

WASHINGTON FEDERAL INC

Form 10-Q

February 07, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2013

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

(State or other jurisdiction of incorporation or organization)

91-1661606

(I.R.S. Employer Identification No.)

425 Pike Street Seattle, Washington 98101

(Address of principal executive offices and zip code)

(206) 624-7930

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

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 Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of class:

at January 31, 2014

Common stock, \$1.00 par value

102,510,030

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I

Item 1. Financial Statements (Unaudited)

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

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)

| | December 31, 2013 | September 30, 2013 |
|--|-----------------------------------|-----------------------|
| | (In thousands, except share data) | |
| ASSETS | | |
| Cash and cash equivalents | \$967,348 | \$203,563 |
| Available-for-sale securities, at fair value | 2,838,504 | 2,360,948 |
| Held-to-maturity securities, at amortized cost | 1,630,936 | 1,654,666 |
| Loans receivable, net | 7,651,558 | 7,528,030 |
| Covered loans, net | 252,693 | 295,947 |
| Interest receivable | 49,629 | 49,218 |
| Premises and equipment, net | 224,745 | 206,172 |
| Real estate held for sale | 71,537 | 72,925 |
| Real estate held for investment | 11,656 | 9,392 |
| Covered real estate held for sale | 24,650 | 30,980 |
| FDIC indemnification asset | 57,818 | 64,615 |
| FHLB & FRB stock | 171,480 | 173,009 |
| Intangible assets, net | 299,019 | 264,318 |
| Federal and state income tax assets, net | 24,964 | 44,000 |
| Other assets | 127,836 | 125,076 |
| | \$14,404,373 | \$13,082,859 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Customer accounts | | |
| Transaction deposit accounts | \$4,713,924 | \$3,540,842 |
| Time deposit accounts | 5,688,802 | 5,549,429 |
| | 10,402,726 | 9,090,271 |
| FHLB advances | 1,930,000 | 1,930,000 |
| Advance payments by borrowers for taxes and insurance | 17,791 | 42,443 |
| Accrued expenses and other liabilities | 100,872 | 82,510 |
| | 12,451,389 | 11,145,224 |
| Stockholders' equity | | |
| Common stock, \$1.00 par value, 300,000,000 shares authorized; 133,272,280 and 132,572,475 shares issued; 102,329,576 and 102,484,671 shares outstanding | 133,273 | 132,573 |
| Paid-in capital | 1,634,771 | 1,625,051 |
| Accumulated other comprehensive income, net of taxes | 195 | 6,378 |
| Treasury stock, at cost; 30,942,704 and 30,087,804 shares | (439,762) | (420,817) |
| Retained earnings | 624,507 | 594,450 |
| | 1,952,984 | 1,937,635 |
| | \$14,404,373 | \$13,082,859 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Quarter Ended December 31, | | |
|---|---------------------------------------|-----------------|---|
| | 2013 | 2012 | |
| | (In thousands, except per share data) | | |
| INTEREST INCOME | | | |
| Loans | \$107,227 | \$116,843 | |
| Mortgage-backed securities | 19,368 | 11,732 | |
| Investment securities and cash equivalents | 4,663 | 2,734 | |
| | 131,258 | 131,309 | |
| INTEREST EXPENSE | | | |
| Customer accounts | 15,499 | 18,772 | |
| FHLB advances and other borrowings | 17,447 | 17,103 | |
| | 32,946 | 35,875 | |
| Net interest income | 98,312 | 95,434 | |
| Provision (recovery) for loan losses | (4,600 |) 3,600 | |
| Net interest income after provision (recovery) for loan losses | 102,912 | 91,834 | |
| OTHER INCOME | 5,788 | 4,957 | |
| OTHER EXPENSE | | | |
| Compensation and benefits | 25,126 | 21,072 | |
| Occupancy | 5,618 | 4,446 | |
| FDIC insurance premiums | 2,934 | 3,342 | |
| Information technology | 2,929 | 2,438 | |
| Amortization of intangible assets | 820 | 354 | |
| Other | 6,693 | 6,646 | |
| | 44,120 | 38,298 | |
| Loss on real estate acquired through foreclosure, net | (1,951 |) (3,319 |) |
| Income before income taxes | 62,629 | 55,174 | |
| Income tax provision | 22,393 | 19,892 | |
| NET INCOME | \$40,236 | \$35,282 | |
| PER SHARE DATA | | | |
| Basic earnings | \$0.39 | \$0.33 | |
| Diluted earnings | 0.39 | 0.33 | |
| Basic weighted average number of shares outstanding | 102,329,578 | 105,998,184 | |
| Diluted weighted average number of shares outstanding, including dilutive stock options | 102,813,154 | 106,043,914 | |
| SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | | | |

