Capitol Federal Financial Inc
Form 10-Q
February 09, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2010

or

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

Commission file number: 001-34814

Capitol Federal Financial, Inc.
(Exact name of registrant as specified in its charter)

Maryland	27-2631712
(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

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 requirements for the past 90 days. Yes þ No ¨

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 ¨ No ¨

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 definition of “accelerated filer, large accelerated filer, and smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	¨	Non-accelerated filer (do not check if a smaller reporting company)	þ	Smaller Reporting Company	¨

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

As of February 4, 2011, there were 167,493,608 shares of Capitol Federal Financial, Inc. Common Stock outstanding.

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PART I -- FINANCIAL INFORMATION
Item 1. Financial Statements
CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollars in thousands)

	December 31, 2010	September 30, 2010
ASSETS:		
Cash and cash equivalents (includes interest-earning deposits of $1,309,961 and $50,771)	$1,329,861	$65,217
Securities:		
Available-for-sale ("AFS") at estimated fair value (amortized cost of $878,159 and $1,009,142)	923,125	1,060,366
Held-to-maturity ("HTM") at amortized cost (estimated fair value of $2,133,260 and $1,913,454)	2,119,826	1,880,154
Loans receivable, net (of allowance for loan losses ("ALLL") of $14,723 and $14,892)	5,121,018	5,168,202
Bank-owned life insurance ("BOLI")	55,042	54,710
Capital stock of Federal Home Loan Bank ("FHLB"), at cost	121,768	120,866
Accrued interest receivable	28,936	30,220
Premises and equipment, net	41,781	41,260
Real estate owned ("REO"), net	10,979	9,920
Income taxes receivable	--	716
Other assets	45,958	55,499
TOTAL ASSETS	$9,798,294	$8,487,130
LIABILITIES:		
Deposits	$4,682,101	$4,386,310
Advances from FHLB	2,350,126	2,348,371
Other borrowings, net	668,609	668,609
Advance payments by borrowers for taxes and insurance	20,962	55,036
Income taxes payable	6,258	--
Deferred income tax liabilities, net	17,493	33,244
Accounts payable and accrued expenses	33,772	33,610
Total liabilities	7,779,321	7,525,180
STOCKHOLDERS' EQUITY:		
Preferred stock ($0.01 par value) 100,000,000 shares authorized; none issued	--	--
Common stock ($0.01 par value) 1,400,000,000 shares authorized, 167,493,608 shares issued; 167,493,608 and 73,992,678 shares outstanding as of December 31, 2010 and September 30, 2010, respectively	1,675	915
Additional paid-in capital	1,389,700	457,795
Unearned compensation, Employee Stock Ownership Plan ("ESOP")	(52,776)	(6,050)
Unearned compensation, Recognition and Retention Plan ("RRP")	(216)	(255)
Retained earnings	652,620	801,044
Accumulated other comprehensive income ("AOCI"), net of tax	27, 970	31,862

Less shares held in treasury (0 and 17,519,609 shares as of December 31, 2010		
and September 30, 2010, respectively, at cost)	--	(323,361)
Total stockholders' equity	2,018,973	961,950
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$9,798,294	$8,487,130

See accompanying notes to consolidated financial statements.

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CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(in thousands, except share and per share data)

	For the Three Months Ended December 31,	
	2010	2009
INTEREST AND DIVIDEND INCOME:		
Loans receivable	$65,943	$74,526
Mortgage-backed securities ("MBS")	15,440	20,754
Investment securities	4,775	2,559
Capital stock of FHLB	902	1,001
Cash and cash equivalents	187	47
Total interest and dividend income	87,247	98,887
INTEREST EXPENSE:		
FHLB advances	23,131	24,819
Deposits	17,381	22,105
Other borrowings	6,730	7,109
Total interest expense	47,242	54,033
NET INTEREST INCOME	40,005	44,854
PROVISION FOR LOAN LOSSES	650	3,115
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	39,355	41,739
OTHER INCOME:		
Retail fees and charges	3,943	4,723
Insurance commissions	818	582
Loan fees	655	581
Income from BOLI	332	268
Gain on securities, net	--	6,454
Other income, net	569	523
Total other income	6,317	13,131
OTHER EXPENSES:		
Salaries and employee benefits	9,991	10,532
Communications, information technology, and occupancy	3,876	3,942
Federal insurance premium	1,858	1,814
Deposit and loan transaction costs	1,352	1,380
Regulatory and outside services	1,189	1,448
Advertising and promotional	831	1,644
Contribution to Capitol Federal Foundation	40,000	--
Other expenses, net	4,241	1,989
Total other expenses	63,338	22,749
(LOSS) INCOME BEFORE INCOME TAX EXPENSE	(17,666)	32,121

INCOME TAX (BENEFIT) EXPENSE	(6,408)	11,141
NET (LOSS) INCOME	$(11,258)	$20,980
Basic (loss) earnings per common share	$(0.07)	$0.13
Diluted (loss) earnings per common share	$(0.07)	$0.13
Dividends declared per public share	$0.80	$0.79
Basic weighted average common shares	165,540,789	165,853,773
Diluted weighted average common shares	165,540,789	165,879,191

See accompanying notes to consolidated financial statements.

