balance per month, which may be reborrowed at any time. Other consumer loan terms vary according to the type of collateral and the length of contract. The majority of our consumer loan portfolio is comprised of home equity lines of credit, which have interest rates that can adjust monthly based upon changes in the prime rate, to a maximum of 18%. Since May 2006, the Bank has not increased the rates on existing home equity loans, despite the increase in the Prime rate. This action was taken to retain home equity loans that might otherwise have been refinanced.

We do not originate any consumer loans on an indirect basis. Indirect loans are contracts purchased from retailers of goods or services which have extended credit to their customers.

Our underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of their ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the security in relation to the proposed loan amount.

Consumer loans may entail greater risk than do one- to four-family mortgage loans, particularly in the case of consumer loans that are secured by rapidly depreciable assets, such as automobiles.

Loan Originations, Purchases, Sales and Repayments. We originate loans through referrals from real estate brokers and builders, our marketing efforts, and our existing and walk-in customers. While we originate both adjustable and fixed-rate loans, our ability to originate loans is dependent upon customer demand for loans in our market areas. Demand is affected by the local housing market, competition and the interest rate environment. During the 2006 and 2005 fiscal years, we originated and refinanced $148.0 million and $194.8 million of one- to four-family ARM loans, and $497.5 million and $514.0 million of one- to four-family fixed-rate mortgage loans, respectively.

In an effort to offset the impact of repayments and to retain our customers, we offer existing loan customers the opportunity to modify their original loan terms to terms generally consistent with those currently being offered in our market areas. This program helps ensure that we maintain the relationship with the customer and significantly reduces the amount of time it takes for borrowers to obtain current market pricing and terms without having to refinance their loan.

We purchase one- to four-family mortgage loans from nationwide lenders to reduce our risk of geographic concentration and to supplement our one- to four-family ARM loan origination volume as ARM loans are not considered as attractive to borrowers as fixed-rate mortgage loans in our local markets. The seller retains the servicing of these loans. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition" in the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K. At September 30, 2006, our purchased loan portfolio from nationwide lenders totaled $1.12 billion, or 21.3% of our total loan portfolio.

The underwriting standards of the lenders from whom the Bank purchases loans are substantially similar to the Bank's internal underwriting standards. Lenders are required to fully document all data sources for each application. "No Doc" or "Stated Income, Stated Assets" loans are not permitted. We believe these requirements reduce the credit risk associated with the loans we purchase. Before committing to purchase a pool of loans, the Bank's Chief Lending Officer or Secondary Marketing Manager reviews specific criteria such as loan amount, credit scores, loan-to-value ratios, geographic location, and debt ratios of each loan in the pool. If the specific criteria do not meet the Bank's underwriting standards and compensating factors are not sufficient, then a loan may be removed from the pool. Once the review of the specific criteria is complete and loans not meeting the Bank's standards are removed from the pool, changes are sent back to the lender for acceptance and pricing. Before the pool is funded, an approved Bank loan underwriter reviews 25% of the loan files and the supporting documentation in the pool. If a loan does not meet the Bank's underwriting standards for these loans, it is removed from the pool prior to funding.

During the 2006 and 2005 fiscal years, we purchased $165.3 million and $671.4 million of one- to four-family ARM loans and $12.8 million and $75.7 million of one- to four-family fixed-rate loans, respectively, from nationwide lenders. Included in the fiscal years 2006 and 2005 ARM loan volume was $73.9 million and $397.0 million, respectively, of interest-only loans. These loans do not typically require principal payments during their initial term. Of the interest-only loans purchased during the 2006 and 2005 fiscal years, approximately 59.4% of these loans do not require principal payments for five years and the other 40.6% do not require principal payments for ten years. Loans of this type generally are considered to be of greater risk to the lender because of the possibility that the borrower may default once principal payments are required. We attempt to mitigate the risk of interest-only loans by using prudent underwriting criteria. The interest-only loans we purchase have an average credit score of approximately 734 and an average loan-to-value ratio of less than 80% at the time of purchase.

We also purchase one- to four-family mortgage loans under contractual agreement through correspondent lenders located within our Kansas City and Wichita market areas and market areas within our geographic region. We purchase approved loans and the servicing rights, on a loan by loan basis. The loan product is originated for us to our specifications including interest rates, product description and underwriting standards. The loan products include fixed-rate and ARM loans. We set prices for loan products at least once each week. The underwriting generally is performed by a third party underwriter who is under contract with us to use our internal underwriting standards, which generally are in accordance with FNMA's and FHLMC's underwriting guidelines. During the 2006 and 2005 fiscal years, we purchased $80.6 million and $56.6 million of one- to four-family ARM loans and $70.6 million and $53.5 million of one- to four-family fixed-rate mortgage loans, respectively, from correspondent lenders.

The ability of financial institutions, including us, to originate or purchase large dollar volumes of real estate loans may be substantially reduced or restricted under certain economic conditions, with a resultant decrease in interest income from these assets. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -

Quantitative and Qualitative Disclosure about Market Risk" in the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K.

