

WASHINGTON FEDERAL INC
Form 10-Q
May 01, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2019

or

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

For the transition period from _____ to _____
Commission file number 001-34654

WASHINGTON FEDERAL, INC.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

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.

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class: April 29, 2019

Common stock, \$1.00 par value 80,442,401

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I

Item 1. Financial Statements (Unaudited)

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

Consolidated Statements of Financial Condition as of March 31, 2019 and September 30, 2018 3

Consolidated Statements of Operations for the three and six months ended March 31, 2019 and March 31, 2018 4

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)

	March 31, 2019	September 30, 2018
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	\$279,554	\$268,650
Available-for-sale securities, at fair value	1,545,606	1,314,957
Held-to-maturity securities, at amortized cost	1,553,683	1,625,420
Loans receivable, net of allowance for loan losses of \$133,086 and \$129,257	11,894,836	11,477,081
Interest receivable	50,790	47,295
Premises and equipment, net	277,010	267,995
Real estate owned	7,522	11,298
FHLB and FRB stock	138,390	127,190
Bank owned life insurance	219,167	216,254
Intangible assets, including goodwill of \$301,368 and \$301,368	310,266	311,286
Federal and state income tax assets, net	—	1,804
Other assets	158,384	196,494
	\$16,435,208	\$15,865,724
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Customer accounts		
Transaction deposit accounts	\$6,782,998	\$6,582,343
Time deposit accounts	4,939,365	4,804,803
	11,722,363	11,387,146
FHLB advances	2,610,000	2,330,000
Advance payments by borrowers for taxes and insurance	25,839	57,417
Federal and state income tax liabilities, net	4,180	—
Accrued expenses and other liabilities	68,546	94,253
	14,430,928	13,868,816
Stockholders' equity		
Common stock, \$1.00 par value, 300,000,000 shares authorized; 135,506,620 and 135,343,417 shares issued; 80,435,217 and 82,710,911 shares outstanding	135,507	135,343
Additional paid-in capital	1,669,860	1,666,609
Accumulated other comprehensive income (loss), net of taxes	8,634	8,294
Treasury stock, at cost; 55,071,403 and 52,632,506 shares	(1,071,957)	(1,002,309)
Retained earnings	1,262,236	1,188,971
	2,004,280	1,996,908
	\$16,435,208	\$15,865,724

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(In thousands, except share data)		(In thousands, except share data)	
INTEREST INCOME				
Loans receivable	\$ 141,061	\$ 126,529	\$ 278,126	\$ 251,040
Mortgage-backed securities	19,343	17,667	38,535	34,566
Investment securities and cash equivalents	7,178	4,883	13,543	9,253
	167,582	149,079	330,204	294,859
INTEREST EXPENSE				
Customer accounts	29,666	16,414	56,245	31,052
FHLB advances	17,846	15,364	34,737	30,771
	47,512	31,778	90,982	61,823
Net interest income	120,070	117,301	239,222	233,036
Provision (release) for loan losses	750	(950)) 250	(950)
Net interest income after provision (release)	119,320	118,251	238,972	233,986
OTHER INCOME				
Gain (loss) on sale of investment securities	—	—	(9)) —
FDIC loss share valuation adjustments	—	—	—	(8,550)
Loan fee income	667	780	1,637	1,815
Deposit fee income	5,886	6,403	12,129	13,089
Other income	6,257	5,404	18,062	13,028
	12,810	12,587	31,819	19,382
OTHER EXPENSE				
Compensation and benefits	32,774	31,625	66,657	61,244
Occupancy	9,830	9,013	19,098	17,684
FDIC insurance premiums	1,978	2,852	4,840	5,672
Product delivery	3,545	3,665	7,566	7,621
Information technology	8,755	8,781	17,795	16,710
Other expense	11,085	9,851	23,683	18,797
	67,967	65,787	139,639	127,728
Gain (loss) on real estate owned, net	808	(278)) 1,128	(232)
Income before income taxes	64,971	64,773	132,280	125,408
Income tax expense	13,873	15,502	28,240	24,467
NET INCOME	\$ 51,098	\$ 49,271	\$ 104,040	\$ 100,941
PER SHARE DATA				
Basic earnings per share	\$ 0.63	\$ 0.58	\$ 1.28	\$ 1.17
Diluted earnings per share	0.63	0.57	1.28	1.17
Dividends paid on common stock per share	0.20	0.17	0.38	0.32
Basic weighted average number of shares outstanding	80,968,050	85,647,494	81,384,456	86,299,885
Diluted weighted average number of shares outstanding	80,990,126	85,747,167	81,415,697	86,422,077