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CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Unearned Compensation ESOP	Unearned Compensation RRP	Retained Earnings	AOCI (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at October 1, 2010	$ 915	$ 457,795	$ (6,050)	$ (255)	$ 801,044	$ 31,862	$ (323,361)	$ 961,950
Comprehensive income:								
Net (loss) income					(11,258)			(11,258)
Other comprehensive (loss) income:								
Changes in unrealized gain/losses on securities AFS, net of deferred income taxes of $2,366						(3,892)		(3,892)
Total comprehensive (loss) income								(15,150)
ESOP activity, net		726	534					1,260
RRP activity, net		1						1
Stock based compensation - stock options and RRP		35		39				74
Stock options exercised		1						1
Dividends on common stock to stockholders $0.80 per public share					(16,956)			(16,956)
Corporate reorganization:								
Merger of Capitol Federal Savings Bank	(522)	1,997			(1,223)			252

MHC								
Retirement of treasury stock	(175)	(204,199)			(118,987)		323,361	--
Exchange of common stock	276	(323)						(47)
Proceeds from stock offering, net of offering expenses	1,181	1,133,667						1,134,848
Purchase of common stock by ESOP			(47,260)					(47,260)
Balance at December 31, 2010	$ 1,675	$ 1,389,700	$ (52,776)	$ (216)	$ 652,620	$ 27,970	$ --	$ 2,018,973

See accompanying notes to consolidated financial statements.

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CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	For the Three Months Ended December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(11,258)	$20,980
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
FHLB stock dividends	(902)	(1,000)
Provision for loan losses	650	3,115
Originations of loans receivable held-for-sale ("LHFS")	(5,424)	(1,701)
Proceeds from sales of LHFS	6,895	575
Amortization and accretion of premiums and discounts on securities	1,431	1,453
Depreciation and amortization of premises and equipment	1,108	1,272
Amortization of deferred amounts related to FHLB advances, net	1,755	1,644
Common stock committed to be released for allocation - ESOP	1,260	1,544
Stock based compensation - stock options and RRP	74	131
Gain on the sale of trading securities received in the loan swap transaction	--	(6,454)
Changes in:		
Prepaid federal insurance premium	1,738	(25,735)
Accrued interest receivable	1,284	1,592
Other assets, net	394	(924)
Income taxes payable/receivable	(6,410)	10,457
Accounts payable and accrued expenses	662	(5,257)
Net cash (used in) provided by operating activities	(6,743)	1,692
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of trading securities received in the loan swap transaction	--	199,144
Purchase of HTM securities	(486,425)	(176,421)
Proceeds from calls, maturities, and principal reductions of AFS securities	130,673	79,014
Proceeds from calls, maturities, and principal reductions of HTM securities	245,632	34,399
Loan originations and purchases, net of principal collected and deferred loan fees	42,438	(19,158)
Purchases of premises and equipment	(1,633)	(3,473)
Proceeds from sales of REO	2,665	3,124
Net cash (used in) provided by investing activities	(66,650)	116,629

(Continued)

	For the Three Months Ended December 31,	
	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(16,956)	(16,670)
Deposits, net of withdrawals	313,481	(1,357)
Proceeds from borrowings	300,000	--
Repayments on borrowings	(300,000)	--
Change in advance payments by borrowers for taxes and insurance	(34,074)	(34,028)
Acquisitions of treasury stock	--	(2,292)
Net proceeds from common stock offering	1,075,585	--
Excess tax benefits from stock options	1	--
Net cash provided by (used in) financing activities	1,338,037	(54,347)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,264,644	63,974
CASH AND CASH EQUIVALENTS:		
Beginning of period	65,217	41,154
End of period	$1,329,861	$105,128
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income tax payments	$--	$682
Interest payments	$46,412	$53,729
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Note received from ESOP in exchange for common stock	$47,260	$--
Customer deposit holds related to the common stock offering	$17,690	$--
Loans transferred to REO	$4,096	$2,196
Swap of loans for trading securities	$--	$193,889

(Concluded)

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation - In December 2010, Capitol Federal Financial completed its conversion from a mutual holding company form of organization to a stock form of organization ("corporate reorganization"). Capitol Federal Financial, which owned 100% of Capitol Federal Savings Bank (the "Bank"), was succeeded by Capitol Federal Financial, Inc. ("the Company"), a new Maryland corporation. As part of the corporate reorganization, Capitol Federal Savings Bank MHC's ("MHC") ownership interest in Capitol Federal Financial was sold in a public offering. Gross proceeds from the offering were $1.18 billion and related offering expenses were $46.7 million, of which $6.0 million were incurred and deferred in fiscal year 2010. The publicly held shares of Capitol Federal Financial were exchanged for new shares of common stock of the Company. The exchange ratio was 2.2637 and ensured that immediately after the corporate reorganization the public stockholders of Capitol Federal Financial owned the same aggregate percentage of Capitol Federal Financial, Inc. common stock that they owned of Capitol Federal Financial common stock immediately prior to the reorganization. All share information used to calculate earnings per share in the consolidated financial statements prior to the corporate reorganization has been revised to reflect the 2.2637 exchange ratio. In conjunction with the corporate reorganization, the Company contributed $40.0 million of cash to the Bank's charitable foundation, Capitol Federal Foundation. Additionally, a "liquidation account" will be established for the benefit of certain depositors of the Bank in an amount equal to MHC's ownership interest in the retained earnings of Capitol Federal Financial as of June 30, 2010. Under Office of Thrift Supervision ("OTS") regulations, neither the Company nor the Bank is permitted to pay dividends on its capital stock to its stockholders if stockholders' equity would be reduced below the total of the liquidation account.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. The Bank has a wholly-owned subsidiary, Capitol Funds, Inc. Capitol Funds, Inc. has a wholly-owned subsidiary, Capitol Federal Mortgage Reinsurance Company. All intercompany accounts and transactions have been eliminated. The financial information presented is derived from the consolidated financial statements of the Company after the corporate reorganization in December 2010 and from the consolidated financial statements of Capitol Federal Financial prior to the corporate reorganization.