In September 2006, the Bank exchanged $404.8 million of mortgage loans with FHLMC for mortgage-related securities ("loan swap"). As required under Statement of Financial Accounting Standards ("SFAS") No. 140 and Emerging Issues Task Force No. 88-11, management allocated the basis of the established mortgage servicing rights, excess servicing rights, and the fair value of the securities to establish the basis of each in the new securities. The

original basis of the securities received were adjusted for the general valuation allowance and net deferred fees/costs associated with the swapped loans. The Bank will earn 25 basis points on the servicing of the loans swapped. The fair value of the securities received was $395.8 million. Management classified the securities as trading securities and subsequent to September 30, 2006, sold the securities at approximately book value.

The following table shows our loan originations, loan purchases, loan sales and repayment activity for the periods indicated.

	Year Ended September 30,		
	2006	2005	2004
	(Dollars in thousands)		
Originations by type:			
Adjustable-rate:			
Real estate - one- to four-family	$ 147,959	$ 194,802	$ 248,024
- multi-family	--	--	--
- commercial	--	--	--
Non-real estate - consumer	101,956	119,527	131,639
- commercial business	--	--	--
Total adjustable-rate loans originated	249,915	314,329	379,663
Fixed-rate:			
Real estate - one- to four-family	497,458	514,023	490,963
- multi-family	9,688	4,418	4,233
- commercial	3,107	4,950	1,200
Non-real estate - consumer	51,078	29,802	17,761
- commercial business	--	--	12
Total fixed-rate originated	561,331	553,193	514,169
Total loans originated	811,246	867,522	893,832
Purchases:			
Real estate - one- to four-family	329,319	857,207	537,065
- multi-family	--	--	--
- commercial	--	--	--
Non-real estate - consumer	--	--	--
Total loans purchased	329,319	857,207	537,065
Sales, Swaps and Repayments:			
Real estate - one- to four-family	--	--	--
Total loans sold	--	--	--
Principal balance of loans related to loan swap transaction	404,819	--	--
Total sales and swaps	404,819	--	--
Principal repayments	973,054	1,026,175	992,425
Total reductions	1,377,873	1,026,175	992,425
Increase in other items, net	394	1,391	789
Net (decrease) increase	$ (236,914)	$ 699,945	$ 439,261

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Asset Quality

When a borrower fails to make a loan payment 15 days after the due date, a late charge is assessed and a late charge notice is mailed. All delinquent accounts are reviewed by collection personnel, who attempt to cure the delinquency by contacting the borrower. If the loan becomes 60 days delinquent, the collection personnel generally will send a personal letter to the borrower requesting payment of the delinquent amount in full, or the establishment of an acceptable repayment plan to bring the loan current, within the next 90 days. If the account becomes 90 days delinquent, and an acceptable repayment plan has not been agreed upon, the collection personnel generally will refer the account to legal counsel, with instructions to prepare a notice of intent to foreclose. The notice of intent to foreclose allows the borrower up to 30 days to bring the account current. During this 30 day period a written repayment plan from the borrower which would bring the account current within the next 90 days may be approved by a designated Bank officer. Once the loan becomes 120 days delinquent, and an acceptable repayment plan has not been agreed upon, the collection officer, after receiving approval from the appropriate Bank officer as designated by our board of directors, will turn over the account to our legal counsel with instructions to initiate foreclosure.

At September 30, 2006, the asset quality of our portfolio of loans purchased from nationwide lenders is of essentially the same asset quality as loans originated locally.

Delinquent Loans. The following tables set forth our loans 30 - 89 delinquent days by type, number and amount as of the periods presented.

	Loans Delinquent for 30-89 Days					
	2006		2005		2004	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
Real Estate Loans:						
One- to four-family	256	$ 19,612	267	$ 25,111	310	$ 22,252
Multi-family	1	222	--	--	--	--
Consumer	34	644	35	407	49	349
Total	291	$ 20,478	302	$ 25,518	359	$ 22,601
Loans 30-89 days delinquent to total loans		0.39%		0.47%		0.48%

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Non-performing Assets. The table below sets forth the amounts and categories of non-performing assets. Loans are placed on non-accrual status when the loan is greater than 90 days delinquent. At all dates presented, we had no troubled debt restructurings which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than prevailing market rates, and no accruing loans more than 90 days delinquent. Real estate owned includes assets acquired in settlement of loans. The balance of one- to four-family real estate owned is represented by 35 properties totaling $2.4 million, or an average balance of less than $69 thousand per property.

