WASHINGTON FEDERAL INC
Form 10-Q
February 10, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended December 31, 2014
or

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

For the transition period from to
Commission file number 001-34654
WASHINGTON FEDERAL, INC.
(Exact name of registrant as specified in its charter)

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

425 Pike Street Seattle, Washington 98101
(Address of principal executive offices and zip code)
(206) 624-7930
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:	at January 31, 2015

Common stock, $1.00 par value	96,383,502

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

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

	December 31, 2014	September 30, 2014
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$542,769	$781,843
Available-for-sale securities, at fair value	2,895,056	3,049,442
Held-to-maturity securities, at amortized cost	1,516,219	1,548,265
Loans receivable, net	8,253,917	8,148,322
Covered loans, net	161,478	176,476
Interest receivable	40,757	52,037
Premises and equipment, net	254,284	257,543
Real estate held for sale	61,970	55,072
Real estate held for investment	3,994	4,808
Covered real estate held for sale	19,405	24,082
FDIC indemnification asset	30,356	36,860
FHLB and FRB stock	154,870	158,839
Bank owned life insurance	100,216	—
Intangible assets, net	301,885	302,909
Federal and state income tax assets, net	—	16,515
Other assets	157,580	143,028
	$14,494,756	$14,756,041
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities		
Customer accounts		
Transaction deposit accounts	$5,464,198	$5,490,687
Time deposit accounts	5,114,655	5,226,241
	10,578,853	10,716,928
FHLB advances	1,830,000	1,930,000
Advance payments by borrowers for taxes and insurance	19,301	29,004
Federal and state income taxes, net	4,278	—
Accrued expenses and other liabilities	80,985	106,826
	12,513,417	12,782,758
Stockholders’ equity		
Common stock, $1.00 par value, 300,000,000 shares authorized; 133,590,428 and 133,322,909 shares issued; 97,556,077 and 98,404,705 shares outstanding	133,591	133,323
Paid-in capital	1,639,350	1,638,211
Accumulated other comprehensive income, net of taxes	23,435	20,708
Treasury stock, at cost; 36,034,351 and 34,918,204 shares	(549,434)	(525,108)
Retained earnings	734,397	706,149
	1,981,339	1,973,283
	$14,494,756	$14,756,041

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended December 31,	
	2014	2013
	(In thousands, except per share data)	
INTEREST INCOME		
Loans	$108,293	$107,227
Mortgage-backed securities	19,175	19,368
Investment securities and cash equivalents	5,816	4,663
	133,284	131,258
INTEREST EXPENSE		
Customer accounts	13,445	15,499
FHLB advances and other borrowings	17,656	17,447
	31,101	32,946
Net interest income	102,183	98,312
Reversal of provision for loan losses	(5,500)	(4,600)
Net interest income after reversal of provision for loan losses	107,683	102,912
OTHER INCOME		
Loan fee income	2,065	2,046
Deposit fee income	5,977	1,704
Other income (loss)	(2,662)	2,038
	5,380	5,788
OTHER EXPENSE		
Compensation and benefits	29,160	25,126
Occupancy	8,135	7,050
FDIC insurance premiums	674	2,934
Information technology	4,030	1,318
Product delivery	5,627	2,929
Other expense	5,974	4,763
	53,600	44,120
Gain (loss) on real estate acquired through foreclosure, net	315	(1,951)
Income before income taxes	59,778	62,629
Income tax provision	21,371	22,393
NET INCOME	$38,407	$40,236
PER SHARE DATA		
Basic earnings	$0.39	$0.39
Diluted earnings	0.39	0.39
Dividends paid on common stock per share	0.15	0.10
Basic weighted average number of shares outstanding	98,147,939	102,329,578
Diluted weighted average number of shares outstanding, including dilutive stock options	98,524,839	102,813,154