Capitol Federal Financial's treasury shares were retired in connection with the corporate reorganization. As noted above, the Company is a Maryland corporation. Under Maryland law, there is no concept of "treasury shares." Instead, shares purchased by the Company constitute authorized but unissued shares under Maryland law. There were no treasury shares at December 31, 2010.

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010, filed with the Securities and Exchange Commission ("SEC"). Interim results are not necessarily indicative of results for a full year. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting periods. Significant estimates include the ALLL and fair value measurements. Actual results could differ from those estimates.

Loans Receivable - Loans receivable that management has the intent and ability to hold for the foreseeable future are carried at the amount of unpaid principal, net of ALLL, undisbursed loan funds, unamortized premiums and discounts, and deferred loan origination fees and costs. Net loan origination fees and costs and premiums and discounts are amortized as yield adjustments to interest income using the level-yield method, adjusted for the estimated prepayment speeds of the related loans when applicable. Interest on loans is credited to income as earned and accrued only if deemed collectible.

Existing loan customers, whose loans have not been sold to third parties and who have been current on their contractual loan payments for the previous 12 months, have the opportunity, for a fee, to modify their original loan terms to terms currently offered for fixed-rate products with an equal or reduced period to maturity than the current remaining period of their existing loan. The modified terms of these loans are similar to the terms offered to new

customers. The fee assessed for modifying the mortgage loan is deferred and amortized over the life of the modified loan using the level-yield method and is reflected as an adjustment to interest income. Each modification is examined on a loan-by-loan basis and if the modification of terms represents more than a minor change to the loan, then the unamortized balance of the pre-modification deferred fees or costs associated with the mortgage loan are recognized in interest income at the time of the modification. If the modification of terms does not represent more than a minor change to the loan, then the unamortized balance of the pre-modification deferred fees or costs continue to be deferred.

A loan is considered delinquent when payment has not been received within 30 days of its contractual due date. The accrual of income on loans is discontinued when interest or principal payments are 90 days in arrears. Loans on which the accrual of income has been discontinued are designated as non-accrual loans and outstanding interest previously credited beyond 90 days delinquent is reversed. A non-accrual loan is returned to accrual status once the contractual payments have been made to bring the loan less than 90 days past due.

A condition in which the Bank grants a concession to a borrower due to financial difficulties that it would not otherwise consider is a troubled debt restructuring ("TDR"). The majority of the Bank's TDRs involve a modification in loan terms such as a temporary reduction in the payment amount requiring only interest and escrow (if required) and extending the maturity date of the loan.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Interest income on impaired loans is recognized in the period collected unless the ultimate collection of principal is considered doubtful. Management considers the following loans to be impaired loans: all non-accrual loans, loans classified as substandard, loans with specific valuation allowances ("SVA"), and TDRs that have not been performing under the new terms for 12 consecutive months or are required by the accounting literature to be classified as a TDR for the life of the loan.

Allowance for Loan Losses - The ALLL represents management's best estimate of the amount of known and inherent losses in the loan portfolio as of the balance sheet date. Management's methodology for assessing the appropriateness of the ALLL consists of a formula analysis for general valuation allowances and SVAs for identified problem loans. Management maintains the ALLL through provisions for loan losses that are charged to income.

The Company charges off losses on loans when the loans are transferred to REO or when there are losses on short sales. The Company recognizes recoveries for amounts recovered after a loan has been charged-off. Once a loan enters REO, any future write downs or recoveries are reported in REO operations; therefore, recoveries of charged-off amounts are rare.

The Bank's primary lending emphasis is the origination and purchase of one- to four-family first mortgage loans on residential properties and, to a lesser extent, second mortgage loans on one- to four-family residential properties, resulting in a loan concentration in residential mortgage loans. The Bank has a concentration of loans secured by residential property located in Kansas and Missouri. Based on the composition of the Bank's loan portfolio, the primary risks inherent in the one- to four-family and consumer loan portfolios are the continued weakened economic conditions, continued high levels of unemployment or underemployment, and a continuing decline in residential real estate values. Any one or a combination of these events may adversely affect borrowers' ability to repay their loans, resulting in increased delinquencies, non-performing assets, loan losses, and future loan loss provisions. Although the multi-family and commercial loan portfolio also shares the risk of continued weakened economic conditions, the primary risks for the portfolio include the ability of the borrower to sustain sufficient cash flows from leases and to control expenses to satisfy their contractual debt payments, or the ability to utilize personal and/or business resources

to pay their contractual debt payments if the cash flows are not sufficient. Additionally, if the Bank were to repossess the secured collateral of a multi-family or commercial loan, the pool of potential buyers, is limited more than that for a residential property; therefore, the Bank could hold the property for an extended period of time and potentially be forced to sell at a discounted price, resulting in additional losses.

