WASHINGTON FEDERAL INC
Form 10-Q
January 25, 2019
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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, 2018
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 ("Exchange Act") 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, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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:	January 24, 2019
Common stock, $1.00 par value	81,112,469

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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, 2018	September 30, 2018
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$283,375	$268,650
Available-for-sale securities, at fair value	1,451,340	1,314,957
Held-to-maturity securities, at amortized cost	1,586,815	1,625,420
Loans receivable, net of allowance for loan losses of $131,165 and $129,257	11,700,239	11,477,081
Interest receivable	48,207	47,295
Premises and equipment, net	276,683	267,995
Real estate owned	8,171	11,298
FHLB and FRB stock	135,590	127,190
Bank owned life insurance	217,751	216,254
Intangible assets, including goodwill of $301,368 and $301,368	310,776	311,286
Federal and state income tax assets, net	—	1,804
Other assets	169,179	196,494
	$16,188,126	$15,865,724
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Customer accounts		
Transaction deposit accounts	$6,744,346	$6,582,343
Time deposit accounts	4,817,346	4,804,803
	11,561,692	11,387,146
FHLB advances	2,540,000	2,330,000
Advance payments by borrowers for taxes and insurance	21,165	57,417
Federal and state income tax assets, net	7,388	—
Accrued expenses and other liabilities	74,792	94,253
	14,205,037	13,868,816
Stockholders' equity		
Common stock, $1.00 par value, 300,000,000 shares authorized; 135,496,280 and 135,343,417 shares issued; 81,123,582 and 82,710,911 shares outstanding	135,496	135,343
Additional paid-in capital	1,668,666	1,666,609
Accumulated other comprehensive income (loss), net of taxes	2,891	8,294
Treasury stock, at cost; 54,372,698 and 52,632,506 shares	(1,051,239)	(1,002,309)
Retained earnings	1,227,275	1,188,971
	1,983,089	1,996,908
	$16,188,126	$15,865,724

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended December 31,	
	2018	2017
	(In thousands, except share data)	
INTEREST INCOME		
Loans receivable	$ 137,065	$ 124,511
Mortgage-backed securities	19,192	16,899
Investment securities and cash equivalents	6,365	4,370
	162,622	145,780
INTEREST EXPENSE		
Customer accounts	26,579	14,638
FHLB advances	16,891	15,407
	43,470	30,045
Net interest income	119,152	115,735
Provision (release) for loan losses	(500)	—
Net interest income after provision (release) for loan losses	119,652	115,735
OTHER INCOME		
Gain (loss) on sale of investment securities	(9)	—
FDIC loss share valuation adjustments	—	(8,550)
Loan fee income	970	1,035
Deposit fee income	6,243	6,686
Other income	11,805	7,624
	19,009	6,795
OTHER EXPENSE		
Compensation and benefits	33,883	29,619
Occupancy	9,268	8,671
FDIC insurance premiums	2,862	2,820
Product delivery	4,021	3,956
Information technology	9,040	7,929
Other expense	12,598	8,946
	71,672	61,941
Gain (loss) on real estate owned, net	320	46
Income before income taxes	67,309	60,635
Income tax expense	14,367	8,965
NET INCOME	$ 52,942	$ 51,670
PER SHARE DATA		
Basic earnings per share	$ 0.65	$ 0.59
Diluted earnings per share	0.65	0.59
Dividends paid on common stock per share	0.18	0.15
Basic weighted average number of shares outstanding	81,791,852	86,938,095
Diluted weighted average number of shares outstanding	81,831,478	87,082,499

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

	Three Months Ended December 31,	
	2018	2017
	(In thousands)	
Net income	$52,942	$51,670
Other comprehensive income (loss) net of tax:		
Net unrealized gain (loss) on available-for-sale investment securities	3,515	(1,964)
Reclassification adjustment of net gain (loss) from sale of available-for-sale securities included in net income	(9)	—
Related tax benefit (expense)	(799)	722
	2,707	(1,242)
Net unrealized gain (loss) on cash flow hedges of borrowings	(10,499)	6,690
Related tax benefit (expense)	2,389	(2,459)
	(8,110)	4,231
Other comprehensive income (loss) net of tax	(5,403)	2,989
Comprehensive income	$47,539	$54,659

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

(in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at October 1, 2018	$135,343	$1,666,609	$1,188,971	$ 8,294	$(1,002,309)	$1,996,908
Net income	—	—	52,942	—	—	52,942
Other comprehensive income (loss)	—	—	—	(5,403)	—	(5,403)
Dividends on common stock	—	—	(14,638)	—	—	(14,638)
Proceeds from stock-based awards	17	442	—	—	—	459
Stock-based compensation expense	97	1,654	—	—	—	1,751
Exercise of stock warrants	39	(39)				—
Treasury stock acquired	—	—	—	—	(48,930)	(48,930)
Balance at December 31, 2018	$135,496	$1,668,666	$1,227,275	$ 2,891	$(1,051,239)	$1,983,089

(in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at October 1, 2017	$134,958	$1,660,885	$1,042,890	$ 5,015	$(838,060)	$2,005,688
Net income	—	—	51,670	—	—	51,670
Other comprehensive income (loss)	—	—	—	2,989	—	2,989
Dividends on common stock	—	—	(13,043)	—	—	(13,043)
Proceeds from stock-based awards	14	272	—	—	—	286
Stock-based compensation expense	194	818	—	—	—	1,012
Exercise of stock warrants	109	(109)	—	—	—	—
Treasury stock acquired	—	—	—	—	(38,984)	(38,984)
Balance at December 31, 2017	$135,275	$1,661,866	$1,081,517	$ 8,004	$(877,044)	$2,009,618