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

	Quarter Ended December 31,	
	2014	2013
	(In thousands)	
Net income	$38,407	$40,236
Other comprehensive income (loss) net of tax:		
Net unrealized gain (loss) on available-for-sale securities	8,560	(9,661)
Net unrealized (loss) on long-term borrowing hedge	(4,249)	—
Related tax benefit (expense)	(1,584)	3,478
Other comprehensive income (loss)	2,727	(6,183)
Comprehensive income	$41,134	$34,053

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WASHINGTON 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, 2014	$133,323	$1,638,211	$706,149	$20,708	$(525,108)	$1,973,283
Net income			38,407			38,407
Other comprehensive income				2,727		2,727
Dividends on common stock			(10,159)			(10,159)
Compensation expense related to common stock options		300				300
Proceeds from exercise of common stock options	18	248				266
Restricted stock	250	591				841
Treasury stock acquired					(24,326)	(24,326)
Balance at December 31, 2014	$133,591	$1,639,350	$734,397	$23,435	$(549,434)	1,981,339

	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 loss				(6,183)		(6,183)
Dividends on common stock			(10,179)			(10,179)
Compensation expense related to common stock options		300				300
Proceeds from exercise of common stock options	444	8,836				9,280
Restricted stock	256	584				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

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

	Quarter Ended December 31, 2014	2013
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$38,407	$40,236
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and Amortization	5,299	3,757
Cash received from (paid to) FDIC under loss share	(431)	1,295
Stock option compensation expense	300	300
Reversal of provision for loan losses	(5,500)	(4,600)
Gain on real estate held for sale	(9,606)	(597)
Decrease (increase) in accrued interest receivable	11,280	(411)
Decrease in federal and state income tax	19,208	22,629
Decrease (increase) in cash surrender value in bank owned life insurance	(216)	—
Decrease (increase) in other assets	(14,552)	1,649
Decrease in accrued expenses and other liabilities	(25,890)	(12,768)
Net cash provided by operating activities	18,299	51,490
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (loan originations) principal collections	(36,993)	(68,870)
Loans purchased	(46,831)	—
FHLB & FRB stock redemption	3,969	1,376
Available-for-sale securities purchased	(41,225)	(565,080)
Principal payments and maturities of available-for-sale securities	202,760	76,805
Principal payments and maturities of held-to-maturity securities	31,178	23,117
Net cash received from acquisition	—	1,280,077
Proceeds from sales of real estate held for sale and investment	13,496	14,295
Proceeds from sales of covered REO	4,413	6,098
Purchase of bank owned life insurance	(100,000)	—
Premises and equipment purchased and REO improvements	(2,019)	(9,232)
Net cash provided by investing activities	28,748	758,586
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in customer accounts	(137,999)	(1,795)
Proceeds from borrowings	—	625,000
Repayments of borrowings	(100,000)	(625,000)
Proceeds from exercise of common stock options and related tax benefit	266	9,280
Dividends paid on common stock	(14,359)	(10,179)
Treasury stock purchased	(24,326)	(18,945)
Decrease in advance payments by borrowers for taxes and insurance	(9,703)	(24,652)
Net cash used by financing activities	(286,121)	(46,291)
Increase (decrease) in cash and cash equivalents	(239,074)	763,785
Cash and cash equivalents at beginning of period	781,843	203,563
Cash and cash equivalents at end of period	$542,769	$967,348

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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,	
	2014	2013
	(In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities		
Non-covered real estate acquired through foreclosure	$8,852	$9,956
Covered real estate acquired through foreclosure	51	179
Cash paid during the period for		
Interest	34,653	33,644
Income taxes	23	(236)
The following summarizes the non-cash activities related to acquisitions		
Fair value of assets and intangibles acquired, including goodwill	$—	$65,531
Fair value of liabilities assumed	—	(1,345,608)
Net fair value of assets (liabilities)	$—	$(1,280,077)