	September 30,				
	2006	2005	2004	2003	2002
	(Dollars in thousands)				
Non-accruing loans:					
One- to four-family	$ 5,391	$ 5,034	$ 5,761	$ 8,686	$ 7,701
Consumer	218	124	310	258	273
Total non-accruing loans	5,609	5,158	6,071	8,944	7,974
Real estate owned:					
One- to four-family	2,401	1,613	3,976	3,773	2,886
Construction and development[1]	--	--	273	273	--
Consumer	8	40	--	--	--
Total real estate owned	2,409	1,653	4,249	4,046	2,886
Total non-performing assets	$ 8,018	$ 6,811	$ 10,320	$ 12,990	$ 10,860
Non-performing assets as a percentage of total assets	0.10%	0.08%	0.12%	0.15%	0.12%
Non-performing loans as a percentage of total loans	0.11%	0.09%	0.13%	0.21%	0.16%

At September 30, 2006, we had $5.6 million in non-accruing loans (these loans also may be referred to as "non-performing"), which constituted 0.11% of our total loan portfolio. At that date, there were no non-accruing loans to any one borrower or group of related borrowers that exceeded $1.0 million, either individually or in the aggregate. For the year ended September 30, 2006, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to $105 thousand. The amount that was included in interest income on these loans, before non-accruing status, was $82 thousand for the year ended September 30, 2006.

Classified Assets. Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by the OTS to be of lesser quality, as "special mention", "substandard", "doubtful" or "loss". Assets classified as "special mention" are performing loans on which known information about the collateral pledged or the possible credit problems of the borrowers have caused management to have doubts as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such assets in the non-performing asset categories. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent as those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions and values "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When an insured institution classifies problem assets as either special mention, substandard or doubtful, it may establish allowances for loan losses in an amount deemed prudent by management and approved by the board of directors. General allowances may be established to recognize the inherent risk associated with lending activities, but unlike specific allowances, have not been allocated to specific problem assets within a portfolio of similar assets. When an insured institution classifies problem assets as “loss,” it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge off such amount. An institution’s

determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the OTS and the FDIC, which may order the establishment of additional loss allowances.

In connection with the filing of the Bank's periodic reports with the OTS and in accordance with our asset classification policy, we regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. The following table sets forth the carrying amounts of our assets, exclusive of general valuation and specific allowances, classified as special mention, substandard or doubtful at September 30, 2006.

	Special Mention		Substandard		Doubtful	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
One- to four-family real estate	20	$ 1,238	102	$ 6,689	--	$ --
Real estate owned	--	--	36	2,409	--	--
Total classified assets	20	$ 1,238	138	$ 9,098	--	$ --

Provision for Loan Losses. We recorded a provision for loan losses in fiscal years 2006, 2005 and 2004 of $247 thousand, $215 thousand and $64 thousand, respectively. The provision for loan losses is charged to income to bring our allowance for loan losses to a level deemed appropriate by management based on the factors discussed below under "Allowance for Loan Losses." The provision for loan losses in fiscal year 2006 was based on management's review of such factors which indicated that the allowance for loan losses was adequate to cover losses inherent in the loan portfolio as of September 30, 2006.

Allowance for Loan Losses. At September 30, 2006, our allowance for loan losses was $4.4 million or 0.08% of the total loan portfolio and approximately 79% of total non-accruing loans. This compares with an allowance for loan losses of $4.6 million or 0.08% of the total loan portfolio and approximately 89% of total non-accruing loans as of September 30, 2005. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K for a full discussion of the allowance for loan losses.

Historical net charge-offs are not necessarily indicative of the amount of net charge-offs that the Bank will realize in the future resulting from an increase in the one- to four-family mortgage loan portfolio. The following table provides a recap of our allowance for loan loss activity for the periods presented.

	Year Ended September 30,				
	2006	2005	2004	2003	2002
	(Dollars in thousands)				
Balance at beginning of period	$ 4,598	$ 4,495	$ 4,550	$ 4,825	$ 4,837
Charge-offs:					
One- to four-family	95	91	84	153	114
Consumer	37	56	77	144	85
Total charge-offs	132	147	161	297	199
Recoveries	1	35	42	22	3
Net charge-offs	131	112	119	275	196
Allowance on loans in the loan swap transaction	(281)	--	--	--	--
Provisions charged to operations	247	215	64	--	184
Balance at end of period	$ 4,433	$ 4,598	$ 4,495	$ 4,550	$ 4,825
Ratio of net charge-offs during the period to average loans outstanding during the period [1]	--%	--%	--%	--%	--%
Ratio of net charge-offs during the period to average non-performing assets	1.77%	1.31%	1.02%	2.31%	2.11%
Allowance as a percentage of non-accruing loans	79.03%	89.14%	74.04%	50.87%	60.51%
Allowance as a percentage of total loans (end of period)	0.08%	0.08%	0.09%	0.11%	0.10%

[1] Ratios calculate to be less than 0.01%.