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

| | Quarter Ended December 31, | |
|---|----------------------------|----------|
| | 2013 | 2012 |
| | (In thousands) | |
| Net income | \$40,236 | \$35,282 |
| Other comprehensive income (loss) net of tax: | | |
| Net unrealized gain (loss) on available-for-sale securities | (9,661 |) (2,636 |
| Related tax benefit (expense) | 3,478 | 969 |
| Other comprehensive loss | (6,183 |) (1,667 |
| Comprehensive income | \$34,053 | \$33,615 |
| SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | | |

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

| | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total |
|--|-----------------|-----------------|----------------------|---|----------------|--------------|
| Balance at October 1, 2013 | \$ 132,573 | \$ 1,625,051 | \$ 594,450 | \$ 6,378 | \$(420,817) | \$ 1,937,635 |
| Net income | | | \$ 40,236 | | | \$ 40,236 |
| Other comprehensive income adjustment | | | | (6,183) | | (6,183) |
| Dividends paid on common stock | | | (10,179) | | | (10,179) |
| Compensation expense related to common stock options | | 300 | | | | 300 |
| Proceeds from exercise of common stock options | 700 | 8,580 | | | | 9,280 |
| Restricted stock | | 840 | | | | 840 |
| Treasury stock acquired | | | | | (18,945) | (18,945) |
| Balance at December 31, 2013 | \$ 133,273 | \$ 1,634,771 | \$ 624,507 | \$ 195 | \$(439,762) | \$ 1,952,984 |

| | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total |
|--|-----------------|-----------------|----------------------|---|----------------|--------------|
| Balance at October 1, 2012 | \$ 129,950 | \$ 1,586,295 | \$ 480,780 | \$ 13,306 | \$(310,579) | \$ 1,899,752 |
| Net income | | | 35,282 | | | 35,282 |
| Other comprehensive income adjustment | | | | (1,667) | | (1,667) |
| Dividends paid on common stock | | | (8,690) | | | (8,690) |
| Compensation expense related to common stock options | | 300 | | | | 300 |
| Proceeds from exercise of common stock options | 6 | 57 | | | | 63 |
| Proceeds from issuance of common stock | 1,996 | 31,496 | | | | 33,492 |
| Restricted stock | 15 | 878 | | | | 893 |
| Treasury stock acquired | | | | | (44,747) | (44,747) |
| Balance at December 31, 2012 | \$ 131,967 | \$ 1,619,026 | \$ 507,372 | \$ 11,639 | \$(355,326) | \$ 1,914,678 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | Quarter Ended December 31, | |
|---|----------------------------|-------------|
| | 2013 | 2012 |
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$40,236 | \$35,282 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of fees, discounts, premiums and intangible assets, net | 1,057 | 536 |
| Cash received from FDIC under loss share | 1,295 | 4,566 |
| Depreciation | 2,700 | 2,300 |
| Stock option compensation expense | 300 | 300 |
| Provision for (reversal of) loan losses | (4,600) |) 3,600 |
| Loss (gain) on real estate held for sale, net | (597) |) 1,193 |
| Decrease (increase) in accrued interest receivable | (411) |) 1,058 |
| Decrease (increase) in income taxes receivable | 22,629 | (3,038) |
| Decrease in other assets | 1,649 | 30,191 |
| Decrease in accrued expenses and other liabilities | (12,768) |) (15,437) |
| Net cash provided by operating activities | 51,490 | 60,551 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net principal collections (loan originations) | (68,870) |) 187,382 |
| FHLB stock redemptions | 1,376 | 1,382 |
| Available-for-sale securities purchased | (565,080) |) (261,966) |
| Principal payments and maturities of available-for-sale securities | 76,805 | 31,404 |
| Available-for-sale securities sold | — | 43,899 |
| Held-to-maturity securities purchased | — | (264,781) |
| Principal payments and maturities of held-to-maturity securities | 23,117 | 50,522 |
| Net cash received from acquisition | 1,280,077 | 202,308 |
| Proceeds from sales of real estate held for sale | 12,566 | 24,370 |
| Proceeds from sales of covered REO | 6,098 | 3,043 |
| Proceeds from sales of real estate held for investment | 1,729 | 5,775 |
| Premises and equipment purchased and REO improvements | (9,232) |) (12,185) |
| Net cash provided by investing activities | 758,586 | 11,153 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase in customer accounts | (1,795) |) (77,942) |
| Proceeds from borrowings | 625,000 | — |
| Repayments of borrowings | (625,000) |) (22,471) |
| Proceeds from exercise of common stock options | 9,280 | 63 |
| Dividends paid on common stock | (10,179) |) (17,250) |
| Treasury stock purchased | (18,945) |) (44,747) |
| Decrease in advance payments by borrowers for taxes and insurance | (24,652) |) (23,489) |
| Net cash used by financing activities | (46,291) |) (185,836) |
| Increase (decrease) in cash and cash equivalents | 763,785 | (114,132) |
| Cash and cash equivalents at beginning of period | 203,563 | 751,430 |
| Cash and cash equivalents at end of period | \$967,348 | \$637,298 |