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED DECEMBER 31, 2014 AND 2013
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies
Nature of Operations - Washington Federal, Inc. is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through a federally-insured national bank subsidiary. The Bank is principally engaged in the business of attracting deposits from the general public and investing these funds, together with borrowings and other funds, in one-to-four family residential real estate loans, multi-family real estate loans and commercial loans. As used throughout this document, the terms "Washington Federal" or the "Company" refer to Washington Federal, Inc. and its consolidated subsidiaries and the term "Bank" refers to the operating subsidiary Washington Federal, National Association.
Basis of Presentation - The unaudited interim financial statements included in this report have been prepared by Washington Federal. All intercompany transactions and accounts have been eliminated in consolidation. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2014 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 the financial statements and related notes in the Company’s 2014 Annual Report on Form 10-K (“2014 Form 10-K”) as filed with the SEC. Interim results are not necessarily indicative of results for a full year.
Summary of Significant Accounting Policies - The significant accounting policies used in preparation of our consolidated financial statements are disclosed in our 2014 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 2014 Form 10-K disclosure for the year ended September 30, 2014.
Correction of Immaterial Errors Related to Prior Periods - During the three months ended December 31, 2014, the Company made an $8,200,000 adjustment which increased the value of real estate owned and other income to correct an error in prior years. The adjustment reflects a one-time correction necessary to change the accounting for real estate owned to be in conformity with GAAP. The Company also made an $8,900,000 adjustment which decreased accrued interest receivable and other income as a result of the Company identifying a reconciliation error which had overstated interest income and accrued interest receivable. Based upon an evaluation of all relevant factors, management believes these correcting adjustments did not have a material impact on the Company’s current quarter financial statement or on any previously reported quarterly or yearly results.
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, 2014 and September 30, 2014, excluding covered loans, of $584,227,000 and $583,838,000, respectively. The Company estimates losses on off-balance-sheet credit exposures by allocating a loss percentage derived from historical loss factors for each asset class.

Reclassifications - Reclassification of Other Expenses into Product delivery and Information technology line items have been made to the financial statements for years prior to September 30, 2014 to conform to current year classifications.

NOTE B - Acquisitions

There were no acquisitions completed during the quarter ended December 31, 2014. During the fiscal year 2014, the Bank acquired seventy-four branches from Bank of America, National Association. Effective as of the close of business on October 31, 2013, the Bank completed the acquisition of eleven branches that are located in New Mexico. Effective as of the close of business on December 6, 2013, the Bank completed the acquisition of another forty branches that are located in Washington, Oregon, and Idaho. Effective as of the close of business on May 2, 2014, the Bank completed the acquisition of another twenty-three branches that are located in Arizona and Nevada. Management believes that these transactions represent a significant enhancement of our branch network. This transaction will bring new customers to the Company and improve the deposit mix and reduce overall funding costs. The combined acquisitions provided $1,853,798,000 in deposit accounts, $12,881,000 of loans, and $25,097,000 in branch properties. The Bank paid a 1.99% premium on the total deposits and received $1,776,660,000 in cash from the transactions. The acquisition method of accounting was used to account for the acquisitions. The purchased assets and assumed liabilities are recorded at their respective acquisition date estimated fair values. The Bank recorded $11,040,000 in core deposit intangible and $31,225,000 in goodwill related to these transactions.

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The operating results of the Company include the operating results produced by the first eleven branches for the period from November 1, 2013 to December 31, 2014, for the additional forty branches from December 7, 2013 to December 31, 2014, and for the most recent twenty-three branches from May 3, 2014 to December 31, 2014.