The distribution of our allowance for loan losses at the dates indicated is summarized as follows:

	September 30, 2006		2005		2004		2003		2002	
	Amount of Loan Loss Allowance	Percent of Loans in Each Category to Total Loans	Amount of Loan Loss Allowance	Percent of Loans in Each Category to Total Loans	Amount of Loan Loss Allowance	Percent of Loans in Each Category to Total Loans	Amount of Loan Loss Allowance	Percent of Loans in Each Category to Total Loans	Amount of Loan Loss Allowance	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)									
One- to four-family	$ 3,796	94.18%	$ 3,866	94.78%	$ 3,561	94.19%	$ 3,468	93.99%	$ 3,792	94.13%
Multi-family	46	0.92	203	0.74	177	0.74	272	0.89	322	0.91
Commercial real estate	8	0.16	67	0.16	65	0.18	59	0.18	38	0.11
Construction and development[1]	258	0.46	129	0.47	197	0.60	143	0.52	177	0.53
Consumer	321	4.28	333	3.85	488	4.29	412	4.42	467	4.32
Commercial business	4	--	--	--	7	--	11	--	8	--
Unallocated	--	--	--	--	--	--	185	--	21	--
Total	$ 4,433	100.00%	$ 4,598	100.00%	$ 4,495	100.00%	$ 4,550	100.00%	$ 4,825	100.00%

[1] At September 30, 2006 there were no development loans in the loan portfolio.

Investment Activities

Federally chartered savings institutions have the authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies, government-sponsored enterprises, including callable agency securities, municipal bonds, certain certificates of deposit of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements and federal funds. Subject to various restrictions, federally chartered savings institutions also may invest their assets in investment grade commercial paper and corporate debt securities and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly. See "Regulation - Capitol Federal Savings Bank" and "Qualified Thrift Lender Test" for a discussion of additional restrictions on our investment activities.

The Chief Financial Officer has the primary responsibility for the management of the Bank's investment portfolio, subject to the direction and guidance of the ALCO. The Chief Financial Officer considers various factors when making decisions, including the marketability, maturity and tax consequences of the proposed investment. The maturity structure of investments will be affected by various market conditions, including the current and anticipated slope of the yield curve, the level of interest rates, the trend of net deposit flows, the volume of loan sales and the anticipated demand for funds via withdrawals, repayments of borrowings, loan originations, and purchases.

The general objectives of our investment portfolio are to provide liquidity when loan demand is high, to assist in maintaining earnings when loan demand is low and to maximize earnings while satisfactorily managing risk, including liquidity risk, interest rate risk, reinvestment risk and credit risk. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. Cash flow projections are reviewed regularly and updated to assure that adequate liquidity is maintained.
See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosure about Market Risk" in the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K.

We classify securities as trading, available-for-sale or held-to-maturity at the date of purchase. Securities that are purchased and held principally for resale in the near future are classified as trading securities and are reported at fair value, with unrealized gains and losses included in Gain on trading securities, net in the consolidated statements of income. Available-for-sale securities are reported at fair market value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) within stockholders' equity, net of deferred income taxes. Management regularly reviews the available-for-sale portfolio for other-than-temporary impairment and records any such impairment in the consolidated statements of income. Held-to-maturity securities are reported at cost, adjusted for amortization of premium and accretion of discount. We have both the ability and intent to hold the held-to-maturity securities to maturity.

Investment Securities. Our investment securities portfolio consists of U.S. Government and agency notes, including those issued by government-sponsored enterprises such as FNMA and FHLMC, and municipal bonds. At September 30, 2006, our investment securities portfolio totaled $429.5 million. The portfolio consists of securities classified as held-to-maturity and available-for-sale. See "Note 2 of the Notes to Consolidated Financial Statements" in the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K.

Mortgage-Related Securities. Our mortgage-related securities portfolio consists primarily of securities issued by government-sponsored enterprises. At September 30, 2006, our mortgage-related securities portfolio totaled $2.08 billion. A portion of the mortgage-related securities portfolio consists of collateralized mortgage obligations ("CMOs"). CMOs are special types of pass-through debt securities in which the stream of principal and interest payments on the underlying mortgages or mortgage-related securities are used to create investment classes with different maturities

and, in some cases, different amortization schedules, as well as a residual interest, with each such class possessing different risk characteristics. At September 30, 2006, we held CMOs totaling $10.9 million, none of which qualified as high risk mortgage securities as defined under OTS regulations. Our CMOs are currently classified as both held-to-maturity and available-for-sale. We do not purchase residual interest bonds.

During fiscal year 2006, our mortgage-related securities portfolio decreased $60.5 million from $2.15 billion at September 30, 2005 to $2.08 billion at September 30, 2006. Maturities and repayments totaled $564.4 million during fiscal year 2006 which were partially offset by $395.8 million of securities received in the loan swap transaction and $111.1 million of securities purchased. The securities received in the loan swap transaction were classified as trading and were sold subsequent to September 30, 2006 at approximately book value.

Of the $111.1 million of mortgage-related securities purchased, $11.1 million were fixed-rate with a weighted average life of 2.20 years and a weighted average yield of 6.42% and $100.0 million were adjustable-rate with a weighted average yield of 5.97% and an average of 2.08 years until their first repricing opportunity. See “Note 3 of the Notes to Consolidated Financial Statements” in the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K.