(CONTINUED)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | Quarter Ended December 31, | |
|--|----------------------------|------------|
| | 2013 | 2012 |
| | (In thousands) | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Non-cash investing activities | | |
| Non-covered real estate acquired through foreclosure | \$9,956 | \$22,762 |
| Covered real estate acquired through foreclosure | 179 | 3,096 |
| Cash paid during the period for | | |
| Interest | 33,644 | 37,457 |
| Income taxes | (236) |) — |
| The following summarizes the non-cash activities related to acquisitions | | |
| Fair value of assets acquired | \$65,531 | \$810,766 |
| Fair value of liabilities assumed | (1,345,608 |) (766,871 |
| Net fair value of assets (liabilities) | \$ (1,280,077 |) \$43,895 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED DECEMBER 31, 2013 AND 2012
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies

The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal, Inc. (the “Company” or “Washington Federal”). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2013 Consolidated Statement of Financial Condition was derived from audited financial statements.

The information included in this Form 10-Q should be read in conjunction with Company’s 2013 Annual Report on Form 10-K (“2013 Form 10-K”) as filed with the SEC. Interim results are not necessarily indicative of results for a full year.

The significant accounting policies used in preparation of our consolidated financial statements are disclosed in our 2013 Form 10-K. Other than as discussed below, there have not been any material changes in our significant accounting policies compared to those contained in our 2013 Form 10-K.

Off-Balance-Sheet Credit Exposures – The only material off-balance-sheet credit exposures are loans in process and unused lines of credit, which had a combined balance at December 31, 2013, excluding covered loans, of \$304 million. The Company estimates losses on off-balance-sheet credit exposures by including the exposures with the related principal balance outstanding and then applying its general reserve methodology.

Reclassification of Real Estate Held for Investment into its own line item and out of Real Estate Held for Sale have been made to the financial statements for years prior to September 30, 2013 to conform to current year classifications.

NOTE B - Acquisitions

Certain Branches of Bank of America, National Association

Effective as of the close of business on October 31, 2013, Washington Federal completed the acquisition of eleven branches from Bank of America, National Association; these branches are located in New Mexico. Effective as of the close of business on December 6, 2013, Washington Federal completed the acquisition of another forty branches from Bank of America, National Association; these branches are located in Washington, Oregon, and Idaho. The combined acquisitions provided recorded book values of \$1.3 billion in deposit accounts, \$9 million of loans, and \$16 million in branch properties. Washington Federal paid a 2.60% premium on the total deposits. The cash received by Washington Federal in the transaction was \$1.3 billion.