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

	Adjusted Fair Value Recorded by Washington Federal (In thousands)
Assets:	
Cash	$1,776,660
Available for sale securities	—
FHLB stock	—
Loans receivable, net	12,881
Covered loans receivable, net	—
FDIC indemnification asset	—
Property and equipment, net	25,097
Core deposit intangible	11,040
Real estate held for sale	—
Covered real estate held for sale	—
Goodwill	31,225
Other assets	70
Total Assets	1,856,973
Liabilities:	
Customer accounts	1,853,798
FHLB advances	—
Other liabilities	3,175
Total Liabilities	1,856,973
Net assets acquired	$—

NOTE C – Dividends
On October 17, 2014, the Company paid its 127th consecutive quarterly cash dividend on common stock. Dividends paid per share were $.15 and $.10 for the quarters ended December 31, 2014 and 2013, respectively. Due to a one-time change in the schedule of quarterly dividends, the Company increased the normal $.11 per share payout for pro-ration over four months for the most recent dividend payment.
On January 21, 2015, the Company announced its 128th consecutive quarterly cash dividend on common stock of $.13 per share. This payout represents an increase of $.02, or 18%, over the prior quarterly dividend rate of $.11 per share. The current dividend will be paid on February 16, 2015 to common stockholders of record on February 2, 2015.

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NOTE D – Loans Receivable (excluding Covered Loans)

	December 31, 2014			September 30, 2014		
	(In thousands)					
Non-acquired loans						
Single-family residential	$5,608,208	63.9	%	$5,560,203	64.1	%
Construction - speculative	152,450	1.7		140,060	1.6	
Construction - custom	377,561	4.3		385,824	4.5	
Land - acquisition & development	84,000	1.0		77,832	0.9	
Land - consumer lot loans	104,492	1.2		108,623	1.3	
Multi-family	977,752	11.2		917,286	10.6	
Commercial real estate	597,436	6.8		591,336	6.9	
Commercial & industrial	391,327	4.5		379,226	4.4	
HELOC	118,047	1.3		116,042	1.4	
Consumer	126,929	1.4		132,590	1.5	
Total non-acquired loans	8,538,202	97.3		8,409,022	97.2	
Acquired loans						
Single-family residential	11,163	0.1		11,716	0.1	
Land - acquisition & development	872	—		905	—	
Land - consumer lot loans	2,496	—		2,507	—	
Multi-family	2,954	—		2,999	—	
Commercial real estate	92,133	1.0		97,898	1.1	
Commercial & industrial	58,836	0.7		51,386	0.6	
HELOC	7,749	0.1		8,274	0.1	
Consumer	4,369	—		5,670	0.1	
Total acquired loans	180,572	1.9		181,355	2.0	
Credit-impaired acquired loans						
Single-family residential	323	—		325	—	
Land - acquisition & development	1,533	—		1,622	—	
Commercial real estate	60,287	0.7		63,723	0.7	
Commercial & industrial	3,255	—		3,476	—	
HELOC	9,202	0.1		10,139	0.1	
Consumer	54	—		55	—	
Total credit-impaired acquired loans	74,654	0.8		79,340	0.8	
Total loans						
Single-family residential	5,619,694	64.0		5,572,244	64.2	
Construction - speculative	152,450	1.7		140,060	1.6	
Construction - custom	377,561	4.3		385,824	4.5	
Land - acquisition & development	86,405	1.0		80,359	0.9	
Land - consumer lot loans	106,988	1.2		111,130	1.3	
Multi-family	980,706	11.2		920,285	10.6	
Commercial real estate	749,856	8.5		752,957	8.7	
Commercial & industrial	453,418	5.2		434,088	5.0	
HELOC	134,998	1.5		134,455	1.6	

Consumer	131,352	1.4		138,315	1.6	
Total loans	8,793,428	100	%	8,669,717	100	%

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Less:		
Allowance for probable losses	108,700	112,347
Loans in process	370,655	346,172
Discount on acquired loans	22,535	25,391
Deferred net origination fees	37,621	37,485
	539,511	521,395
	$8,253,917	$8,148,322

Changes in the carrying amount and accretable yield for acquired credit impaired and non-impaired loans for the three months ended December 31, 2014 and the fiscal year ended September 30, 2014 were as follows:

December 31, 2014	Acquired Impaired		Acquired Non-impaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
	(In thousands)			
Balance as of beginning of period	$32,591	$57,771	$4,254	$177,440
Accretion	(2,970)	2,970	(1,424)	1,424
Payments received, net	—	(6,455)	—	(1,193)
Balance as of end of period	$29,621	$54,286	$2,830	$177,671

September 30, 2014	Acquired Impaired		Acquired Non-impaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
	(In thousands)			
Balance as of beginning of period	$37,236	$69,718	$4,977	$245,373
Reclassification from nonaccretable balance, net (1)	7,300	—	—	—
Accretion	(11,945)	11,945	(723)	723
Transfers to REO	—	(1,188)	—	(4,710)
Payments received, net	—	(22,704)	—	(63,946)
Balance as of end of period	$32,591	$57,771	$4,254	$177,440

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

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The following table sets forth information regarding non-accrual loans held by the Company as of the dates indicated:

	December 31, 2014			September 30, 2014		
	(In thousands)					
Non-accrual loans:						
Single-family residential	$74,416	75.6	%	$74,067	84.8	%
Construction - speculative	1,329	1.4		1,477	1.7	
Land - acquisition & development	—	—		811	0.9	
Land - consumer lot loans	2,260	2.3		2,637	3.0	
Multi-family	1,019	1.0		1,742	2.0	
Commercial real estate	15,970	16.2		5,106	5.8	
Commercial & industrial	672	0.7		7	—	
HELOC	1,454	1.5		795	0.9	
Consumer	1,233	1.3		789	0.9	
Total non-accrual loans	$98,353	100.0	%	$87,431	100	%

The following tables provide an analysis of the age of loans in past due status as of December 31, 2014 and September 30, 2014, respectively.

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December 31, 2014	Amount of Loans	Days Delinquent Based on $ Amount of Loans					% based	
Type of Loan	Net of LIP & Chg.-Offs (In thousands)	Current	30	60	90	Total	on $	
Non-acquired loans								
Single-Family Residential	$5,605,917	$5,518,834	$17,503	$7,804	$61,776	$87,083	1.55	%
Construction - Speculative	95,367	95,199	168	—	—	168	0.18	
Construction - Custom	191,787	191,670	114	3	—	117	0.06	
Land - Acquisition & Development	70,347	68,008	2,339	—	—	2,339	3.32	
Land - Consumer Lot Loans	104,444	100,639	596	368	2,841	3,805	3.64	
Multi-Family	906,295	905,532	—	—	763	763	0.08	
Commercial Real Estate	559,808	541,939	2,607	—	15,262	17,869	3.19	
Commercial & Industrial	388,588	387,149	339	—	1,100	1,439	0.37	
HELOC	118,143	117,362	162	58	561	781	0.66	
Consumer	126,929	125,745	756	230	198	1,184	0.93	
Total non-acquired loans	8,167,625	8,052,077	24,584	8,463	82,501	115,548	1.41	%
Acquired loans								
Single-Family Residential	11,164	10,907	232	—	25	257	2.30	%
Land - Acquisition & Development	872	872	—	—	—	—	—	
Land - Consumer Lot Loans	2,495	1,686	560	—	249	809	—	
Multi-Family	2,954	2,954	—	—	—	—	—	
Commercial Real Estate	92,066	91,211	—	97	758	855	0.93	
Commercial & Industrial	58,832	58,733	—	—	99	99	0.17	
HELOC	7,749	7,290	241	—	218	459	5.92	
Consumer	4,369	3,301	412	—	656	1,068	24.44	
Total acquired loans	180,501	176,954	1,445	97	2,005	3,547	1.97	%
Credit-impaired acquired loans								
Single-Family Residential	323	323	—	—	—	—	—	%
Land - Acquisition & Development	1,533	1,533	—	—	—	—	—	
Commercial Real Estate	60,280	56,301	2,064	430	1,485	3,979	6.60	
Commercial & Industrial	3,255	3,255	—	—	—	—	—	
HELOC	9,201	8,799	—	—	402	402	4.37	