Mortgage-related securities generally yield less than the loans that underlie such securities because of the servicing fee retained by the servicer and the cost of payment guarantees or credit enhancements that reduce credit risk. However, mortgage-related securities are generally more liquid than individual mortgage loans and may be used to collateralize certain borrowings and public unit depositors of the Bank. In general, mortgage-related securities issued or guaranteed by FNMA or FHLMC are weighted at no more than 20% for risk-based capital purposes compared to the 50% risk-weighting assigned to most non-securitized mortgage loans.

When securities are purchased for a price other than par, the difference between the price paid and par is accreted to or amortized against the interest earned over the life of the security, depending on whether a discount or premium to par is paid. Movements in interest rates affect prepayment rates which, in turn, affect the average lives of mortgage-related securities and the speed at which the discount or premium is accreted to or amortized against earnings.

While mortgage-related securities, such as CMOs and Real Estate Mortgage Investment Conduits (“REMICs”), carry a reduced credit risk compared to whole loans, these securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of the underlying mortgage loans and so affect both the prepayment speed, and value, of the securities. As noted above, the Bank, on some transactions, pays a premium over par value for mortgage-related securities purchased. These premiums may be significant and may cause significant negative yield adjustments due to accelerated prepayments on the underlying mortgages.

The following table sets forth the composition of our investment and mortgage-related securities portfolio, excluding FHLB stock, at the dates indicated. Our investment securities portfolio at September 30, 2006 did not contain securities of any issuer with an aggregate book value in excess of 10% of our stockholders' equity, excluding those issued by the government or its agencies. The carrying value of our investment in FHLB stock approximates its fair value. At September 30, 2006, 2005 and 2004, the carrying value of FHLB stock was $165.1 million, $182.3 million and $174.1 million, respectively, which was in excess of 10% of our stockholders' equity.

	September 30,								
	2006			2005			2004		
	Carrying Value	% of Total	Fair Value	Carrying Value	% of Total	Fair Value	Carrying Value	% of Total	Fair Value
	(Dollars in thousands)								
Trading Securities	$ 396,904	100.00%	$ 396,904	$ --	-- %	$ --	$ --	-- %	$ --
Securities available-for-sale:									
Mortgage-related securities	$ 556,248	74.59%	$ 556,248	$ 737,638	100.00%	$ 737,638	$ 1,201,800	100.00%	$ 1,201,800
U.S. government and agency securities	188,264	25.25	188,264	--	--	--	--	--	--
Municipal investments	1,216	0.16	1,216	--	--	--	--	--	--
Total securities available-for-sale	$ 745,728	100.00%	$ 745,728	$ 737,638	100.00%	$ 737,638	$ 1,201,800	100.00%	$ 1,201,800
Securities held-to-maturity:									
Mortgage-related securities	$ 1,131,634	82.50%	$ 1,101,159	$ 1,407,616	76.58%	$ 1,383,268	$ 1,446,908	69.40%	$ 1,443,168
U.S. government and agency securities	240,000	17.50	233,525	430,499	23.42	424,952	638,079	30.60	645,601
Total securities held-to-maturity	$ 1,371,634	100.00%	$ 1,334,684	$ 1,838,115	100.00%	$ 1,808,220	$ 2,084,987	100.00%	$ 2,088,769
Total securities	$ 2,514,266		$ 2,477,316	$ 2,575,753		$ 2,545,858	$ 3,286,787		$ 3,290,569

The composition and maturities of the investment and mortgage-related securities portfolio, excluding FHLB stock, are indicated in the following table. The trading securities were all sold subsequent to September 30, 2006 for approximately book value. Yields on tax-exempt investments are not calculated on a taxable equivalent basis.

	September 30, 2006							
	Less than 1 year		1 to 5 years		5 to 10 years		Over 10 years	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
	(Dollars in thousands)							
Trading securities	$ --	--%	$ --	--%	$ 8,077	4.50%	$ 388,827	5.28%
Securities available-for-sale:								
Mortgage-related securities	$ 5	8.00%	$ 14,281	6.37%	$ 11,251	6.00 %	$ 530,711	5.20%
U.S. government and agency securities	45,213	5.22	143,051	4.99	--	--	--	--
Municipal investments	--	--	--	--	--	--	1,216	5.25
Total securities available-for-sale	$ 45,218	5.22%	$ 157,332	5.12%	$ 11,251	6.00%	$ 531,927	5.20%
Securities held-to-maturity:								
Mortgage-related securities	$ --	--%	$ 56,938	3.50%	$ --	-- %	$ 1,074,696	4.29%
U.S. government and agency securities	--	--	190,000	3.23	--	--	50,000	5.83
Total securities held-to-maturity	$ --	--%	$ 246,938	3.29%	$ --	-- %	$ 1,124,696	4.36%
Total securities	$ 45,218	5.22%	$ 404,270	4.00%	$ 19,328	5.37%	$ 2,045,450	4.75%

Sources of Funds

General. Our sources of funds are deposits, borrowings, repayment of principal and interest on loans and mortgage-related securities, interest earned on or maturities of other investment securities and funds provided from operations.