Management considers several quantitative and qualitative factors quarterly while monitoring the credit quality of the loan portfolio and evaluating the adequacy of the ALLL. Such factors include the trend and composition of delinquent and non-performing loans, results of foreclosed property and short-sale transactions (historical losses and net charge-offs), the current status and trends of local and national economies, particularly levels of unemployment, trends and current conditions in the residential real estate markets, and loan portfolio growth and concentrations. Since the Bank's loan portfolio is primarily concentrated in one- to four-family real estate, management monitors

residential real estate market value trends in the Bank's local market areas and geographic sections of the U.S. by reference to various industry and market reports, economic releases and surveys, and management's general and specific knowledge of the real estate markets in which the Bank lends, in order to determine what impact, if any, such trends may have on the level of ALLL. Reviewing these quantitative and qualitative factors assists management in evaluating the overall credit quality of the loan portfolio on an ongoing basis and the reasonableness of the ALLL and whether changes need to be made to the Bank's allowance for loan loss methodology. Management seeks to apply the allowance for loan loss methodology in a consistent manner; however, the methodology can be modified in response to changing conditions. There were no significant modifications to the formula analysis methodology during the current quarter.

The formula analysis for general valuation allowances is updated each quarter. Within the formula analysis, the loan portfolio is segregated into the following categories: one- to four-family loans, multi-family and commercial loans, consumer home equity loans, and other consumer loans. Home equity loans with the same underlying collateral as a one- to four-family loan are combined with the one- to four-family loan in the formula analysis to calculate a combined loan-to-value ("LTV") ratio. Impaired loans are excluded from the formula analysis as they are individually evaluated for SVAs. The one- to four-family loan portfolio and related home equity loans are segregated into additional categories based on the following risk characteristics: originated or purchased from nationwide lender, interest payments (fixed-rate, adjustable-rate, and interest-only), LTV ratios, borrower's credit scores, and certain states where the Bank has experienced measurable losses on REO and short-sales. The additional categories were derived by management based on reviewing the historical performance of the one- to four-family loan portfolio and taking into consideration current economic conditions, such as trends in the residential real estate values in certain areas of the U.S. and unemployment rates.

Quantitative loss factors are applied to each loan category in the formula analysis based on the historical loss experience and current SVAs, adjusted for loan delinquency trends, for each respective loan category. Each quarter, management evaluates several historical loss time periods and utilizes the historical loss time period believed to be the most reflective of the current economic conditions and environment.

Qualitative loss factors are applied to each loan category in the formula analysis. The qualitative factors for the one- to four-family and consumer loan portfolios are: unemployment rate trends, collateral value trends, credit score trends, and delinquent loan trends. The qualitative factors for the multi-family and commercial loan portfolio are: unemployment rate trends, collateral value trends, and delinquent loan trends. As loans are classified as special mention or become 30 to 89 days delinquent, the qualitative loss factors increase based upon delinquent loan trends. As with the additional categories in the formula analysis for one- to four-family loans, the qualitative factors were derived by management based on a review of the historical performance of the respective loan portfolios and consideration of current economic conditions and their likely impact to the loan portfolio.

SVAs are established in connection with individual loan reviews of impaired loans. Since the majority of the Bank's loan portfolio is composed of residential real estate, determining the estimated fair value of the underlying collateral is important in evaluating the amount of SVAs required for problem and impaired loans. Once a purchased loan is 90 days delinquent, new collateral values are obtained through automated valuation models ("AVMs") or broker price opinions ("BPOs"). An updated AVM or BPO is then requested every 6 months while the loan is greater than 90 days delinquent. Due to the relatively stable home values in Kansas and Missouri, new collateral values on originated loans are not obtained until they enter foreclosure. If the estimated fair value of the collateral, less estimated costs to sell, is less than the current loan balance, a specific valuation allowance is established for the difference.

Loans with an outstanding balance of $1.5 million or more are reviewed annually if secured by property in one of the following categories: multi-family (five or more units) property, unimproved land, other improved commercial

property, acquisition and development of land projects, developed building lots, office building, single-use building, or retail building. SVAs are established if the individual loan review determines a quantifiable impairment.

Assessing the adequacy of the ALLL is inherently subjective. Actual results could differ from estimates as a result of changes in economic or market conditions. Changes in estimates could result in a material change in the ALLL. In the opinion of management, the ALLL, when taken as a whole, is adequate to absorb estimated losses inherent in the loan portfolio. However, future adjustments may be necessary if loan portfolio performance or economic or market conditions differ substantially from the conditions that existed at the time of the initial determinations.

Recent Accounting Pronouncements - Effective October 1, 2010, the Company adopted new authoritative accounting guidance under Accounting Standards Codification (“ASC”) 860, Transfers of Servicing Assets. The objective of this standard is to improve the relevance, representational faithfulness, and comparability of the information provided in the financial statements related to the transfer of financial assets; the effects of a transfer on the company’s financial position, financial performance, and cash flows; and a transferor’s continuing involvement in transferred financial assets. Since the provisions of the standard are disclosure-related, the adoption of this standard did not have a material impact on its financial condition or results of operations.