Consumer	54	54	—	—	—	—	—	
Total credit-impaired acquired loans	74,646	70,265	2,064	430	1,887	4,381	5.87	%
Total loans	$8,422,772	$8,299,296	$28,093	$8,990	$86,393	$123,476	1.47	%

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September 30, 2014	Amount of Loans	Days Delinquent Based on $ Amount of Loans					% based	
Type of Loan	Net of LIP & Chg.-Offs (In thousands)	Current	30	60	90	Total	on $	
Single-Family Residential	$5,557,753	$5,467,239	$15,926	$9,139	$65,449	$90,514	1.63	%
Construction - Speculative	87,035	87,035	—	—	—	—	—	
Construction - Custom	192,098	191,262	836	—	—	836	0.44	
Land - Acquisition & Development	68,066	67,911	155	—	—	155	0.23	
Land - Consumer Lot Loans	108,589	104,571	1,246	304	2,468	4,018	3.70	
Multi-Family	892,196	891,372	205	16	603	824	0.09	
Commercial Real Estate	529,453	513,409	67	15,118	859	16,044	3.03	
Commercial & Industrial	379,226	377,848	53	1,318	7	1,378	0.36	
HELOC	116,262	115,262	335	292	373	1,000	0.86	
Consumer	132,686	131,642	654	262	128	1,044	0.79	
Total non-acquired loans	8,063,364	7,947,551	19,477	26,449	69,887	115,813	1.44	%
Acquired loans								
Single-Family Residential	11,716	11,693	—	—	23	23	0.20	
Land - Acquisition & Development	905	905	—	—	—	—	—	
Land - Consumer Lot Loans	2,502	2,132	—	370	—	370	14.79	
Multi-Family	2,999	2,999	—	—	—	—	—	
Commercial Real Estate	97,715	96,948	104	—	663	767	0.78	
Commercial & Industrial	51,329	51,229	—	100	—	100	0.19	
HELOC	8,056	8,056	—	—	—	—	—	
Consumer	5,670	4,983	22	4	661	687	12.12	
Total acquired loans	180,892	178,945	126	474	1,347	1,947	1.08	%
Credit-impaired acquired loans								
Single-Family Residential	325	325	—	—	—	—	—	%
Land - Acquisition & Development	1,581	1,581	—	—	—	—	—	

Commercial Real Estate	63,713	61,713	152	909	939	2,000	3.14	
Commercial & Industrial	3,477	3,470	7	—	—	7	0.20	
HELOC	10,138	9,641	—	75	422	497	4.90	
Consumer	54	54	—	—	—	—	—	
Total credit-impaired acquired loans	79,288	76,784	159	984	1,361	2,504	3.16	%
Total loans	$8,323,544	$8,203,280	$19,762	$27,907	$72,595	$120,264	1.44	%

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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, 2014, single-family residential loans comprised 86.6% of TDRs.

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

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

	Quarter Ended December 31,					
	2014			2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)			(In thousands)	
Troubled Debt Restructurings:						
Single-Family Residential	35	$9,600	$ 9,600	113	$23,607	$ 23,607
Construction - Speculative	2	718	718	—	—	—
Land - Consumer Lot Loans	2	532	532	5	1,098	1,098
Multi-Family	—	—	—	2	1,213	1,213
Commercial Real Estate	—	—	—	1	810	810
HELOC	—	—	—	1	261	261
Consumer	1	85	85	2	39	39
	40	$10,935	$ 10,935	124	$27,028	$ 27,028

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,			
	2014		2013	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(In thousands)		(In thousands)	

Troubled Debt Restructurings That Subsequently Defaulted:				
Single-Family Residential	8	$1,431	24	$3,624
Land - Consumer Lot Loans	3	389	2	166
	11	$1,820	26	$3,790

NOTE E – Allowance for Losses on Loans

The following table summarizes the activity in the allowance for loan losses for the quarter ended December 31, 2014 and fiscal year ended September 30, 2014:

Quarter Ended December 31, 2014	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$62,763	$(1,694)	$2,553	$(8,127)	$55,495
Construction - speculative	6,742	(388)	—	(903)	5,451
Construction - custom	1,695	—	—	(730)	965
Land - acquisition & development	5,592	(38)	1	1,116	6,671
Land - consumer lot loans	3,077	(35)	—	71	3,113
Multi-family	4,248	—	220	32	4,500
Commercial real estate	7,548	(27)	28	(1,677)	5,872
Commercial & industrial	16,527	—	34	6,767	23,328
HELOC	928	—	—	(36)	892
Consumer	3,227	(427)	615	(1,002)	2,413
	$112,347	$(2,609)	$3,451	$(4,489)	$108,700

Fiscal Year Ended September 30, 2014	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$64,184	$(8,529)	$17,684	$(10,576)	$62,763
Construction - speculative	8,407	(949)	97	(813)	6,742
Construction - custom	882	—	—	813	1,695
Land - acquisition & development	9,165	(541)	3,071	(6,103)	5,592
Land - consumer lot loans	3,552	(658)	22	161	3,077
Multi-family	3,816	—	—	432	4,248
Commercial real estate	5,595	(105)	33	2,025	7,548
Commercial & industrial	16,614	(826)	5,043	(4,304)	16,527
HELOC	1,002	(48)	—	(26)	928
Consumer	3,524	(3,443)	3,513	(367)	3,227
	$116,741	$(15,099)	$29,463	$(18,758)	$112,347

The Company recorded a $5,500,000 reversal for loan losses during the quarter ended December 31, 2014, while a $4,600,000 reversal was recorded for the same quarter one year ago. The credit quality of the portfolio has been improving significantly and economic conditions are more favorable. The primary reason for the reversal in the quarter ended December 31, 2013, was the favorable settlement of a lawsuit related to previously purchased loans. During the fiscal year ended September 30, 2014, there was a transfer of $2,910,000 to establish a reserve for unfunded commitments. This reserve was $1,898,000 as of December 31, 2014.

Non-performing assets (“NPAs”) amounted to $164,317,000, or 1.13%, of total assets at December 31, 2014, compared to $197,910,000, or 1.37%, of total assets one year ago. Acquired loans, including covered loans, are not classified as non-performing loans because at acquisition the carrying value of these loans was adjusted to reflect fair value. As of December 31, 2014, $37,136,000 in acquired loans were subject to the general allowance as the discount related to these balances is not sufficient to absorb potential losses. There was no additional provision for loan losses recorded on acquired or covered loans during the quarter ended December 31, 2014. Non-accrual loans decreased from $114,717,000 at December 31, 2013, to $98,352,555 at December 31, 2014, a 14.3% decrease.

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The Company had net recoveries of $841,000 for the quarter ended December 31, 2014, compared with $6,017,000 of net recoveries for the same quarter one year ago largely attributed to the lawsuit settlement discussed above. A loan is charged-off when the loss is estimable and it is confirmed that the borrower will not be able to meet its contractual obligations.

At December 31, 2014, $108,700,000 of the allowance was calculated under the formulas contained in our general allowance methodology. At September 30, 2014, $112,287,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining $60,000 was made up of specific reserves on loans that were deemed to be impaired.

The following tables shows a summary of loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves as of December 31, 2014 and September 30, 2014:

December 31, 2014	Loans Collectively Evaluated for Impairment				Loans Individually Evaluated for Impairment			
	General Reserve Allocation	Gross Loans Subject to General Reserve (1)	Ratio		Specific Reserve Allocation	Gross Loans Subject to Specific Reserve (1)	Ratio	
	(In thousands)				(In thousands)			
Single-family residential	$55,495	$ 5,542,825	1.0	%	$—	$ 63,091	—	%
Construction - speculative	5,451	87,711	6.2		—	7,656	—	
Construction - custom	965	191,787	0.5		—	—	—	
Land - acquisition & development	6,671	66,953	10.0		—	3,394	—	
Land - consumer lot loans	3,113	91,588	3.4		—	12,856	—	
Multi-family	4,500	901,277	0.5		—	5,019	—	
Commercial real estate	5,872	533,593	1.1		—	26,217	—	
Commercial & industrial	23,328	425,724	5.4		—	—	—	
HELOC	892	116,544	0.8		—	1,598	—	
Consumer	2,413	126,920	1.9		—	9	—	
	$108,700	$ 8,084,922	1.4	%	$—	$ 119,840	—	%

(1) Excludes acquired loans with sufficient discounts and covered loans

September 30, 2014	Loans Collectively Evaluated for Impairment				Loans Individually Evaluated for Impairment			
	General Reserve Allocation	Gross Loans Subject to General Reserve (1)	Ratio		Specific Reserve Allocation	Gross Loans Subject to Specific Reserve (1)	Ratio	
	(In thousands)				(In thousands)			
Single-family residential	$62,067	$ 5,487,331	1.1	%	$—	$ 72,869	—	%
Construction - speculative	6,682	130,901	5.5		60	9,159	0.7	
Construction - custom	1,695	385,464	0.5		—	360	—	
Land - acquisition & development	5,592	73,999	7.6		—	3,833	—	
Land - consumer lot loans	3,077	95,684	3.2		—	12,939	—	
Multi-family	4,248	911,162	0.5		—	6,124	—	
Commercial real estate	7,548	563,534	1.4		—	27,802	—	

Commercial & industrial	17,223	421,816	4.6		—	—	—	
HELOC	928	114,393	0.9		—	1,650	—	
Consumer	3,227	132,590	2.4		—	—	—	
	$112,287	$ 8,316,874	1.4	%	$60	$ 134,736	—	%

(1) Excludes acquired loans with sufficient discounts and covered loans

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The Company has an asset quality review function that analyzes its loan portfolios and reports the results of the review to the Board of Directors on a quarterly basis. The single-family residential, HELOC and consumer portfolios are evaluated based on their performance as a pool of loans, since no single loan is individually significant or judged by its risk rating, size or potential risk of loss. The construction, land, multi-family, commercial real estate and commercial and industrial loans are risk rated on a loan by loan basis to determine the relative risk inherent in specific borrowers or loans. Based on that risk rating, the loans are assigned a grade and classified as follows:

- Pass – the credit does not meet one of the definitions below.

- Special mention – A special mention credit is considered to be currently protected from loss but is potentially weak. No loss of principal or interest is foreseen; however, proper supervision and Management attention is required to deter further deterioration in the credit. Assets in this category constitute some undue and unwarranted credit risk but not to the point of justifying a risk rating of substandard. The credit risk may be relatively minor yet constitutes an unwarranted risk in light of the circumstances surrounding a specific asset.

- Substandard – A substandard credit is an unacceptable credit. Additionally, repayment in the normal course is in jeopardy due to the existence of one or more well defined weaknesses. In these situations, loss of principal is likely if the weakness is not corrected. A substandard asset is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified will have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets risk rated substandard.

- Doubtful – A credit classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weakness makes collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The probability of loss is high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

- Loss – Credits classified loss are considered uncollectible and of such little value that their continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be affected in the future. Losses should be taken in the period in which they are identified as uncollectible. Partial charge-off versus full charge-off may be taken if the collateral offers some identifiable protection.

The following tables provide information on loans based on credit quality indicators (defined above) as of December 31, 2014 and September 30, 2014.

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Credit Risk Profile by Internally Assigned Grade (excludes covered loans):

December 31, 2014	Internally Assigned Grade					Total
	Pass	Special mention	Substandard	Doubtful	Loss	Gross Loans
	(In thousands)					
Non-acquired loans						
Single-family residential	$5,484,864	$2,357	$120,987	$—	$—	