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

	Three Months Ended December 31,	
	2018	2017
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$52,942	$51,670
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion expense, net	7,388	15,273
Stock-based compensation expense	1,751	1,012
Provision (release) for loan losses	(500)	—
Loss (gain) on sale of investment securities	9	—
Decrease (increase) in accrued interest receivable	(912)	(503)
Decrease (increase) in federal and state income tax receivable	1,804	—
Decrease (increase) in cash surrender value of bank owned life insurance	(1,497)	(1,571)
Gain on bank owned life insurance	—	(2,416)
Net realized (gain) loss on sales of premises, equipment, and real estate owned	(7,054)	(241)
Decrease (increase) in other assets	16,816	(7,715)
Increase (decrease) in accrued expenses and other liabilities	(10,482)	2,595
Net cash provided by (used in) operating activities	60,265	58,104
CASH FLOWS FROM INVESTING ACTIVITIES		
Origination of loans and principal repayments, net	(222,257)	(80,089)
Loans purchased	—	(143,605)
FHLB & FRB stock purchased	(164,200)	(123,600)
FHLB & FRB stock redeemed	155,800	116,000
Available-for-sale securities purchased	(172,076)	(40,884)
Principal payments and maturities of available-for-sale securities	38,118	58,261
Proceeds from sales of available-for-sale securities	491	—
Held-to-maturity securities purchased	—	(170,836)
Principal payments and maturities of held-to-maturity securities	37,736	50,653
Proceeds from sales of real estate owned	3,915	3,440
Proceeds from settlement of bank owned life insurance	—	3,484
Proceeds from sales of premises and equipment	10,233	1
Premises and equipment purchased and REO improvements	(18,562)	(6,485)
Net cash provided by (used in) investing activities	(330,802)	(333,660)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in customer accounts	174,623	166,647
Proceeds from borrowings	4,105,000	3,090,000
Repayments of borrowings	(3,895,000)	(2,900,000)
Proceeds from stock-based awards	459	286
Dividends paid on common stock	(14,638)	(13,043)
Treasury stock purchased	(48,930)	(38,984)
Increase (decrease) in borrower advances related to taxes and insurance, net	(36,252)	(32,707)
Net cash provided by (used in) financing activities	285,262	272,199
Increase (decrease) in cash and cash equivalents	14,725	(3,357)
Cash, cash equivalents and restricted cash at beginning of period	268,650	313,070
Cash, cash equivalents and restricted cash at end of period	$283,375	$309,713

(CONTINUED)

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

	Three Months Ended December 31,	
	2018	2017
	(In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities		
Real estate acquired through foreclosure	$116	$ 773
Non-cash financing activities		
Stock issued upon exercise of warrants	1,082	3,761
Cash paid during the period for		
Interest	44,177	29,986
Income taxes	—	5,225

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies

Nature of Operations - Washington Federal, Inc. (the "Company") is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through its national bank subsidiary, Washington Federal, National Association (the "Bank"). The Bank is principally engaged in the business of attracting deposits from businesses and the general public and investing these funds, together with borrowings and other funds, in commercial and consumer 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 Company has prepared the consolidated unaudited interim financial statements included in this report. 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 adjustments) necessary for a fair presentation are reflected in the interim financial statements. Certain amounts in the financial statements from prior periods have been reclassified to conform to the current financial statement presentation.

The information included in this Form 10-Q should be read in conjunction with the financial statements and related notes in the Company's 2018 Annual Report on Form 10-K (“2018 Annual Financial Statements”). 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 the Company's consolidated financial statements are disclosed in its 2018 Annual Financial Statements. There have not been any material changes in the Company's significant accounting policies compared to those contained in its 2018 Annual Financial Statements for the year ended September 30, 2018.

Restricted Cash Balances - Based on the level of daily average deposits, the Company is currently not required to maintain cash reserve balances with the Federal Reserve Bank. As of December 31, 2018 and September 30, 2018, the Company pledged cash collateral related to derivative contracts of $18,000,000 and $18,000,000, respectively.

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 of $2,116,196,000 and $2,180,162,000 at December 31, 2018 and September 30, 2018, 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.

NOTE B – New Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments also require the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, including reasonably certain renewal periods. The amendments in the ASU are effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The Company is assessing the impact that this guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No.2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU adds, eliminates, and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The ASU is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Entities are also allowed to elect early adoption of the eliminated or modified disclosure requirements and delay adoption of the added disclosure requirements until their effective date. As the ASU only revises disclosure requirements, this guidance will not have a material impact on the Company's consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842) - Targeted Improvements to provide entities with relief from the costs of implementing certain aspects of the new leasing standard, ASU No. 2016-02. Specifically, under the amendments in ASU 2018-11: (1) entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard, and (2) lessors may elect to not separate non-lease components from leases when certain conditions are met. The amendments have the same effective date as ASU 2016-02 (October 1, 2019 for the Company). The Company expects to elect both transition options. ASU 2018-11 is not expected to have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The ASU expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition with a cumulative effect adjustment recorded to opening retained earnings as of the initial adoption date. The Company early adopted this ASU beginning October 1, 2018. The adoption did not result in a cumulative effect adjustment to the opening balance of retained earnings and accumulated other comprehensive income. See Note G Derivatives and Hedging Activities for additional information.

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities. The ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The ASU is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Effective October 1, 2018, the Company early adopted this ASU and it did not have a material impact on its consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The ASU clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments also define the term in substance nonfinancial asset. The amendments clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. A contract that includes the transfer of ownership interests in one or more consolidated subsidiaries is within the scope of Subtopic 610-20 if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets. The amendments clarify that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The ASU is effective for public business entities for annual periods beginning after December 15, 2017, and interim periods therein. Entities may use either a full or modified retrospective approach to adopt the ASU. Effective October 1, 2018, the Company adopted this ASU and it did not have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash: a Consensus of the FASB Emerging Issues Task Force. This ASU requires a company’s cash flow statement to explain the changes during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Additionally, amounts for restricted cash and restricted cash equivalents are to be included with cash and cash equivalents if the cash flow statement includes a reconciliation of the total cash balances for a reporting period. This ASU is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017, with early application permitted. Effective October 1, 2018, the Company adopted this ASU and applied the retrospective transition method to each period presented. The Company does not present restricted cash as a separate line item in the statement of financial position, therefore, there was no change to the presentation of cash on the statement of cash flows. The nature and amount of restricted cash is shown in Note A, Summary of Significant Accounting Policies.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendments in this ASU address eight specific cash flow issues with the objective of reducing diversity in practice. The specific issues identified include: debt prepayments or extinguishment costs; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies ("BOLI")); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period; however, early adoption is permitted. Effective October 1, 2018, the Company adopted this ASU and applied the retrospective transition method to each period presented. The Company previously classified proceeds from the settlement of BOLI policies in the manner required by the ASU so there was no change to the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. The amendments in this ASU were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investments in leases and other commitments to extend credit held by a reporting entity at each reporting date. The amendments require that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The ASU eliminates the current framework of recognizing probable incurred losses and instead requires an entity to use its current estimate of all expected credit losses over the contractual life. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets.