Effective October 1, 2010, the Company also adopted new authoritative accounting guidance under ASC 810, Consolidation (ASC 810). The new guidance did not change many of the key principles for determining whether an entity is a variable interest entity consistent with the ASC on “Consolidation”, but does amend many important provisions of the existing guidance on “Consolidation.” The adoption of this standard did not have a material impact on its financial condition, results of operations, or financial statement disclosures.

In July 2010, the Financial Accounting Standards Board (“FASB”) issued ASU 2010-20, Disclosures about Credit Quality of Financing Receivables and the Allowance for Credit Losses, which amends ASC 310, Receivables, by requiring more robust and disaggregated disclosures about the credit quality of an entity’s financing receivables and its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users’ understanding of (1) the nature of an entity’s credit risk associated with its financing receivables and (2) the entity’s assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The new and amended disclosures that relate to information as of the end of a reporting period were effective for the Company beginning December 31, 2010. However, the disclosures that include information for activity that occurs during a reporting period will be effective beginning January 1, 2011 for the Company. Those disclosures include (1) the activity in the allowance for credit losses for each period and (2) disclosures about modifications of financing receivables. In January 2011, the FASB issued ASU 2011-01, Deferral of the Effective Date of Disclosures About Troubled Debt Restructurings in Update No. 2010-20, which temporarily defers the effective date in ASU 2010-20 for disclosures about TDRs by creditors until the FASB finalizes its project on determining what constitutes a TDR for a creditor. Since the provisions of ASU 2010-20 are disclosure-related the Company’s adoption of this guidance did not have an impact to its financial condition or results of operations.

2. Earnings Per Share

The Company accounts for the shares acquired by its ESOP and the shares awarded pursuant to its RRP in accordance with ASC 260, which requires that unvested RRP awards that contain nonforfeitable rights to dividends be treated as participating securities in the computation of earnings per share pursuant to the two-class method. The two-class method is an earnings allocation that determines earnings per share for each class of common stock and participating security. Shares acquired by the ESOP are not considered in the basic average shares outstanding until the shares are committed for allocation or vested to an employee's individual account. All share information prior to the corporate reorganization in December 2010 has been revised to reflect the 2.2637 exchange ratio.

	For the Three Months Ended December 31,	
	2010	2009
	(in thousands, except share and per share data)	
Net (loss) income (1)	$ (11,258)	$ 20,980
Average common shares outstanding	165,539,517	165,852,533
Average committed ESOP shares outstanding	1,272	1,240
Total basic average common shares outstanding	165,540,789	165,853,773
Effect of dilutive RRP shares (2)	--	12,214
Effect of dilutive stock options (2)	--	13,204
Total diluted average common shares outstanding	165,540,789	165,879,191
Net (loss) earnings per share:		
Basic	$ (0.07)	$ 0.13
Diluted	$ (0.07)	$ 0.13
Antidilutive stock options and RRP, excluded from the diluted average common shares outstanding calculation (2)	--	546,343

(1) Net income available to participating securities (unvested RRP shares) was inconsequential for the three months ended December 31, 2010 and December 31, 2009.

(2) RRP shares totaling 4,753 and options totaling 4,743 which were outstanding at December 31, 2010 were not included in the computation of diluted earnings per share as the effect on earnings per share would be antidilutive, due to the net loss for the three months ended December 31, 2010.

3. Securities

The following tables reflect the amortized cost, estimated fair value, and gross unrealized gains and losses of AFS and HTM securities at December 31, 2010 and September 30, 2010. The majority of the MBS and investment portfolios are composed of securities issued by U.S. government-sponsored enterprises ("GSEs").

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
Municipal bonds	$2,644	$ 122	$ --	$ 2,766
Trust preferred securities	3,715	--	934	2,781
MBS	871,800	45,783	5	917,578
	878,159	45,905	939	923,125
HTM:				
GSE debentures	1,279,130	1,602	6,708	1,274,024
Municipal bonds	62,980	1,613	52	64,541
MBS	777,716	23,511	6,532	794,695
	2,119,826	26,726	13,292	2,133,260
	$2,997,985	$ 72,631	$ 14,231	$ 3,056,385

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$50,151	$ 104	$ --	$ 50,255
Municipal bonds	2,649	170	--	2,819
Trust preferred securities	3,721	--	925	2,796
MBS	952,621	51,881	6	1,004,496
	1,009,142	52,155	931	1,060,366
HTM:				
GSE debentures	1,208,829	4,441	--	1,213,270
Municipal bonds	67,957	2,654	1	70,610
MBS	603,368	26,209	3	629,574
	1,880,154	33,304	4	1,913,454
	$2,889,296	$ 85,459	$ 935	$ 2,973,820

At December 31, 2010 and September 30, 2010, the MBS held within our portfolio were issued by Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC"), or Government National Mortgage Association ("GNMA"), with the exception of $2.7 million and $2.9 million at those respective dates, which were issued by a private issuer. The following table presents the carrying value of the MBS in our portfolio by issuer:

	At	
	December 31, 2010	September 30, 2010
	(Dollars in thousands)	
FNMA	$967,767	$890,216
FHLMC	722,416	712,253
GNMA	2,379	2,452
Private Issuer	2,732	2,943
	$1,695,294	$1,607,864

The following table presents the taxable and non-taxable components of interest income on investment securities for the three months ended December 31, 2010 and 2009:

	For the Three Months Ended December 31,	
	2010	2009
	(Dollars in thousands)	
Taxable	$4,271	$2,024
Non-taxable	504	535
	$4,775	$2,559

The following tables summarize the estimated fair value and gross unrealized losses of those securities on which an unrealized loss at December 31, 2010 and September 30, 2010 was reported and the continuous unrealized loss position for the twelve months prior to December 31, 2010 and September 30, 2010 or for a shorter period of time, as applicable.