Deposits. We offer a variety of deposit accounts having a wide range of interest rates and terms. Our deposits consist of passbook and passcard savings accounts, money market accounts, interest-bearing and non-interest bearing checking accounts and certificates of deposit. We rely primarily upon competitive pricing policies, marketing and customer service to attract and retain deposits. The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates and competition.

The variety of deposit accounts we offer has allowed us to utilize strategic pricing to obtain funds and to respond with flexibility to changes in consumer demand. We endeavor to manage the pricing of our deposits in keeping with our asset and liability management, liquidity and profitability objectives. Based on our experience, we believe that our deposits are stable sources of funds. Despite this stability, our ability to attract and maintain these deposits and the rates paid on them has been, and will continue to be, significantly affected by market conditions.

The following table sets forth our deposit flows during the periods indicated. Included in the table are brokered and public unit deposits which totaled $233.5 million, $213.6 million and $194.6 million at September 30, 2006, 2005 and 2004, respectively. The growth in wholesale deposits from September 30, 2004 to September 30, 2006 partially offset the decrease in retail deposits for each year presented. During the years presented, the Bank experienced aggressive pricing by other financial institutions in the Bank’s local markets. The decrease in retail deposits is primarily a result of the Bank not matching top competitors’ rates because of the likely adverse impact on earnings.

	Year Ended September 30,		
	2006	2005	2004
	(Dollars in thousands)		
Opening balance	$ 3,960,297	$ 4,127,774	$ 4,238,145
Deposits	7,422,474	6,935,934	6,507,746
Withdrawals	7,594,727	7,190,694	6,700,409
Interest credited	112,387	87,283	82,292
Ending balance	$ 3,900,431	$ 3,960,297	$ 4,127,774
Net decrease	$ (59,866)	$ (167,477)	$ (110,371)
Percent decrease	(1.51)%	(4.06)%	(2.60)%

The following table sets forth the dollar amount of deposits in the various types of deposit programs we offered for the periods indicated.

	Year Ended September 30,					
	2006		2005		2004	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)					
Transactions and Savings Deposits:						
Checking	$ 402,898	10.33%	$ 398,490	10.06%	$ 380,765	9.22%
Passbook and Passcard	106,347	2.73	121,133	3.06	125,992	3.05
Money market	808,910	20.74	873,570	22.06	929,862	22.53
Total non-certificates	1,318,155	33.80	1,393,193	35.18	1,436,619	34.80
Certificates (by rate):						
0.00 - 0.99%	125	--	123	--	5,109	0.12
1.00 - 1.99%	--	--	137,442	3.47	636,282	15.41
2.00 - 2.99%	215,891	5.53	863,948	21.82	1,236,086	29.95
3.00 - 3.99%	541,236	13.88	905,058	22.85	449,464	10.89
4.00 - 4.99%	1,323,434	33.93	600,367	15.16	228,475	5.54
5.00 - 5.99%	497,453	12.75	2,611	0.07	22,221	0.54
6.00 - 6.99%	4,137	0.11	57,555	1.45	113,518	2.75
Total certificates	2,582,276	66.20	2,567,104	64.82	2,691,155	65.20
Total deposits	$ 3,900,431	100.00%	$ 3,960,297	100.00%	$ 4,127,774	100.00%

The following table sets forth the rate and maturity information for our certificate of deposit portfolio as of September 30, 2006.

	Amount	Rate
Certificates maturing:	(Dollars in thousands)	
Within three months	$ 518,974	4.40%
Over three to six months	314,279	4.04
Over six months to one year	825,885	4.45
Over one to two years	695,580	4.38
Over two to three years	143,703	4.22
Over three to four years	47,735	4.10
Over four to five years	34,466	4.47
Thereafter	1,654	4.37
	$ 2,582,276	4.35%

The following table sets forth the maturity periods of our certificates of deposit in amounts of $100 thousand or more at September 30, 2006.

	Amount	Rate
	(Dollars in thousands)	
Certificates maturing:		
Three months or less	$ 235,949	5.00%
Over three months through six months	67,286	4.43
Over six months through twelve months	147,097	4.60
Over twelve months	164,017	4.52
	$ 614,349	4.71%

The board of directors has authorized the utilization of brokers to obtain deposits as a source of funds. The Bank has entered into several relationships with nationally recognized wholesale deposit brokerage firms to accept deposits from these firms. Depending on market conditions, the Bank may use brokered deposits from time to time to fund asset growth and gather deposits that may help to manage interest rate risk. The Bank's policies limit the amount of brokered deposits that it may have at any time to 15% of total deposits. The rates paid on brokered deposits plus fees are generally equivalent to rates offered by FHLB on advances and comparable to some rates paid on retail deposits. At September 30, 2006 and 2005, the balance of brokered deposits was $4.3 million and $44.3 million, respectively.

