WASHINGTON FEDERAL INC
Form 10-K
November 16, 2010

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010.

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: 001-34654

Washington Federal, Inc.

(Exact name of registrant as specified in its charter)

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

425 Pike Street, Seattle, Washington 98101

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (206) 624-7930

Securities registered pursuant to Section 12(b) of the Act:

Title of each class NA Name of each exchange on which registered NA

Securities registered pursuant to section 12(g) of the Act:

Common Stock, $1.00 par value per share (title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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 (§ 229.405 of this chapter) during the preceeding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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. x

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

As of March 31, 2010, the aggregate market value of the 111,686,848 shares of Common Stock of the Registrant issued and outstanding on such date, which excludes 768,211 shares held by all directors and executive officers of the Registrant as a group, was $2,269,476,751. This figure is based on the closing sale price of $20.32 per share of the Registrant s Common Stock on March 31, 2010, as reported by Bloomberg.

Number of shares of Common Stock outstanding as of November 11, 2010: 112,520,571

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents incorporated by reference and the Part of Form 10-K into which the document is incorporated:

(1) Portions of the Registrant s Annual Report to Stockholders for the fiscal year ended September 30, 2010, are incorporated into Part II, Items 5-8 and Part III, Item 12 of this Form 10-K.

(2) Portions of the Registrant s definitive proxy statement for its Annual Meeting of Stockholders to be held on January 19, 2011 are incorporated into Part III, Items 10-14 of this Form 10-K.

PART I

This Annual Report on Form 10-K and the documents into which it may be incorporated by reference may contain, and from time to time our management may make, certain statements that constitute forward-looking statements. Words such as expects, anticipates, believes, estimates and other similar expressions or future or conditional verbs such as will, should, would and could are intended to identify such forward-looking statements. These statements are not historical facts, but instead represent the current expectations, plans or forecasts of the Company and are based on the beliefs and assumptions of the management of the Company and the information available to management at the time that these disclosures were prepared. The Company intends for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and often are beyond the Company s control. Actual outcomes and results may differ materially from those expressed in, or implied by, the Company s forward-looking statements.

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this report, including under Item 1A. Risk Factors, and in any of the Company s other subsequent Securities and Exchange Commission filings:

the Bank s ability to comply with the terms of its memorandum of understanding with the OTS

negative economic conditions, including sharp declines in the real estate market, home sale volumes and financial stress on borrowers as a result of the uncertain economic environment, that adversely affect our borrowers and their customers, and may adversely affect our financial condition and results of operations;

the severe effects of the continued economic downturn, including high unemployment rates and severe declines in housing prices and property values, in our primary market areas;

fluctuations in interest rate risk and changes in market interest rates, which may negatively affect the Company s results of operations and financial conditions;

the Company s ability to make accurate assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and the value of the assets securing these loans;

legislative and regulatory limitations, including those arising under the Dodd-Frank Wall Street Reform Act and potential limitations in the manner in which we conduct our business and undertake new investments and activities;

changes in other economic, competitive, governmental, regulatory, and technological factors affecting the Company s markets, operations, pricing, products, services and fees; and

the timing and occurrence or non-occurrence of events that may be subject to circumstances beyond the Company s control.

All forward-looking statements speak only as of the date on which such statements are made, and Washington Federal undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events, changes to future operating results over time, or the impact of circumstances that arise after the date the forward-looking statement was made.

Item 1. Business

General

Washington Federal, Inc., formed in November 1994, is a Washington corporation headquartered in Seattle, Washington. The Company is a non-diversified unitary savings and loan holding company within the meaning of the Home Owners Loan Act (HOLA) that conducts its operations through a federally insured savings and loan association subsidiary, Washington Federal Savings (Bank). As used throughout this report, the terms Washington Federal or the Company refer to Washington Federal, Inc. and its consolidated subsidiaries.

The Company, doing business as Washington Federal, is a federally-chartered savings and loan association that began operations in Washington as a state-chartered mutual company in 1917. In 1935, the Company converted to a federal charter and became a member of the Federal Home Loan Bank (FHLB) system. On November 9, 1982, Washington Federal Savings converted from a federal mutual to a federal capital stock company.

The Company s fiscal year end is September 30th. All references to 2010, 2009 and 2008 represent balances as of September 30, 2010, September 30, 2009 and September 30, 2008, or activity for the fiscal years then ended, respectively.

The business of Washington Federal consists primarily of attracting deposits from the general public and investing these funds in loans of various types, including first lien mortgages on single-family dwellings, construction loans, land acquisition and development loans, loans on multi-family and other income producing properties, home equity loans and business loans. It also invests in certain United States government and agency obligations and other investments permitted by applicable laws and regulations. Washington Federal has 160 full service branches located in Washington, Oregon, Idaho, Arizona, Utah, Nevada, New Mexico and Texas. Through its subsidiaries, the Company is engaged in real estate investment and insurance brokerage activities.

The principal sources of funds for the Company s activities are retained earnings, loan repayments (including prepayments), net deposit inflows, repayments and sales of investments and borrowings. Washington Federal s principal sources of revenue are interest on loans, interest and dividends on investments. Its principal expenses are interest paid on deposits, credit costs, general and administrative expenses, interest on borrowings and income taxes.

The Company s growth has been generated both internally and as a result of 14 acquisitions. Six of those acquisitions involved government assistance in some form. In February 2008, the Company completed its acquisition of First Mutual Bancshares, Inc. First Mutual Bancshares was the holding company for First Mutual Bank, a Washington-chartered savings bank, headquartered in Bellevue, Washington.