	December 31, 2010					
		Less Than 12 Months			Equal to or Greater Than 12 Months	
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
AFS:						
Trust preferred securities	--	$--	$--	1	$2,781	$934
MBS	6	1,813	5	--	--	--
	6	$1,813	$5	1	$2,781	$934
HTM:						
GSE debentures	19	$537,002	$6,708	--	$--	$--
Municipal bonds	4	2,805	29	1	855	23
MBS	9	262,019	6,532	--	--	--
	32	$801,826	$13,269	1	$855	$23

	September 30, 2010					
		Less Than 12 Months			Equal to or Greater Than 12 Months	
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
AFS:						
Trust preferred securities	--	$--	$--	1	$2,796	$925
MBS	4	1,678	5	3	359	1
	4	$1,678	$5	4	$3,155	$926
HTM:						
Municipal bonds	--	$--	$--	1	$878	$1
MBS	1	48,392	3	--	--	--
	1	$48,392	$3	1	$878	$1

On a quarterly basis, management conducts a formal review of securities for the presence of an other-than-temporary impairment. Management assesses whether an other-than-temporay impairment is present when the fair value of a security is less than its amortized cost basis at the balance sheet date. For such securities, other-than-temporary impairment is considered to have occurred if the Company intends to sell the security, if it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, or if the present value of expected cash flows is not sufficient to recover the entire amortized cost.

The unrealized losses at December 31, 2010 and September 30, 2010 are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Additionally, the impairment is also considered temporary because scheduled coupon payments have been made, it is anticipated that the entire principal balance will be collected as scheduled, and management neither intends to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the recovery of the remaining amortized cost amount, which could be at maturity.

The amortized cost and estimated fair value of securities by remaining contractual maturity without consideration for call features or pre-refunding dates as of December 31, 2010 are shown below. Actual maturities of MBS may differ from contractual maturities because borrowers have the right to prepay obligations, generally without penalty. Maturities of MBS depend on the repayment characteristics and experience of the underlying financial instruments.

	AFS		HTM	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
One year or less	$176	$179	$3,369	$3,386
One year through five years	402	424	1,301,832	1,297,335
Five years through ten years	171,228	182,852	340,880	352,369
Ten years and thereafter	706,353	739,670	473,745	480,170
	$878,159	$923,125	$2,119,826	$2,133,260

Issuers of certain investment securities have the right to call and prepay obligations with or without prepayment penalties. As of December 31, 2010, the amortized cost of the securities in our portfolio which are callable or have pre-refunding dates within one year totaled $1.21 billion.

As of December 31, 2010 and September 30, 2010, the Bank had pledged AFS and HTM MBS with an amortized cost of $679.2 million and $671.9 million, respectively, and an estimated fair value of $716.3 million and $709.9 million, respectively, as collateral for repurchase agreements. The securities pledged as collateral for the repurchase agreements can be repledged by the counterparties. Additionally, as of December 31, 2010, the Bank had pledged AFS and HTM MBS with an amortized cost of $218.4 million and an estimated fair value of $217.2 million for certain retail deposits. The Bank did not have any securities pledged for retail deposits as of September 30, 2010. As of December 31, 2010 and September 30, 2010, the Bank had pledged AFS and HTM MBS with an amortized cost of $152.9 million and $155.0 million, respectively, and an estimated fair value of $161.6 million and $165.0 million,

respectively, as collateral for public unit depositors and the Federal Reserve Bank.

During fiscal year 2010, the Bank swapped originated fixed-rate mortgage loans with FHLMC for MBS ("loan swap transaction"). The $192.7 million of MBS received, at amortized cost, in the loan swap transaction were classified as trading securities prior to their subsequent sale by the Bank. Proceeds from the sale of these securities were $199.1 million, resulting in a gross realized gain of $6.5 million. The gain is included in gain on securities, net in the consolidated statements of income for the year ended September 30, 2010. All other dispositions of securities during fiscal year 2010 were the result of principal repayments or maturities.

4. Loans Receivable and Allowance for Loan Losses

Loans receivable, net at December 31, 2010 and September 30, 2010 is summarized as follows:

	December 31, 2010	September 30, 2010
	(Dollars in thousands)	
Mortgage loans:		
One- to four-family	$4,876,547	$4,915,651
Multi-family and commercial	64,280	66,476
Construction	37,487	33,168
Total real estate loans	4,978,314	5,015,295
Consumer loans:		
Home equity	177,577	186,347
Other	7,428	7,671
Total consumer loans	185,005	194,018
Total loans receivable	5,163,319	5,209,313
Less:		
Undisbursed loan funds	17,258	15,489
Unearned loan fees and deferred costs	10,320	10,730
ALLL	14,723	14,892
	$5,121,018	$5,168,202

Lending Practices and Underwriting Standards - Originating and purchasing loans secured by one- to four-family residential properties is the Bank's primary business, resulting in a loan concentration in residential first mortgage loans. One-to four-family loans are purchased from a select group of correspondent lenders in the Bank's primary market areas and selected market areas in Missouri. As a result, the Bank has a concentration of loans secured by real property located in Kansas and Missouri. At December 31, 2010, approximately 75% of the Bank's loans were secured by properties located in Kansas and 15% of the Bank's loans were secured by properties located in Missouri. Additionally, the Bank purchases whole one- to four-family loans from nationwide lenders. The servicing rights for these loans are generally retained by the lender. The Bank also makes consumer loans, construction loans secured by residential or commercial properties, and real estate loans secured by multi-family dwellings.