For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination (“PCD assets”) that are measured at amortized cost, an allowance for expected credit losses is recorded as an adjustment to the cost basis of the asset. Subsequent changes in estimated cash flows would be recorded as an adjustment to the allowance and through the statement of income.

Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security's cost basis.

The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For most debt securities, the transition approach requires a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period the guidance is effective. For other-than-temporarily impaired debt securities and PCD assets, the guidance will be applied prospectively. While the Company is currently in the process of evaluating the impact of the amended guidance on its consolidated financial statements, it currently expects the ALLL to increase upon adoption given that the allowance will be required to cover the full remaining expected life of the portfolio upon adoption, rather than the incurred loss model under current U.S. GAAP. The extent of this increase is still being evaluated and will depend on economic conditions and the composition of the Company’s loan and lease portfolio at the time of adoption.

In February 2016, the FASB issued ASU 2016-02, Leases. The amendments require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The guidance also simplifies the accounting for sale and leaseback transactions. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently in the process of accumulating the lease data necessary to apply the amended guidance. The Company is continuing to evaluate the impact of the amended guidance on its consolidated financial statements, but the effects of recognizing most operating leases is not expected to be material. The Company expects to recognize right-of-use assets and lease liabilities for substantially all of its operating lease commitments based on the present value of unpaid lease payments as of the date of adoption.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU require a number of changes including the following: (1) requires equity investments to be measured at fair value with changes in fair value recognized in net income; (2) allows equity investments without readily determinable fair values to be measured at cost less impairment, if any, plus or minus changes in observable prices (referred to as the "measurement alternative"); and (3) changes certain presentation and disclosure requirements for financial instruments, including using the exit price notion when measuring the fair value of financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. Effective October 1, 2018, the Company adopted this ASU and it did not have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (ASC 606). As amended, the guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification.

Effective October 1, 2018, the Company adopted this ASU and its related amendments using the modified retrospective method for all contracts that have not been completed (i.e. open contracts). As such, any comparative information has not been adjusted and continues to be reported under Topic 605. There was no cumulative effect adjustment as of October 1, 2018. The Company evaluated the guidance and concluded that substantially all of its revenue streams are outside of the scope of ASC 606. As such, the guidance did not have a material impact on its consolidated financial statements or result in a material change to its disclosures. See more information in Note H, Revenue from Contracts with Customers.

NOTE C – Dividends and Share Repurchases

On November 23, 2018, the Company paid a regular dividend on common stock of $0.18 per share, which represented the 143rd consecutive quarterly cash dividend. Dividends per share were $0.18 and $0.15 for the quarters ended December 31, 2018 and 2017, respectively. On January 16, 2019, the Company declared a regular dividend on common stock of $0.20 per share, which represents its 144th consecutive quarterly cash dividend. This dividend will be paid on February 22, 2019 to common shareholders of record on February 8, 2019.

For the three months ended December 31, 2018, the Company repurchased 1,740,192 shares at an average price of $28.12. As of December 31, 2018, there are 292,406 remaining shares authorized to be repurchased under the current Board approved share repurchase program. On January 16, 2019 the Board authorized an additional 10,000,000 shares for repurchase under the program.

NOTE D – Loans Receivable

The following table is a summary of loans receivable.

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	December 31, 2018		September 30, 2018	
	(In thousands)		(In thousands)	
Gross loans by category				
Single-family residential	$5,844,963	44.9%	$5,798,966	45.1%
Construction	1,841,674	14.1	1,890,668	14.7
Construction - custom	607,071	4.7	624,479	4.9
Land - acquisition & development	181,323	1.4	155,204	1.2
Land - consumer lot loans	100,563	0.8	102,036	0.8
Multi-family	1,405,172	10.8	1,385,125	10.8
Commercial real estate	1,526,887	11.7	1,452,168	11.3
Commercial & industrial	1,213,738	9.3	1,140,874	8.9
HELOC	136,856	1.1	130,852	1.0
Consumer	162,221	1.2	173,306	1.3
Total gross loans	13,020,468	100 %	12,853,678	100 %
Less:				
Allowance for loan losses	131,165		129,257	
Loans in process	1,138,308		1,195,506	
Net deferred fees, costs and discounts	50,756		51,834	
Total loan contra accounts	1,320,229		1,376,597	
Net loans	$11,700,239		$11,477,081	

The following table sets forth information regarding non-accrual loans.

	December 31, 2018		September 30, 2018	
	(In thousands, except ratio data)			
Non-accrual loans:				
Single-family residential	$24,748	48.1%	$27,643	49.6%
Construction	1,380	2.7	2,427	4.4
Land - acquisition & development	438	0.9	920	1.7
Land - consumer lot loans	785	1.5	787	1.4
Commercial real estate	9,478	18.4	8,971	16.1
Commercial & industrial	13,995	27.2	14,394	25.8
HELOC	599	1.2	523	0.9
Consumer	27	0.1	21	—
Total non-accrual loans	$51,450	100 %	$55,686	100 %
% of total net loans	0.44	%	0.49	%

The Company recognized interest income on non-accrual loans of approximately $843,000 in the three months ended December 31, 2018. Had these loans been on accrual status and performed according to their original contract terms, the Company would have recognized interest income of approximately $587,000 for the three months ended December 31, 2018. Recognized interest income for the three months ended December 31, 2018 was higher than what otherwise would have been collected in the period due to the collection of past due amounts. Interest cash flows collected on non-accrual loans vary from period to period as those loans are brought current or are paid off.