The board of directors also has authorized the utilization of public unit deposits as a source of funds. The Bank's policies limit the amount of public unit deposits that it may have at any time to 10% of total deposits. In order to qualify to obtain such deposits, the Bank must have a branch in each county in which it collects public unit deposits. At September 30, 2006 and 2005, the balance of public unit deposits was $229.2 million and $169.3 million, respectively.

Borrowings. Although deposits are our main source of funds, we may utilize borrowings when, at the time of the borrowing, they can be invested at a positive rate spread, when we desire additional capacity to fund loan demand or when they help us meet our asset and liability management objectives. Historically, our borrowings primarily have consisted of advances from FHLB and occasionally securities sold under agreement to repurchase. During the year, from time to time, we utilized our line-of-credit that we maintain at FHLB. At September 30, 2006, we did not have any borrowings on our line-of-credit. See "Note 8 of the Notes to Consolidated Financial Statements in the Annual Report to Stockholders" attached as Exhibit 13 to this Annual Report on Form 10-K.

The Bank has interest rate swaps with a notional amount of $800.0 million to hedge an equal amount of FHLB advances. The interest rate swaps are designated as fair value hedges and the Bank accounts for the hedges using the shortcut method. Unrealized gains (losses) in the fair value of the interest rate swaps are offset by an unrealized gain (loss) on the hedged FHLB advances. At September 30, 2006, the net fair value adjustment on the interest rate swaps was an unrealized loss of $27.3 million. The carrying amount of the FHLB advances was reduced by an identical amount.

We may obtain advances from FHLB upon the security of our blanket pledge agreement. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Commitments" in the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K. Such advances may be made pursuant to several different credit programs, each of which has its own interest rate, maturity, repayment, and convertible features, if any. At September 30, 2006, we had $3.30 billion in FHLB advances outstanding.

In 2004, the Company formed Capitol Federal Financial Trust I (the "Trust"), which issued $52.0 million of variable rate cumulative trust preferred securities in a private transaction exempt from registration under the Securities Act of

1933. The Trust used the proceeds from the sale of its trust preferred securities and from the sale of $1.6 million of its common securities to the Company to purchase $53.6 million of Junior Subordinated Deferrable Interest Debentures (the "Debentures") which are the sole assets of the Trust. See "Note 10 of the Notes to Consolidated Financial Statements" in the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K. Interest on the Debentures is due quarterly in January, April, July and October until the maturity date of April 7, 2034. The interest rate on the Debentures, which is identical to the distribution rate paid on the trust securities and resets at each interest payment, is based upon the three month LIBOR rate plus 275 basis points. Principal is due at maturity. The Debentures are callable, in part or whole, beginning on April 7, 2009, at par, at the option of the Company.

Redemption of the Debentures by the Company will result in redemption of a like amount of trust preferred securities by the Trust. There are certain covenants that the Company is required to comply with regarding the Debentures. These covenants include a prohibition on cash dividends in the event of default or deferral of interest on the Debentures, annual certifications to the Trust and other covenants related to the payment of interest and principal and maintenance of the Trust. The Company was in compliance with all the covenants at September 30, 2006.

The following table sets forth certain information relating to each category of short-term borrowings for which the average balance outstanding during the period was more than 30% of stockholders' equity at the end of the period. The average balance, maximum balance, and weighted average interest rate during fiscal year 2006 reflect all FHLB advances, including the FHLB line of credit, that were scheduled to mature within one year at any time during fiscal year 2006.

	(Dollars in thousands)
Balance at September 30, 2006	$ 750,000
Maximum balance during fiscal year 2006	1,019,000
Average balance during fiscal year 2006	817,332
Weighted average interest rate during fiscal year 2006	3.56%
Weighted average interest rate at September 30, 2006	3.52%

Subsidiary and Other Activities

As a federally chartered savings bank, we are permitted by OTS regulations to invest up to 2% of our assets, or $164.0 million at September 30, 2006, in the stock of, or as unsecured loans to, service corporation subsidiaries. We may invest an additional 1% of our assets in service corporations where such additional funds are used for inner-city or community development purposes. At September 30, 2006, the Bank had one subsidiary, Capitol Funds, Inc. As of September 30, 2006, our total investment in this subsidiary was $3.3 million. Capitol Funds, Inc. has a wholly owned subsidiary, Capitol Federal Mortgage Reinsurance Company ("CFMRC"). CFMRC serves as a reinsurance company for the private mortgage insurance companies the Bank uses in its normal course of operations. CFMRC assumes the risk of default on loans exceeding a five percent loss and less than a ten percent loss. During fiscal 2006, Capitol Funds, Inc. reported consolidated net income of $232 thousand which included net income of $236 thousand from CFMRC.