The acquisition will be accounted for under the acquisition method of accounting. The purchased assets and assumed liabilities are recorded at their respective acquisition date estimated fair values. The purchase accounting is incomplete as the core deposit intangible valuation is not yet finalized, and the acquired loans, properties, and equipment had not yet been recorded at their fair values as of December 31, 2013. The purchase accounting fair value analysis is expected to be completed as of March 31, 2014.

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the first eleven branches for the period from November 1, 2013 to December 31, 2013 and for the additional forty branches from December 7, 2013 to December 31, 2013.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED DECEMBER 31, 2013 AND 2012
(UNAUDITED)

| | Adjusted Fair Value Recorded by Washington Federal (In thousands) |
|-----------------------------|---|
| Assets: | |
| Cash and cash equivalents | \$ 1,280,077 |
| Loans receivable, net | 8,278 |
| Property and equipment, net | 17,476 |
| Intangible Assets | 35,522 |
| Other assets | 4,255 |
| Total Assets | 1,345,608 |
| Liabilities: | |
| Customer accounts | 1,314,478 |
| Other liabilities | 31,130 |
| Total Liabilities | 1,345,608 |
| Net assets acquired | \$— |

NOTE C – Dividends

On January 17, 2014, the Company paid its 124th consecutive quarterly cash dividend on common stock. Dividends per share were \$.10 and \$.08 for the quarters ended December 31, 2013 and 2012, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED DECEMBER 31, 2013 AND 2012
(UNAUDITED)

NOTE D – Loans Receivable (excluding Covered Loans)

| | December 31, 2013 (In thousands) | | September 30, 2013 | | |
|--------------------------------------|-------------------------------------|------|--------------------|------|---|
| Non-acquired loans | | | | | |
| Single-family residential | \$5,421,896 | 66.9 | % \$5,359,149 | 67.1 | % |
| Construction - speculative | 135,868 | 1.7 | 130,778 | 1.6 | |
| Construction - custom | 333,954 | 4.1 | 302,722 | 3.8 | |
| Land - acquisition & development | 72,075 | 0.9 | 77,775 | 1.1 | |
| Land - consumer lot loans | 119,206 | 1.5 | 121,671 | 1.5 | |
| Multi-family | 842,343 | 10.4 | 831,684 | 10.4 | |
| Commercial real estate | 433,361 | 5.3 | 414,961 | 5.1 | |
| Commercial & industrial | 274,432 | 3.4 | 243,199 | 3.0 | |
| HELOC | 111,577 | 1.4 | 112,186 | 1.4 | |
| Consumer | 44,142 | 0.5 | 47,141 | 0.6 | |
| Total non-acquired loans | 7,788,854 | 96.1 | 7,641,266 | 95.6 | |
| Acquired loans | | | | | |
| Single-family residential | 13,856 | 0.2 | 14,468 | 0.2 | |
| Construction - speculative | — | — | — | — | |
| Construction - custom | — | — | — | — | |
| Land - acquisition & development | 1,206 | — | 1,489 | — | |
| Land - consumer lot loans | 3,261 | — | 3,313 | — | |
| Multi-family | 3,773 | 0.1 | 3,914 | 0.1 | |
| Commercial real estate | 117,038 | 1.4 | 133,423 | 1.7 | |
| Commercial & industrial | 72,594 | 0.9 | 75,326 | 0.9 | |
| HELOC | 9,538 | 0.1 | 10,179 | 0.1 | |
| Consumer | 7,754 | 0.1 | 8,267 | 0.1 | |
| Total acquired loans | 229,020 | 2.8 | 250,379 | 3.1 | |
| Credit-impaired acquired loans | | | | | |
| Single-family residential | 331 | — | 333 | — | |
| Construction - speculative | — | — | — | — | |
| Land - acquisition & development | 2,225 | — | 2,396 | — | |
| Multi-family | — | — | — | — | |
| Commercial real estate | 71,841 | 1.0 | 76,909 | 1.1 | |
| Commercial & industrial | 7,140 | 0.1 | 7,925 | 0.1 | |
| HELOC | 10,834 | 0.1 | 11,266 | 0.1 | |
| Consumer | 64 | — | 71 | — | |
| Total credit-impaired acquired loans | 92,435 | 1.2 | 98,900 | 1.3 | |
| Total loans | | | | | |
| Single-family residential | 5,436,083 | 67.0 | 5,373,950 | 67.3 | |
| Construction - speculative | 135,868 | 1.7 | 130,778 | 1.6 | |
| Construction - custom | 333,954 | 4.1 | 302,722 | 3.8 | |
| Land - acquisition & development | 75,506 | 0.9 | 81,660 | 1.1 | |
| Land - consumer lot loans | 122,467 | 1.5 | 124,984 | 1.5 | |