The following tables provide details regarding delinquent loans.

December 31, 2018	Loans Receivable	Days Delinquent Based on $ Amount of Loans					% based on $
Type of Loan	Net of Loans In Process	Current	30	60	90	Total Delinquent	
	(In thousands, except ratio data)						
Single-family residential	$5,844,383	$5,817,233	$5,857	$5,019	$16,274	$ 27,150	0.46 %
Construction	1,047,229	1,045,849	—	—	1,380	1,380	0.13
Construction - custom	299,622	299,622	—	—	—	—	—
Land - acquisition & development	145,635	145,443	—	—	192	192	0.13
Land - consumer lot loans	100,440	99,957	—	—	483	483	0.48
Multi-family	1,405,149	1,403,524	974	651	—	1,625	0.12
Commercial real estate	1,526,887	1,520,083	1,757	2,942	2,105	6,804	0.45
Commercial & industrial	1,213,738	1,203,436	283	234	9,785	10,302	0.85
HELOC	136,856	135,488	411	569	388	1,368	1.00
Consumer	162,221	161,946	121	125	29	275	0.17
Total Loans	$11,882,160	$11,832,581	$9,403	$9,540	$30,636	$ 49,579	0.42 %
Delinquency %		99.58%	0.08%	0.08%	0.26%	0.42%	

September 30, 2018	Loans Receivable	Days Delinquent Based on $ Amount of Loans					% based on $
Type of Loan	Net of Loans In Process	Current	30	60	90	Total Delinquent	
	(In thousands, except ratio data)						
Single-family residential	$5,798,353	$5,768,253	$7,983	$3,562	$18,555	$ 30,100	0.52 %
Construction	1,062,855	1,060,428	—	—	2,427	2,427	0.23
Construction - custom	289,192	289,192	—	—	—	—	—
Land - acquisition & development	123,560	122,620	—	270	670	940	0.76
Land - consumer lot loans	101,908	101,294	144	117	353	614	0.60
Multi-family	1,385,103	1,385,103	—	—	—	—	—
Commercial real estate	1,452,169	1,448,946	316	1,767	1,140	3,223	0.22
Commercial & industrial	1,140,874	1,130,836	—	—	10,038	10,038	0.88
HELOC	130,852	129,510	567	469	306	1,342	1.03
Consumer	173,306	172,777	172	328	29	529	0.31
Total Loans	$11,658,172	$11,608,959	$9,182	$6,513	$33,518	$ 49,213	0.42 %
Delinquency %		99.58%	0.08%	0.06%	0.29%	0.42%	

The percentage of total delinquent loans was 0.42% as of December 31, 2018 and 0.42% as of September 30, 2018. There are no loans greater than 90 days delinquent and still accruing interest as of either date.

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The following table provides information related to loans restructured in a troubled debt restructuring ("TDR") during the periods presented:

	Three Months Ended December 31,					
	2018			2017		
	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	1	$ 283	$ 283	8	$ 2,012	$ 2,012
Commercial & Industrial	—	—	—	3	7,256	7,256
	1	$ 283	$ 283	11	$ 9,268	$ 9,268

The following table provides information on payment defaults occurring during the periods presented where the loan had been modified in a TDR within 12 months of the payment default.

	Three Months Ended December 31,			
	2018		2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
		($ in thousands)		($ in thousands)
Trouble Debt Restructurings That Subsequently Defaulted:				
Single-family residential	1	$ 543	1	$ 44
	1	$ 543	1	$ 44

Most loans restructured in TDRs are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. As of December 31, 2018, 96.0% of the Company's $149,693,000 in TDRs were classified as performing. Each request for modification is individually evaluated for merit and likelihood of success. The concession granted in a loan modification is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twenty four 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, 2018, single-family residential loans comprised 89.4% 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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NOTE E – Allowance for Losses on Loans
The following tables summarize the activity in the allowance for loan losses.

Three Months Ended December 31, 2018	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$33,033	$ (25)	$ 230	$ (1,754)	$ 31,484
Construction	31,317	—	—	146	31,463
Construction - custom	1,842	—	—	84	1,926
Land - acquisition & development	7,978	—	1,782	(604)	9,156
Land - consumer lot loans	2,164	(72)	265	(213)	2,144
Multi-family	8,329	—	—	(445)	7,884
Commercial real estate	11,852	(339)	525	673	12,711
Commercial & industrial	28,702	(179)	33	1,723	30,279
HELOC	781	(886)	1	1,168	1,064
Consumer	3,259	(140)	213	(278)	3,054
	$129,257	$ (1,641)	$ 3,049	$ 500	$ 131,165

Three Months Ended December 31, 2017	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$36,892	$ (461)	$ 121	$ (624)	$ 35,928
Construction	24,556	—	—	658	25,214
Construction - custom	1,944	(50)	—	158	2,052
Land - acquisition & development	6,829	—	3,372	(2,846)	7,355
Land - consumer lot loans	2,649	(47)	—	304	2,906
Multi-family	7,862	—	—	42	7,904
Commercial real estate	11,818	—	—	(193)	11,625
Commercial & industrial	28,524	(116)	55	805	29,268
HELOC	855	—	—	(47)	808
Consumer	1,144	(78)	286	2,743	4,095
	$123,073	$ (752)	$ 3,834	$ 1,000	$ 127,155

The Company recorded a release of loan loss allowance of $500,000 for the three months ended December 31, 2018, compared with no provision for loan losses for the three months ended December 31, 2017. Reserving for new loan originations as the loan portfolio grows has been largely offset by recoveries of previously charged-off loans. Recoveries, net of charge-offs, totaled $1,408,000 for the three months ended December 31, 2018, compared to net recoveries of $3,082,000 during the three months ended December 31, 2017.

Non-performing assets were $62,730,000, or 0.39%, of total assets at December 31, 2018, compared to $70,093,000, or 0.44%, of total assets at September 30, 2018. Non-accrual loans were $51,450,000 at December 31, 2018, compared to $55,686,000 at September 30, 2018. Delinquencies, as a percent of total loans, were 0.42% at December 31, 2018, compared to 0.42% at September 30, 2018.