REGULATION

General

The Bank, as a federally chartered savings institution, is subject to federal regulation and oversight by the OTS extending to all aspects of its operations. The Bank also is subject to regulation by the FDIC, which insures the deposits of the Bank to the maximum extent permitted by law, and to requirements established by the Federal Reserve Board. Such regulation and supervision primarily is intended for the protection of depositors and borrowers and not for the purpose of protecting stockholders. The investment and lending authority of savings institutions is prescribed by federal laws and regulations, and such institutions are prohibited from engaging in any activities not permitted by such laws and regulations.

The OTS regularly examines the Bank and prepares reports on the Bank's operations, including any deficiencies. These reports are presented to the Bank's board of directors. The FDIC also has the authority to examine the Bank in its role as the administrator of the Deposit Insurance Fund ("DIF") which is the new fund established upon the merger of the Savings Association Insurance Fund ("SAIF") and the Bank Insurance Fund ("BIF") in March 2006. The Bank's relationship with its depositors and borrowers is also regulated to a great extent by both federal and state laws, especially in such matters as the ownership of savings accounts and the form and content of the Bank's mortgage requirements. Any material change in such regulations, whether by the FDIC, the OTS, the Federal Reserve Board, Congress or states in which we do business, could have a material adverse impact on MHC, the Company and the Bank and their operations.

Capitol Federal Savings Bank MHC

MHC is a federal mutual holding company within the meaning of Section 10(o) of the Home Owners' Loan Act. As such, MHC is required to register with and be subject to examination and supervision of the OTS as well as certain reporting requirements. In addition, the OTS has enforcement authority over MHC and its non-savings institution subsidiaries, if any. Among other things, this authority permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness or stability of the Bank.

A mutual holding company is permitted to, among other things:

- invest in the stock of a savings institution;
- acquire a mutual institution through the merger of such institution into a savings institution subsidiary of such mutual holding company;
- merge with or acquire another mutual holding company of a savings institution;
- acquire non-controlling amounts of the stock of savings institutions and savings institution holding companies, subject to certain restrictions;
- invest in a corporation the capital stock of which is available for purchase by a savings institution under Federal law or under the law of any state where a subsidiary savings institution has its home office;
- furnish or perform management services for a savings institution subsidiary of such company;
- hold, manage or liquidate assets owned or acquired from a savings institution subsidiary of such company;
- hold or manage properties used or occupied by a savings institution subsidiary of such company; and
- act as a trustee under deed or trust.

In addition, a mutual holding company may engage in the activities of a multiple savings and loan holding company which are permissible by statute and the activities of financial holding companies under the Bank Holding Company Act of 1956, as amended, subject to prior approval by the OTS.

Capitol Federal Financial

The purpose and powers of the Company are to pursue any or all of the lawful objectives of a federal mutual holding company and to exercise any of the powers accorded to a mutual holding company.

If the Bank fails the qualified thrift lender test, within one year of such failure MHC and the Company must register as, and will become subject to, the restrictions applicable to bank holding companies. The activities authorized for a bank holding company are more limited than are the activities authorized for a savings and loan holding company. If the Bank fails the test a second time, MHC and the Company must immediately register as, and become subject to, the

restrictions applicable to a bank holding company. See “Qualified Thrift Lender Test.”

MHC and the Company must obtain approval from the OTS before acquiring control of any other savings institution. Interstate acquisitions are permitted based on specific state authorization or in a supervisory acquisition of a failing savings institution.

Capitol Federal Savings Bank

The OTS has extensive authority over the operations of savings institutions. As part of this authority, the Bank is required to file periodic reports with the OTS and is subject to periodic examinations by the OTS and also may be examined by the FDIC. The last regular OTS examination of the Bank was as of December 31, 2005. All savings institutions are subject to a semi-annual assessment, based upon the savings institution’s total assets, to fund the operations of the OTS. The Bank’s OTS assessment for the fiscal year ended September 30, 2006 was $1.3 million.

The OTS also has extensive enforcement authority over all savings institutions and their holding companies, including the Bank, the Company and MHC. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OTS. Except under certain circumstances, public disclosure of final enforcement actions by the OTS is required.

In addition, the investment, lending and branching authority of the Bank is prescribed by federal laws and the Bank is prohibited from engaging in any activities not permitted by such laws. For instance, no savings institution may invest in non-investment grade corporate debt securities. In addition, the permissible level of investment by federal institutions in loans secured by non-residential real property may not exceed 400% of total capital, except with approval of the OTS. Federal savings institutions also generally are authorized to branch nationwide. The Bank is in compliance with the noted restrictions.

The Bank’s general permissible lending limit for loans-to-one-borrower is equal to 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At September 30, 2006, the Bank’s lending limit under this restriction was $116.9 million. The Bank is in compliance with the loans-to-one-borrower limitation.

The OTS, as well as the other federal banking agencies, has adopted guidelines establishing safety and soundness standards on such matters as information systems, loan underwriting and documentation, asset growth and quality, earnings, internal controls and audit systems, interest rate risk exposure, and excessive compensation and benefits. Any institution that fails to comply with these standards must submit a compliance plan.