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| | | | | |
|-------------------------|---------|------|---------|------|
| Multi-family | 846,116 | 10.5 | 835,598 | 10.5 |
| Commercial real estate | 622,240 | 7.7 | 625,293 | 7.9 |
| Commercial & industrial | 354,166 | 4.4 | 326,450 | 4.0 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED DECEMBER 31, 2013 AND 2012
(UNAUDITED)

| | | | | | |
|-------------------------------|-------------|-----|-------------|-----|---|
| HELOC | 131,949 | 1.6 | 133,631 | 1.6 | |
| Consumer | 51,960 | 0.6 | 55,479 | 0.7 | |
| Total loans | 8,110,309 | 100 | % 7,990,545 | 100 | % |
| Less: | | | | | |
| Allowance for probable losses | 118,158 | | 116,741 | | |
| Loans in process | 273,263 | | 275,577 | | |
| Discount on acquired loans | 31,485 | | 34,143 | | |
| Deferred net origination fees | 35,845 | | 36,054 | | |
| | 458,751 | | 462,515 | | |
| | \$7,651,558 | | \$7,528,030 | | |

Changes in the carrying amount and accretible yield for acquired credit impaired and non-impaired loans for the three months ended December 31, 2013 and the fiscal year ended September 30, 2013 were as follows:

| December 31, 2013 | Acquired Impaired | | Acquired Non-impaired | | |
|--|-------------------|--------------------------|-----------------------|--------------------------|---|
| | Accretible Yield | Carrying Amount of Loans | Accretible Yield | Carrying Amount of Loans | |
| | (In thousands) | | | | |
| Balance as of beginning of period | \$37,236 | \$69,718 | \$4,977 | \$245,373 | |
| Accretion | (2,715 |) 2,715 | (319 |) 319 | |
| Transfers to REO | — | (346 |) — | (1,124 |) |
| Payments received, net | — | (6,495 |) — | (20,453 |) |
| Balance as of end of period | \$34,521 | \$65,592 | \$4,658 | \$224,115 | |
| September 30, 2013 | Acquired Impaired | | Acquired Non-impaired | | |
| | Accretible Yield | Carrying Amount of Loans | Accretible Yield | Carrying Amount of Loans | |
| | (In thousands) | | | | |
| Balance as of beginning of period | \$16,928 | \$77,613 | \$— | \$— | |
| Reclassification from nonaccretable balance, net (1) | 30,026 | — | — | — | |
| Additions (2) | — | 9,865 | 10,804 | 351,335 | |
| Accretion | (9,718 |) 9,718 | (5,827 |) 5,827 | |
| Transfers to REO | — | (3,975 |) — | (7,755 |) |
| Payments received, net | — | (23,503 |) — | (104,034 |) |
| Balance as of end of period | \$37,236 | \$69,718 | \$4,977 | \$245,373 | |

(1) reclassification due to improvements in expected cash flows of the underlying loans.

(2) includes acquired loans which were acquired as part of the South Valley acquisition.