The reserve for unfunded commitments was $6,250,000 as of December 31, 2018, which is a decrease from $7,250,000 at September 30, 2018.

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Management believes the allowance for loan losses plus the reserve for unfunded commitments, totaling $137,415,000, or 1.06% of gross loans as of December 31, 2018, is sufficient to absorb estimated losses inherent in the portfolio of loans and unfunded commitments.

The following tables show loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves.

December 31, 2018	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment		
	Allowance Allocation	Recorded Investment of Loans	Ratio	Allowance Allocation	Recorded Investment of Loans	Ratio
	(In thousands, except ratio data)			(In thousands, except ratio data)		
Single-family residential	$ 31,484	$ 5,833,667	0.5 %	$ —	$ 16,259	— %
Construction	31,463	1,045,849	3.0	—	1,380	—
Construction - custom	1,926	299,622	0.6	—	—	—
Land - acquisition & development	9,147	145,197	6.3	9	438	2.1
Land - consumer lot loans	2,144	95,628	2.2	—	303	—
Multi-family	7,880	1,404,714	0.6	4	435	0.9
Commercial real estate	12,569	1,512,064	0.8	142	14,823	1.0
Commercial & industrial	29,934	1,199,565	2.5	345	14,206	2.4
HELOC	1,064	135,369	0.8	—	519	—
Consumer	3,054	161,958	1.9	—	162	—
	$ 130,665	$ 11,833,633	1.1 %	$ 500	$ 48,525	1.0 %

September 30, 2018	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment		
	Allowance Allocation	Recorded Investment of Loans	Ratio	Allowance Allocation	Recorded Investment of Loans	Ratio
	(In thousands, except ratio data)			(In thousands, except ratio data)		
Single-family residential	$ 33,033	$ 5,782,870	0.6 %	$ —	$ 21,345	— %
Construction	31,317	1,060,428	3.0	—	2,427	—
Construction - custom	1,842	289,192	0.6	—	—	—
Land - acquisition & development	7,969	122,639	6.5	9	920	1.0
Land - consumer lot loans	2,164	96,583	2.2	—	507	—
Multi-family	8,325	1,384,655	0.6	4	448	1.0
Commercial real estate	11,702	1,432,791	0.8	150	19,378	0.8
Commercial & industrial	28,348	1,126,438	2.5	354	14,437	2.5
HELOC	781	128,715	0.6	—	1,162	—
Consumer	3,259	173,181	1.9	—	56	—
	$ 128,740	$ 11,597,492	1.1 %	$ 517	$ 60,680	0.9 %

As of December 31, 2018, $130,665,000 of the allowance was calculated under the Company's general allowance methodology and the remaining $500,000 was specific reserves on loans deemed to be individually impaired. As of

September 30, 2018, $128,740,000 of the allowance was calculated under the Company's general allowance methodology and the remaining $517,000 was specific reserves on loans deemed to be individually impaired.

The Company has an asset quality review function that analyzes its loan portfolio and reports the results of the review to its 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 collection or 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 risk rating categories as defined above.

December 31, 2018	Internally Assigned Grade					
	Pass	Special mention	Substandard	Doubtful	Loss	Total Gross Loans
	(In thousands, except ratio data)					
Loan type						
Single-family residential	$5,815,029	$ —	$ 29,934	$ —	$ —	$5,844,963
Construction	1,832,326	7,968	1,380	—	—	1,841,674
Construction - custom	607,071	—	—	—	—	607,071
Land - acquisition & development	179,602	—	1,721	—	—	181,323
Land - consumer lot loans	99,778	—	785	—	—	100,563
Multi-family	1,397,920	3,254	3,998	—	—	1,405,172
Commercial real estate	1,484,559	19,810	22,518	—	—	1,526,887
Commercial & industrial	1,169,981	9,790	33,967	—	—	1,213,738
HELOC	136,256	—	600	—	—	136,856
Consumer	162,191	—	30	—	—	162,221
Total gross loans	$12,884,713	$ 40,822	$ 94,933	$ —	$ —	$13,020,468
Total grade as a % of total gross loans	99.0 %	0.3 %	0.7 %	— %	—%	

September 30, 2018	Internally Assigned Grade					
	Pass	Special mention	Substandard	Doubtful	Loss	Total Gross Loans
	(In thousands, except ratio data)					
Loan type						
Single-family residential	$5,766,096	$ —	$ 32,870	$ —	$ —	$5,798,966
Construction	1,886,304	1,937	2,427	—	—	1,890,668
Construction - custom	624,479	—	—	—	—	624,479
Land - acquisition & development	152,984	—	2,220	—	—	155,204
Land - consumer lot loans	101,249	—	787	—	—	102,036
Multi-family	1,378,803	1,633	4,689	—	—	1,385,125
Commercial real estate	1,421,602	7,114	23,452	—	—	1,452,168
Commercial & industrial	1,093,405	16,513	30,956	—	—	1,140,874
HELOC	130,330	—	522	—	—	130,852
Consumer	173,285	—	21	—	—	173,306
Total gross loans	$12,728,537	$ 27,197	$ 97,944	$ —	$ —	$12,853,678
Total grade as a % of total gross loans	99.0 %	0.2 %	0.8 %	— %	—%	

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The following tables provide information on gross loans based on borrower payment activity.