One- to four-family loans - One- to four-family loans are underwritten manually or by an automated underwriting system developed by a third party. The system's components closely resemble the Bank's manual underwriting standards which are generally in accordance with FHLMC and FNMA manual underwriting guidelines. The automated underwriting system analyzes the applicant's data, with emphasis on credit history, employment and income history, qualifying ratios reflecting the applicant's ability to repay, asset reserves, and LTV ratio. Full documentation to support the applicant's credit, income, and sufficient funds to cover all applicable fees and reserves at closing are required on all loans. Loans that do not meet the automated underwriting standards are referred to a staff underwriter for manual underwriting. Properties securing one- to four-family loans are appraised by either staff appraisers or fee appraisers, both of which are independent of the loan origination function and have been approved by the Board of Directors.

The Bank also originates construction-to-permanent loans secured by one- to four-family residential real estate. The interest rate and loan products offered on the one- to four-family construction-to-permanent loan program are the same

as what is offered for non-construction-to-permanent one- to four-family loans. The majority of the one- to four-family construction loans are secured by property located within the Bank's Kansas City market areas. Construction loans are obtained primarily by homeowners who will occupy the property when construction is complete. Construction loans to builders for speculative purposes are not permitted. The application process includes submission of complete plans, specifications, and costs of the project to be constructed. All construction loans are manually underwritten using the Bank's internal underwriting standards. Construction draw requests and the supporting documentation are reviewed and approved by management. The Bank also performs regular

documented inspections of the construction project to ensure the funds are being used for the intended purpose and the project is being completed according to the plans and specifications provided.

For a conventional mortgage with an LTV ratio in excess of 80% at the time of origination, private mortgage insurance (“PMI”) is required in order to reduce the Bank’s loss exposure to less than 80% of either the appraised value or the purchase price of the property, whichever is less. The Bank will lend up to 97% of the lesser of the appraised value or purchase price for conventional one- to four-family loans, provided PMI is obtained.

The underwriting of loans purchased through correspondent lenders is generally performed by the Bank’s underwriters, using the Bank’s underwriting standards. The Bank requires fully documented loan files. The Bank’s underwriting standards do not permit loans with no documentation, stated income, or stated assets. Lenders are required to fully document all data sources for each application.

The underwriting standards for loans purchased from nationwide lenders are generally similar to the Bank’s internal underwriting standards. The Bank requires fully documented loan files. The Bank does not permit loans that were originated with no documentation, stated income, or stated assets. Lenders are required to fully document all data sources for each application. Before committing to purchase a pool of loans from a lender, the Bank’s Chief Lending Officer or Secondary Marketing Manager reviews specific criteria such as loan amount, credit scores, LTV 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 will 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 internal Bank underwriter reviews at least 25% of the loan files to confirm loan terms, credit scores, debt service ratios, property appraisals and other underwriting related documentation.

For the tables within this footnote, loans purchased from correspondent lenders are included with originated loans, and loans purchased from nationwide lenders are reported as purchased loans. The underwriting of loans purchased through correspondent lenders is generally performed by our underwriters, using the Bank’s underwriting standards, and the Bank services the loans; therefore, these loans are included with our originated loans.

Multi-family and commercial loans - The Bank’s multi-family and commercial real estate loans are secured primarily by multi-family dwellings and small commercial buildings generally located in the Bank’s market areas. These loans are granted based on the income producing potential of the property and the financial strength of the borrower. LTV ratios on multi-family and commercial real estate loans do not exceed 80% of the appraised value of the property securing the loans. 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 at the time of origination. The Bank generally requires personal guarantees of the borrowers covering a portion of the debt in addition to the security property as collateral for these loans. Appraisals on properties securing these loans are performed by independent state certified fee appraisers approved by the Board of Directors.

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

Consumer loans -The Bank offers a variety of secured consumer loans, including home equity loans and lines of credit, home improvement loans, auto loans, and loans secured by savings deposits. The Bank also originates a very limited amount of unsecured loans. The Bank does not originate any consumer loans on an indirect basis, such as contracts purchased from retailers of goods or services which have extended credit to their customers. Consumer loans generally have shorter terms to maturity or reprice more frequently, which reduces the Bank's exposure to changes in interest rates, and usually carry higher rates of interest than do one- to four-family loans. However, consumer loans may entail greater risk than do one- to four-family loans, particularly in the case of consumer loans that are secured by rapidly depreciable assets, such as automobiles.

The 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.

The majority of the 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%. Home equity loans originated after June 2010 may be originated in amounts, together with the existing first mortgage, of up to 90% of the value of the property. Home equity loans originated prior to June 2010 may have been 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. Closed end equity home loans may be originated up to 95% of the value of the property securing the loans, taking into consideration the existing first mortgage. In order to minimize risk of loss, home equity loans that are greater than 80% of the value of the property, when combined with the first mortgage, require PMI.