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QUARTER ENDED DECEMBER 31, 2013 AND 2012
(UNAUDITED)

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

| | December 31, 2013 (In thousands) | | September 30, 2013 | | |
|----------------------------------|-------------------------------------|------|--------------------|------|---|
| Non-accrual loans: | | | | | |
| Single-family residential | \$89,075 | 77.5 | % \$100,460 | 76.5 | % |
| Construction - speculative | 3,053 | 2.7 | 4,560 | 3.5 | |
| Construction - custom | — | — | — | — | |
| Land - acquisition & development | 2,813 | 2.5 | 2,903 | 2.2 | |
| Land - consumer lot loans | 3,548 | 3.1 | 3,337 | 2.5 | |
| Multi-family | 2,494 | 2.2 | 6,573 | 5.0 | |
| Commercial real estate | 11,613 | 10.1 | 11,736 | 8.9 | |
| Commercial & industrial | 655 | 0.6 | 477 | 0.4 | |
| HELOC | 471 | 0.4 | 263 | 0.2 | |
| Consumer | 995 | 0.9 | 990 | 0.8 | |
| Total non-accrual loans | \$114,717 | 100 | % \$131,299 | 100 | % |

The following tables provide an analysis of the age of loans in past due status as of December 31, 2013 and September 30, 2013, respectively.

| December 31, 2013 Type of Loan | Amount of Loans Net of LIP & Chg.-Off (In thousands) | Days Delinquent Based on \$ Amount of Loans | | | | | Total | % based on \$ | |
|-----------------------------------|--|---|----------|----------|----------|-----------|-------|------------------|--|
| | | Current | 30 | 60 | 90 | | | | |
| Non-acquired loans | | | | | | | | | |
| Single-Family Residential | \$5,418,864 | \$5,304,409 | \$33,199 | \$10,318 | \$70,938 | \$114,455 | 2.11 | % | |
| Construction - Speculative | 87,485 | 86,398 | 37 | 92 | 958 | 1,087 | 1.24 | | |
| Construction - Custom | 154,776 | 154,610 | 166 | — | — | 166 | 0.11 | | |
| Land - Acquisition & Development | 66,028 | 63,890 | 1 | 119 | 2,018 | 2,138 | 3.24 | | |
| Land - Consumer Lot Loans | 119,024 | 114,493 | 989 | 320 | 3,222 | 4,531 | 3.81 | | |
| Multi-Family | 812,635 | 810,050 | 1,031 | — | 1,554 | 2,585 | 0.32 | | |
| Commercial Real Estate | 426,898 | 422,781 | 951 | — | 3,166 | 4,117 | 0.96 | | |
| Commercial & Industrial | 274,424 | 272,589 | 1,835 | — | — | 1,835 | 0.67 | | |
| HELOC | 111,577 | 110,995 | 346 | 114 | 122 | 582 | 0.52 | | |
| Consumer | 44,143 | 42,545 | 901 | 305 | 392 | 1,598 | 3.62 | | |
| Total non-acquired loans | 7,515,854 | 7,382,760 | 39,456 | 11,268 | 82,370 | 133,094 | 1.77 | % | |
| Acquired loans | | | | | | | | | |
| Single-Family Residential | 13,856 | 13,813 | \$— | — | 43 | 43 | 0.31 | % | |

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| | | | | | | | |
|-------------------------------------|-------|-------|----|---|-----|-----|-------|
| Construction - Speculative | — | — | — | — | — | — | — |
| Construction - Custom | — | — | — | — | — | — | — |
| Land - Acquisition & Development | 1,206 | 1,123 | 83 | — | — | 83 | 6.88 |
| Land - Consumer Lot Loans | 3,261 | 2,935 | — | — | 326 | 326 | 10.00 |