December 31, 2018	Performing Loans			Non-Performing Loans		
	Amount	% of Total Gross Loans		Amount	% of Total Gross Loans	
	(In thousands, except ratio data)					
Single-family residential	$5,820,215	99.6	%	$ 24,748	0.4	%
Construction	1,840,294	99.9		1,380	0.1	
Construction - custom	607,071	100.0		—	—	
Land - acquisition & development	180,885	99.8		438	0.2	
Land - consumer lot loans	99,778	99.2		785	0.8	
Multi-family	1,405,172	100.0		—	—	
Commercial real estate	1,517,409	99.4		9,478	0.6	
Commercial & industrial	1,199,743	98.8		13,995	1.2	
HELOC	136,257	99.6		599	0.4	
Consumer	162,194	100.0		27	—	
	$12,969,018	99.6	%	$ 51,450	0.4	%

September 30, 2018	Performing Loans			Non-Performing Loans		
	Amount	% of Total Gross Loans		Amount	% of Total Gross Loans	
	(In thousands, except ratio data)					
Single-family residential	$5,771,323	99.5	%	$ 27,643	0.5	%
Construction	1,888,241	99.9		2,427	0.1	
Construction - custom	624,479	100.0		—	—	
Land - acquisition & development	154,284	99.4		920	0.6	
Land - consumer lot loans	101,249	99.2		787	0.8	
Multi-family	1,385,125	100.0		—	—	
Commercial real estate	1,443,197	99.4		8,971	0.6	
Commercial & industrial	1,126,480	98.7		14,394	1.3	
HELOC	130,329	99.6		523	0.4	
Consumer	173,285	100.0		21	—	
	$12,797,992	99.6	%	$ 55,686	0.4	%

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The following tables provide information on impaired loan balances and the related allowances by loan types.

December 31, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance		Average Recorded Investment (Year-To-Date)
	(In thousands)				
Impaired loans with no related allowance recorded:					
Single-family residential	$15,438	$16,633	$ —		$ 17,155
Construction	1,630	1,750	—		2,164
Land - acquisition & development	335	335	—		575
Land - consumer lot loans	181	281	—		246
Commercial real estate	9,945	15,035	—		9,685
Commercial & industrial	9,868	10,055	—		10,003
HELOC	519	612	—		465
Consumer	25	230	—		23
	37,941	44,931	—		40,316
Impaired loans with an allowance recorded:					
Single-family residential	133,808	136,876	2,498		136,802
Land - acquisition & development	103	156	—		105
Land - consumer lot loans	4,601	4,930	9		4,759
Multi-family	435	435	4		442
Commercial real estate	5,552	6,625	142		5,903
Commercial & industrial	4,159	7,502	345		4,225
HELOC	968	978	—		972
Consumer	67	67	—		69
	149,693	157,569	2,998	(1)	153,277
Total impaired loans:					
Single-family residential	149,246	153,509	2,498		153,957
Construction	1,630	1,750	—		2,164
Land - acquisition & development	438	491	—		680
Land - consumer lot loans	4,782	5,211	9		5,005
Multi-family	435	435	4		442
Commercial real estate	15,497	21,660	142		15,588
Commercial & industrial	14,027	17,557	345		14,228
HELOC	1,487	1,590	—		1,437
Consumer	92	297	—		92
	$187,634	$202,500	$ 2,998	(1)	$ 193,593

(1) Includes $500,000 of specific reserves and $2,498,000 included in the general reserves.

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September 30, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance		Average Recorded Investment (Year-To-Date)
	(In thousands)				
Impaired loans with no related allowance recorded:					
Single-family residential	$18,872	$20,050	$ —		$ 20,097
Construction	2,698	2,818	—		1,349
Construction - custom	—	—	—		74
Land - acquisition & development	814	814	—		572
Land - consumer lot loans	311	336	—		260
Multi-family	—	—	—		70
Commercial real estate	9,425	14,035	—		11,158
Commercial & industrial	10,137	10,146	—		9,208
HELOC	410	1,170	—		450
Consumer	20	56	—		54
	42,687	49,425	—		43,292
Impaired loans with an allowance recorded:					
Single-family residential	139,796	143,099	2,871		161,729
Land - acquisition & development	107	157	—		39
Land - consumer lot loans	4,916	5,290	9		6,449
Multi-family	448	448	4		471
Commercial real estate	6,254	7,733	150		10,445
Commercial & industrial	4,291	7,506	354		4,495
HELOC	976	984	—		1,395
Consumer	70	70	—		83
	156,858	165,287	3,388	(1)	185,106
Total impaired loans:					
Single-family residential	158,668	163,149	2,871		181,826
Construction	2,698	2,818	—		1,349
Construction - custom	—	—	—		74
Land - acquisition & development	921	971	—		611
Land - consumer lot loans	5,227	5,626	9		6,709
Multi-family	448	448	4		541
Commercial real estate	15,679	21,768	150		21,603
Commercial & industrial	14,428	17,652	354		13,703
HELOC	1,386	2,154	—		1,845
Consumer	90	126	—		137
	$199,545	$214,712	$ 3,388	(1)	$ 228,398

(1) Includes $517,000 of specific reserves and $2,871,000 included in the general reserves.

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NOTE F – Fair Value Measurements

FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active exchange markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company has established and documented the process for determining the fair values of its assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, fair value is determined using valuation models or third-party appraisals. The following is a description of the valuation methodologies used to measure and report the fair value of financial assets and liabilities on a recurring or nonrecurring basis.

Measured on a Recurring Basis

Available-for-Sale Securities and Derivative Contracts

Securities available for sale are recorded at fair value on a recurring basis. The fair value of debt securities are priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and under GAAP are considered a Level 2 input method. Securities that are traded on active exchanges, including the Company's equity securities, are measured using the closing price in an active market and are considered a Level 1 input method.

The Company offers interest rate swaps to its variable rate borrowers who want to manage their interest rate risk. At the same time, the Company enters into the opposite trade with a counter party to offset its interest rate risk. The Company has also entered into commercial loan hedges as well as borrowings hedges using interest rate swaps. The fair value of these interest rate swaps are estimated by a third party pricing service using a discounted cash flow technique. These are considered a Level 2 input method.

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The following tables present the balance of assets and liabilities measured at fair value on a recurring basis.