On January 8, 2010, the Company acquired certain assets and liabilities, including most of the loans and deposits, of Horizon Bank, headquartered in Bellingham, Washington (Horizon) from the Federal Deposit Insurance Corporation (FDIC), as receiver for Horizon. Horizon operated through eighteen full-service offices, four commercial loan centers and four real estate loan centers in Washington. Through consolidation with existing Washington Federal branches, there was a net increase of 10 branches as a result of the Horizon acquisition.

The loans and foreclosed real estate purchased are covered by two loss share agreements between the FDIC and the Bank (one for single family loans and the other for all other loans and foreclosed real estate), which affords the Bank significant loss protection. Under the loss share agreements, the FDIC will cover 80% of covered loan and foreclosed real estate losses up to $536 million and 95% of losses in excess of that amount. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years with respect to losses and eight years with respect to loss recoveries. The losses reimbursable by the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction. New loans made after that date are not covered by the loss share agreements. As a result of the loss sharing agreements with the FDIC, the Bank recorded a receivable of $228 million at the time of acquisition. To account for the transaction, the balance sheet now has three new line items, as follows:

Covered loans represent the loans acquired from Horizon recorded at their estimated fair market value;

Covered real estate held for sale represents the estimated fair market value of the repossessed real estate acquired in the transaction. The covered loans and covered real estate held for sale are collectively referred to as covered assets ;

FDIC indemnification asset represents the estimated fair value of the guarantee provided by the FDIC on the covered assets.

Loans that were classified as non-performing loans by Horizon are no longer classified as non-performing because, at acquisition, the carrying value of these loans was adjusted to reflect fair value and are covered under the FDIC loss sharing agreements. Management believes that the new book value reflects an amount that will ultimately be collected.

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The Company is subject to extensive regulation, supervision and examination by the Office of Thrift Supervision (OTS), as its chartering authority and primary federal regulator, and by the Federal Deposit Insurance Corporation (FDIC), which insures its deposits up to applicable limits. Such regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the deposits and the Deposit Insurance Fund (DIF) administered by the FDIC. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities. Any change in such regulation, whether by the OTS, the FDIC or the U.S. Congress, could have a significant impact on the Company and its operations. See Regulation section below.

Average Statements of Financial Condition

	Year Ended September 30,								
	2008			2009			2010		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(In thousands)								
Assets									
Loans (1)	$ 9,013,671	$ 599,878	6.66%	$ 9,422,953	$ 579,244	6.15%	$ 9,215,231	$ 561,069	6.09%
Mortgage-backed securities	1,565,590	88,425	5.65	1,974,954	109,486	5.54	1,989,979	91,775	4.61
Investment securities (2)	214,871	11,408	5.31	212,490	2,634	1.24	1,103,888	10,709	.97
FHLB stock	140,569	1,717	1.22	144,522	410	.28	149,103	7	.00
Total interest-earning assets	10,934,701	701,428	6.41	11,754,919	691,774	5.88	12,458,201	663,560	5.33
Other assets	381,090			499,324			915,566		
Total assets	$ 11,315,791			$ 12,254,243			$ 13,373,767		
Liabilities and Stockholders Equity									
Checking accounts	$ 473,999	6,813	1.44%	494,152	3,144	.64%	644,999	2,299	.36%
Passbook and statement accounts	197,448	2,724	1.38	192,141	1,441	.75	215,629	1,192	.55
Insured money market accounts	996,164	25,571	2.57	1,232,723	16,488	1.34	1,475,920	12,029	.82
Certificate accounts (time deposits)	5,032,005	224,114	4.45	5,525,855	169,301	3.06	6,255,530	130,552	2.09
Repurchase agreements with customers	15,787	547	3.46	38,922	1,061	2.73	46,112	288	.62
FHLB advances	2,022,596	94,048	4.65	2,243,242	94,804	4.23	2,070,843	92,400	4.46
Securities sold under agreements to repurchase	803,825	34,260	4.26	800,000	31,061	3.88	800,000	29,869	3.73
Other borrowings	296,529	9,564	3.23	191,989	1,327	.69	9,479	472	4.98
Total interest-bearing liabilities	9,838,353	397,641	4.04	10,719,024	318,627	2.97	11,518,512	269,101	2.34
Other liabilities	120,584			116,929			44,511		
Total liabilities	9,958,937			10,835,953			11,563,023		
Stockholders equity	1,356,854			1,418,290			1,810,744		
Total liabilities and stockholders equity	$ 11,315,791			$ 12,254,243			$ 13,373,767		
Net interest income/Interest rate spread		$ 303,787	2.37%		$ 373,147	2.91%		$ 394,459	2.99%
Net interest margin (3)			2.78%			3.17%			3.17%

(1) The average balance of loans includes nonaccruing loans and covered loans, interest on which is recognized on a cash basis. It also includes net accretion of deferred loan fees and costs of $12.7 million, $11.5 million and $10.2 million for years 2008, 2009 and 2010, respectively.

(2) Includes cash equivalents and repurchase agreements.

(3) Net interest income divided by average interest-earning assets.

Lending Activities

General. The Company s net portfolio of loans totaled $8.4 billion at September 30, 2010, representing approximately 62% of its total assets. The Company concentrates its lending activities on the origination of conventional mortgage loans, which are loans that are neither insured nor guaranteed by agencies of the United States government.

Washington Federal s lending activity is concentrated on the origination of loans secured by real estate, including long-term fixed-rate mortgage loans, adjustable-rate construction loans, adjustable-rate land development loans, fixed-rate multi-family loans and business loans.

The following table sets forth the composition of the Company s gross loan portfolio, by loan type, as of September 30 for the years indicated.

	2006		2007		2008		2009		2010	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
					(In thousands)					
Loans(3):										
Single-family residential	$ 5,416,501	70.3%	$ 6,067,194	69.4%	$ 6,868,956	69.5%	$ 6,785,723	72.3%		