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| | | | | | | | | |
|--------------------------------------|-------------|-------------|----------|----------|----------|-----------|-------|---|
| Multi-Family | 3,773 | 3,636 | 137 | — | — | 137 | 3.63 | |
| Commercial Real Estate | 116,810 | 112,685 | 44 | — | 4,081 | 4,125 | 3.53 | |
| Commercial & Industrial | 72,575 | 71,903 | 364 | 146 | 162 | 672 | 0.93 | |
| HELOC | 9,538 | 9,263 | 16 | — | 259 | 275 | 2.88 | |
| Consumer | 7,754 | 7,076 | 59 | 16 | 603 | 678 | 8.74 | |
| Total acquired loans | 228,773 | 222,434 | 703 | 162 | 5,474 | 6,339 | 2.77 | % |
| Credit-impaired acquired loans | | | | | | | | |
| Single-Family Residential | 331 | 331 | — | — | — | — | — | % |
| Construction - Speculative | — | — | — | — | — | — | — | |
| Construction - Custom | — | — | — | — | — | — | — | |
| Land - Acquisition & Development | 2,224 | 1,845 | — | — | 379 | 379 | 17.04 | |
| Land - Consumer Lot Loans | — | — | — | — | — | — | — | |
| Multi-Family | — | — | — | — | — | — | — | |
| Commercial Real Estate | 71,826 | 70,490 | 379 | 64 | 893 | 1,336 | 1.86 | |
| Commercial & Industrial | 7,140 | 6,647 | — | — | 493 | 493 | 6.90 | |
| HELOC | 10,834 | 10,431 | 313 | — | 90 | 403 | 3.72 | |
| Consumer | 64 | 64 | — | — | — | — | — | |
| Total credit-impaired acquired loans | 92,419 | 89,808 | 692 | 64 | 1,855 | 2,611 | 2.83 | % |
| Total loans | \$7,837,046 | \$7,695,002 | \$40,851 | \$11,494 | \$89,699 | \$142,044 | 1.81 | % |

| September 30, 2013 Type of Loan | Amount of Loans Net of LIP & Chg.-Off (In thousands) | Days Delinquent Based on \$ Amount of Loans | | | | Total | % based on \$ | |
|------------------------------------|--|---|----------|----------|----------|-----------|------------------|---|
| | | Current | 30 | 60 | 90 | | | |
| Single-Family Residential | \$5,356,200 | \$5,237,413 | \$26,888 | \$12,373 | \$79,526 | \$118,787 | 2.22 | % |
| Construction - Speculative | 82,422 | 80,047 | — | — | 2,375 | 2,375 | 2.88 | |
| Construction - Custom | 130,095 | 129,678 | 417 | — | — | 417 | 0.32 | |
| | 71,567 | 70,106 | — | — | 1,461 | 1,461 | 2.04 | |

| | | | | | | | |
|-------------------------------------|-----------|-----------|--------|--------|--------|---------|------|
| Land - Acquisition & Development | | | | | | | |
| Land - Consumer Lot Loans | 121,473 | 117,076 | 806 | 355 | 3,236 | 4,397 | 3.62 |
| Multi-Family | 790,564 | 785,793 | — | — | 4,771 | 4,771 | 0.60 |
| Commercial Real Estate | 404,680 | 398,114 | 2,942 | 351 | 3,273 | 6,566 | 1.62 |
| Commercial & Industrial | 249,405 | 249,363 | 42 | — | — | 42 | 0.02 |
| HELOC | 112,186 | 111,407 | 493 | 213 | 73 | 779 | 0.69 |
| Consumer | 47,142 | 45,620 | 849 | 283 | 390 | 1,522 | 3.23 |
| Total non-acquired loans | 7,365,734 | 7,224,617 | 32,437 | 13,575 | 95,105 | 141,117 | 1.92 |