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Financial Assets				
Available-for-sale securities:				
U.S. government and agency securities	$—	$200,704	$ —	$200,704
Municipal bonds	—	23,058	—	23,058
Corporate debt securities	—	222,541	—	222,541
Mortgage-backed securities				
Agency pass-through certificates	—	1,005,037	—	1,005,037
Commercial MBS	—	—	—	—
Total available-for-sale securities	—	1,451,340	—	1,451,340
Interest rate contracts	—	3,341	—	3,341
Commercial loan hedges	—	1,506	—	1,506
Borrowings hedges	—	11,751	—	11,751
Total financial assets	$—	$1,467,938	$ —	$1,467,938
Financial Liabilities				
Interest rate contracts	$—	$3,341	$ —	$3,341
Total financial liabilities	$—	$3,341	$ —	$3,341

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the three months ended December 31, 2018.

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	September 30, 2018			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Financial Assets				
Available-for-sale securities:				
Equity securities	$488	$—	$ —	$488
U.S. government and agency securities	—	207,293	—	207,293
Municipal bonds	—	22,978	—	22,978
Corporate debt securities	—	184,695	—	184,695
Mortgage-backed securities				
Agency pass-through certificates	—	896,041	—	896,041
Commercial MBS	—	3,462	—	3,462
Total available-for-sale securities	488	1,314,469	—	1,314,957
Interest rate contracts	—	12,731	—	12,731
Commercial loan hedges	—	3,857	—	3,857
Borrowings hedges	—	22,250	—	22,250
Total financial assets	$488	$1,353,307	$ —	$1,353,795
Financial Liabilities				
Interest rate contracts	$—	$12,731	$ —	$12,731
Total financial liabilities	$—	$12,731	$ —	$12,731

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the fiscal year ended September 30, 2018.

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Measured on a Nonrecurring Basis

Impaired Loans & Real Estate Owned

Real estate owned ("REO") consists principally of properties acquired through foreclosure. From time to time, and on a nonrecurring basis, adjustments using fair value measurements are recorded to reflect increases or decreases based on the discounted cash flows, the current appraisal or estimated value of the collateral, but only up to the fair value of the real estate owned as of the initial transfer date less selling costs.

When management determines that the fair value of the collateral or the real estate owned requires additional adjustments, either as a result of an updated appraised value or when there is no observable market price, the Company classifies the impaired loan or real estate owned as Level 3. Level 3 assets recorded at fair value on a nonrecurring basis at December 31, 2018 included loans for which a specific reserve allowance was established or a partial charge-off was recorded based on the fair value of collateral, as well as real estate owned where the fair value of the property was less than the cost basis.

The following tables present the aggregated balance of assets that were measured at fair value on a nonrecurring basis at December 31, 2018 and December 31, 2017, and the total gains (losses) resulting from those fair value adjustments for the three months ended December 31, 2018 and December 31, 2017. The estimated fair value measurements are shown gross of estimated selling costs.

	December 31, 2018				Three Months Ended December 31, 2018
	Level 1	Level 2	Level 3	Total	Total Gains (Losses)
	(In thousands)				(In thousands)
Impaired loans (1)	$—	$—	$1,970	$1,970	$ (726)
Real estate owned (2)	—	—	520	520	(32)
Balance at end of period	$—	$—	$2,490	$2,490	$ (758)

(1) The gains (losses) represent remeasurements of collateral-dependent loans.
(2) The gains (losses) represent aggregate writedowns and charge-offs on REO.

	December 31, 2017				Three Months Ended December 31, 2017
	Level 1	Level 2	Level 3	Total	Total Gains

	(In thousands)				(Losses) (In thousands)
Impaired loans (1)	$—	$—	$688	$688	$ (507)
Real estate owned (2)	—	—	2,055	2,055	(180)
Balance at end of period	$—	$—	$2,743	$2,743	$ (687)

(1) The gains (losses) represent remeasurements of collateral-dependent loans.
(2) The gains (losses) represent aggregate writedowns and charge-offs on REO.

Impaired loans - The Company adjusts the carrying amount of impaired loans when there is evidence of probable loss and the expected fair value of the loan is less than its contractual amount. The amount of the impairment may be determined based on the estimated present value of future cash flows or the fair value of the underlying collateral. Impaired loans with a specific reserve allowance based on cash flow analysis or the value of the underlying collateral are classified as Level 3 assets.

The evaluations for impairment are prepared by the Company's Problem Loan Review Committee, which is chaired by the Chief Credit Officer and includes the Loan Review manager and Special Credits manager, as well as senior credit officers, division managers and group executives, as applicable. These evaluations are performed in conjunction with the quarterly allowance for loan loss process.

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Applicable loans included in the previous quarter's review are reevaluated and if their values are materially different from the prior quarter evaluation, the underlying information (loan balance and collateral value) are compared. Material differences are evaluated for reasonableness and discussions are held between the relationship manager and their division manager to understand the difference and determine if any adjustment is necessary.
The inputs are developed and substantiated on a quarterly basis, based on current borrower developments, market conditions and collateral values. The following methods are used to value impaired loans:

- The fair value of the collateral, which may take the form of real estate or personal property, is based on internal estimates, field observations, assessments provided by third-party appraisers and other valuation models. The Company performs or reaffirms valuations of collateral-dependent impaired loans at least annually. Adjustments are made if management believes that more recent information is available and relevant with respect to the fair value of the collateral.
- The present value of the expected future cash flows of the loans is used for measurement of non-collateral-dependent loans to test for impairment.

Real estate owned - When a loan is reclassified from loan status to real estate owned due to the Company taking possession of the collateral, a special credits officer, along with the special credits manager, obtains a valuation, which may include appraisals or third-party price opinions, which is used to establish the fair value of the underlying collateral. The determined fair value, less selling costs, becomes the carrying value of the REO asset.
The fair value of REO assets is re-evaluated quarterly and the REO asset is adjusted to reflect the fair value as necessary. After foreclosure, the valuations are updated periodically and current market conditions may require the assets to be written down further or up to the cost basis established on the date of transfer. The carrying balance of REO assets are also written down once a bona fide offer is contractually accepted, through execution of a purchase and sale agreement, where the accepted price is lower than the cost established on the transfer date.
Fair Values of Financial Instruments
FASB ASC 825 requires disclosure of fair value information about financial instruments, whether or not recognized on the statement of financial condition, for which it is practicable to estimate those values. Certain financial instruments and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value estimates presented do not reflect the underlying fair value of the Company. Although management is not aware of any factors that would materially affect the estimated fair value amounts presented below, such amounts have not been comprehensively revalued for purposes of these financial statements since the dates shown, and therefore, estimates of fair value subsequent to those dates may differ significantly from the amounts presented below.