Delinquent loans, non-accrual loans, and other credit quality indicators - The following table presents the carrying value of the Company's 30 to 89 day delinquent loans, 90 or more day delinquent loans, total delinquent loans, total current loans, and the total loans receivable balance at December 31, 2010 by loan class. In the general valuation allowance model, loans in the 30 to 89 day delinquent category are assigned a higher loss factor than corresponding performing loans. Loans 90 or more days delinquent are considered impaired loans and are individually evaluated for impairment. At December 31, 2010, all loans in the 90 or more days delinquent category were on nonaccrual status and represented the entire balance of nonaccrual loans. At December 31, 2010, there were no loans 90 or more days delinquent that were still accruing interest.

	30 to 89 Days Delinquent	90 or More Days Delinquent	Total Delinquent Loans	Current Loans	Total Loan Portfolio Balance
	(Dollars in thousands)				
One- to four-family loans - originated	$20,009	$13,248	$33,257	$4,343,885	$4,377,142
One- to four-family loans - purchased	7,573	17,176	24,749	511,250	535,999
Multi-family and commercial loans	--	--	--	65,173	65,173
Consumer - home equity	767	530	1,297	176,280	177,577
Consumer - other	313	33	346	7,082	7,428
	$28,662	$30,987	$59,649	$5,103,670	$5,163,319

Impaired loans are defined as non-accrual loans, loans classified as substandard, loans with SVAs and TDRs that have not yet performed under the restructured terms for 12 consecutive months or are required by the accounting literature to be classified as such for the life of the loan. Substantially all of the impaired loans at December 31, 2010 were secured by residential real estate. Impaired loans are individually evaluated to ensure that the carrying value of the loan is not in excess of the fair value of the collateral, less estimated selling costs. Fair values are estimated through such methods as current appraisals, AVMs, BPOs or listing prices. Fair values may be adjusted by management to reflect current economic and market conditions. If the outstanding loan balance is in excess of the estimated fair value determined by management, less estimated costs to sell, then a specific valuation allowance is recorded for the difference. The following is a summary of information pertaining to impaired loans by loan class at December 31, 2010 and for the quarter ended December 31, 2010.

	Impaired Loans Without An ALLL	Impaired Loans With An ALLL	Total Impaired Loans	ALLL on Impaired Loans	Average Investment in Impaired Loans	Net Interest Income Recognized on Impaired Loans
			(Dollars in thousands)			
One- to four-family - originated	$34,562	$1,507	$36,069	$125	$33,778	$ 331
One- to four-family - purchased	8,259	15,065	23,324	3,892	23,706	74
Multi-family and commercial	589	--	589	--	589	9
Consumer - home equity	802	13	815	17	863	6
Consumer - other	63	--	63	3	53	--
	$44,275	$16,585	$60,860	$4,037	$58,989	$ 420

In connection with the filing of the Bank’s periodic reports with the OTS and in accordance with the Bank’s asset classification policy, management regularly reviews the problem loans in the Bank's portfolio to determine whether any assets require classification in accordance with applicable regulations. The following table sets forth the balance of loans, less SVAs, classified as special mention or substandard at December 31, 2010 by loan class. Special mention loans 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 loans in the non-performing loan categories. Special mention loans are included with loans 30 to 89 days delinquent in the general valuation allowance model, if the loan is not considered impaired. A loan 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 loans include those characterized by the distinct possibility the Bank will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have all the weaknesses inherent as those classified as substandard, with the added characteristic that the weaknesses present make collection or liquidation in full on the basis of currently existing facts and conditions and values highly questionable and improbable. Loans classified as loss are considered uncollectible and of such little value that their continuance as loans without the establishment of specific loss allowance is not warranted. Loans classified as substandard, doubtful or loss are considered impaired loans and are individually evaluated for impairment. At December 31, 2010, there were no loans classified as doubtful or loss. In addition to the classified loans below, the Bank has $14.3 million of other assets also classified per its asset classification policy and application regulations.

	Special Mention	Substandard
	(Dollars in thousands)	
One- to four-family - originated	$18,113	$ 18,741
One- to four-family - purchased	--	19,432
Multi-family and commercial	8,275	--
Consumer - home equity	55	789
Consumer - other	--	62
	$26,443	$ 39,024

The following tables show the LTV and credit score information for originated and purchased one- to four-family loans and originated consumer home equity loans. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent bank appraisal, BPO or AVM, if available. In most cases, the most recent appraisal was obtained at the time of origination. The LTV ratios based upon appraisals obtained at the time of origination may not necessarily indicate the extent to which the Bank may incur a loss on any given loan that may go into foreclosure as the value of the underlying collateral may have declined since the time of origination. Credit scores were most recently updated in December 2010. Management will continue to update credit scores as deemed necessary based upon economic conditions.

One- to Four-Family - Originated	Credit Score									
	Less than 660		661 to 700		701 to 750		751 and above		Total	
LTV ratio	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(Dollars in thousands)									
Less than 70%	$96,103	2.2%	$106,116	2.4%	$310,771	7.1%	$1,693,484	38.8%	$2,206,474	50.5%
70% to 80%	76,418	1.7								