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| | | | | | | | | |
|--------------------------------------|-------------|-------------|----------|----------|-----------|-----------|-------|---|
| Acquired loans | | | | | | | | |
| Single-Family Residential | 14,468 | 14,343 | 82 | — | 43 | 125 | 0.86 | |
| Construction - Speculative | — | — | — | — | — | — | NM | |
| Construction - Custom | — | — | — | — | — | — | NM | |
| Land - Acquisition & Development | 1,489 | 1,241 | — | — | 248 | 248 | 16.66 | |
| Land - Consumer Lot Loans | 3,313 | 2,987 | 125 | 100 | 101 | 326 | 9.84 | |
| Multi-Family | 3,914 | 3,914 | — | — | — | — | — | |
| Commercial Real Estate | 133,398 | 128,610 | 134 | 617 | 4,037 | 4,788 | 3.59 | |
| Commercial & Industrial | 75,323 | 74,992 | 10 | 153 | 168 | 331 | 0.44 | |
| HELOC | 10,179 | 10,063 | — | 16 | 100 | 116 | 1.14 | |
| Consumer | 8,266 | 7,568 | 90 | 8 | 600 | 698 | 8.44 | |
| Total acquired loans | 250,350 | 243,718 | 441 | 894 | 5,297 | 6,632 | 2.65 | |
| Credit-impaired acquired loans | | | | | | | | |
| Single-Family Residential | 333 | 333 | — | — | — | — | — | |
| Construction - Speculative | — | — | — | — | — | — | NM | |
| Construction - Custom | — | — | — | — | — | — | — | |
| Land - Acquisition & Development | 2,393 | 1,929 | — | 464 | — | 464 | 19.39 | |
| Land - Consumer Lot Loans | — | — | — | — | — | — | — | |
| Multi-Family | — | — | — | — | — | — | — | |
| Commercial Real Estate | 83,116 | 80,095 | 2,301 | — | 720 | 3,021 | 3.63 | |
| Commercial & Industrial | 1,705 | 1,396 | — | — | 309 | 309 | 18.12 | |
| HELOC | 11,266 | 11,176 | — | — | 90 | 90 | 0.80 | |
| Consumer | 71 | 71 | — | — | — | — | — | |
| Total credit-impaired acquired loans | 98,884 | 95,000 | 2,301 | 464 | 1,119 | 3,884 | 3.93 | % |
| Total loans | \$7,714,968 | \$7,563,335 | \$35,179 | \$14,933 | \$101,521 | \$151,633 | 1.97 | % |

Most loans restructured in troubled debt restructurings ("TDRs") are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. Each

request is individually evaluated for merit and likelihood of success. The concession for these loans is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twelve months. Interest-only payments may also be approved during the modification period. Principal forgiveness is not an available option for restructured loans. As of December 31, 2013, single-family residential loans comprised 85.8% of TDRs.

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

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

| | Quarter Ended December 31, 2013 | | 2012 | |
|----------------------------------|--|--|--|--|
| | Pre-Modification Outstanding Number of Contracts | Post-Modification Outstanding Recorded Investment (In thousands) | Pre-Modification Outstanding Number of Contracts | Post-Modification Outstanding Recorded Investment (In thousands) |
| Troubled Debt Restructurings: | | | | |
| Single-Family Residential | 113 | \$23,607 | 105 | \$29,339 |
| Construction - Speculative | — | — | 1 | 2,503 |
| Construction - Custom | — | — | — | — |
| Land - Acquisition & Development | — | — | — | — |
| Land - Consumer Lot Loans | 5 | 1,098 | 11 | 1,836 |
| Multi-Family | 2 | 1,213 | 1 | 68 |
| Commercial Real Estate | 1 | 810 | — | — |
| Commercial & Industrial | — | — | — | — |
| HELOC | 1 | 261 | — | — |
| Consumer | 2 | 39 | — | — |
| | 124 | \$27,028 | 118 | \$33,746 |

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

| | Quarter Ended December 31, 2013 | | 2012 | |
|---|--|--|--|--|
| | Number of Contracts (In thousands) | Recorded Investment (In thousands) | Number of Contracts (In thousands) | Recorded Investment (In thousands) |
| Troubled Debt Restructurings That Subsequently Defaulted: | | | | |
| Single-Family Residential | 24 | \$3,624 | 31 | \$7,498 |
| Construction - Speculative | — | — | 5 | 904 |
| Construction - Custom | — | — | — | — |
| Land - Acquisition & Development | — | — | — | — |
| Land - Consumer Lot Loans | 2 | 166 | — | — |
| Multi-Family | — | — | — | — |

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| | | | | |
|-------------------------|---|---|---|---|
| Commercial Real Estate | — | — | — | — |
| Commercial & Industrial | — | — | — | — |
| HELOC | — | — | — | — |
| Consumer | — | — | — | — |