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	Level in Fair Value Hierarchy	December 31, 2018 Carrying Amount	December 31, 2018 Estimated Fair Value	September 30, 2018 Carrying Amount	September 30, 2018 Estimated Fair Value
		($ in thousands)			
Financial assets					
Cash and cash equivalents	1	$283,375	$283,375	$268,650	$268,650
Available-for-sale securities					
Equity securities	1	—	—	488	488
U.S. government and agency securities	2	200,704	200,704	207,293	207,293
Municipal bonds	2	23,058	23,058	22,978	22,978
Corporate debt securities	2	222,541	222,541	184,695	184,695
Mortgage-backed securities					
Agency pass-through certificates	2	1,005,037	1,005,037	896,041	896,041
Commercial MBS	2	—	—	3,462	3,462
Total available-for-sale securities		1,451,340	1,451,340	1,314,957	1,314,957
Held-to-maturity securities					
Mortgage-backed securities					
Agency pass-through certificates	2	1,571,815	1,522,571	1,610,420	1,533,742
Commercial MBS	2	15,000	14,925	15,000	15,028
Total held-to-maturity securities		1,586,815	1,537,496	1,625,420	1,548,770
Loans receivable	3	11,700,239	12,020,772	11,477,081	11,556,326
FHLB and FRB stock	2	135,590	135,590	127,190	127,190
Other assets - interest rate contracts	2	3,341	3,341	12,731	12,731
Other assets - commercial loan hedges	2	1,506	1,506	3,857	3,857
Other assets - borrowings hedges	2	11,751	11,751	22,250	22,250
Financial liabilities					
Time deposit accounts	2	4,817,346	4,822,783	4,804,803	4,779,040
FHLB advances	2	2,540,000	2,537,375	2,330,000	2,316,964
Other liabilities - interest rate contracts	2	3,341	3,341	12,731	12,731

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and cash equivalents – The carrying amount of these items is a reasonable estimate of their fair value.

Available-for-sale securities and held-to-maturity securities – Securities at fair value are primarily priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and are considered a Level 2 input method. Equity securities that are exchange traded are considered a Level 1 input method.

Loans receivable – Fair values are estimated first by stratifying the portfolios of loans with similar financial characteristics. Loans are segregated by type such as multi-family real estate, residential mortgage, construction, commercial, consumer and land loans. Each loan category is further segmented into fixed- and adjustable-rate interest terms. For residential mortgages and multi-family loans, the bank determined that its best exit price was by securitization. MBS benchmark prices are used as a base price, with further loan level pricing adjustments made based on individual loan characteristics such as Fico score, LTV, Property Type and occupancy. For all other loan categories an estimate of fair value is then calculated based on discounted cash flows using as a discount rate the current rate offered and observed in the market on similar products, plus an adjustment for liquidity to reflect the non-homogeneous nature of the loans, as well as, a annual loss rate based on historical losses to arrive at an estimated exit price fair value. Fair value for impaired loans is also based on recent appraisals or estimated cash flows discounted using rates commensurate with risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market information and specific borrower information.

FHLB and FRB stock – The fair value is based upon the par value of the stock that equates to its carrying value.
Customer accounts – The fair value of demand deposits, savings accounts, and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated by discounting the estimated future cash flows using the rates currently offered for deposits with similar remaining maturities.
FHLB advances – The fair value of FHLB advances and other borrowings is estimated by discounting the estimated future cash flows using rates currently available to the Company for debt with similar remaining maturities.
Interest rate contracts – The Company offers interest rate swaps to its variable rate borrowers who want to manage their interest rate risk. At the same time, the Company enters into the opposite trade with a counterparty to offset its interest rate risk. The fair value of these interest rate swaps is estimated by a third party pricing service using a discounted cash flow technique.
Commercial loan hedges – The fair value of the interest rate swaps is estimated by a third party pricing service using a discounted cash flow technique.
Borrowings hedges – The fair value of the interest rate swaps is estimated by a third party pricing service using a discounted cash flow technique.
The following tables provide a reconciliation of amortized cost to fair value of available-for-sale and held-to-maturity securities.

	December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
	($ in thousands)				
Available-for-sale securities					
U.S. government and agency securities due					
5 to 10 years	$59,408	$—	$(1,386)	$58,022	2.72%
Over 10 years	143,209	19	(546)	142,682	3.30
Corporate debt securities due					
1 to 5 years	113,798	1,068	(1,605)	113,261	3.93
5 to 10 years	112,587	—	(3,307)	109,280	3.35
Municipal bonds due					
1 to 5 years	1,406	—	(8)	1,398	2.05
Over 10 years	20,318	1,342	—	21,660	6.45
Mortgage-backed securities					
Agency pass-through certificates	1,008,622	4,888	(8,473)	1,005,037	3.36
	1,459,348	7,317	(15,325)	1,451,340	3.42
Held-to-maturity securities					
Mortgage-backed securities					
Agency pass-through certificates	1,571,815	870	(50,114)	1,522,571	3.16
Commercial MBS	15,000	—	(75)	14,925	3.33
	1,586,815	870	(50,189)	1,537,496	3.16
	$3,046,163	$8,187	$(65,514)	$2,988,836	3.29%

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	September 30, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
	($ in thousands)				
Available-for-sale securities					
U.S. government and agency securities due					
5 to 10 years	$60,872	$—	$(1,473)	$59,399	2.55%
Over 10 years	148,099	109	(314)	147,894	3.05
Equity securities					
1 to 5 years	500	—	(12)	488	1.80
Corporate bonds due					
1 to 5 years	113,762	1,875	(13)	115,624	3.59
5 to 10 years	69,965	35	(929)	69,071	3.23
Municipal bonds due					
1 to 5 years	1,398	—	(24)	1,374	2.05
Over 10 years	20,323	1,281			