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(In thousands)		(In thousands)	
Net income	\$51,098	\$49,271	\$104,040	\$100,941
Other comprehensive income (loss) net of tax:				
Net unrealized gain (loss) on available-for-sale investment securities	13,585	(11,467)	17,100	(13,431)
Reclassification adjustment of net gain (loss) from sale of available-for-sale securities included in net income	—	—	(9)	—
Related tax benefit (expense)	(3,091)	3,681	(3,889)	4,403
	10,494	(7,786)	13,202	(9,028)
Net unrealized gain (loss) on cash flow hedges of borrowings	(6,150)	10,332	(16,650)	17,022
Related tax benefit (expense)	1,399	(1,651)	3,788	(4,110)
	(4,751)	8,681	(12,862)	12,912
Other comprehensive income (loss) net of tax	5,743	895	340	3,884
Comprehensive income	\$56,841	\$50,166	\$104,380	\$104,825

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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 January 1, 2019	\$ 135,496	\$ 1,668,666	\$ 1,227,275	\$ 2,891	\$(1,051,239)	\$ 1,983,089
Net income	—	—	51,098	—	—	51,098
Other comprehensive income (loss)	—	—	—	5,743	—	5,743
Dividends on common stock (\$0.20 per share)	—	—	(16,137)	—	—	(16,137)
Proceeds from stock-based awards	8	87	—	—	—	95
Stock-based compensation expense	3	1,107	—	—	—	1,110
Treasury stock acquired	—	—	—	—	(20,718)	(20,718)
Balance at March 31, 2019	\$ 135,507	\$ 1,669,860	\$ 1,262,236	\$ 8,634	\$(1,071,957)	\$ 2,004,280

(in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2018	\$ 135,275	\$ 1,661,866	\$ 1,081,517	\$ 8,004	\$(877,044)	\$ 2,009,618
Adjustment pursuant to adoption of ASU 2018-02	—	—	(1,772)	1,772	—	—
Net income	—	—	49,271	—	—	49,271
Other comprehensive income (loss)	—	—	—	(877)	—	(877)
Dividends on common stock (\$0.17 per share)	—	—	(13,812)	—	—	(13,812)
Proceeds from stock-based awards	42	904	—	—	—	946
Stock-based compensation expense	17	1,505	—	—	—	1,522
Treasury stock acquired	—	—	—	—	(57,995)	(57,995)
Balance at March 31, 2018	\$ 135,334	\$ 1,664,275	\$ 1,115,204	\$ 8,899	\$(935,039)	\$ 1,988,673

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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	—	—	104,040	—	—	104,040
Other comprehensive income (loss)	—	—	—	340	—	340
Dividends on common stock (\$0.38 per share)	—	—	(30,775)	—	—	(30,775)
Proceeds from stock-based awards	24	529	—	—	—	553
Stock-based compensation expense	101	2,761	—	—	—	2,862
Exercise of stock warrants	39	(39)	—	—	—	—
Treasury stock acquired	—	—	—	—	(69,648)	(69,648)
Balance at March 31, 2019	\$ 135,507	\$ 1,669,860	\$ 1,262,236	\$ 8,634	\$(1,071,957)	\$ 2,004,280

(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
Adjustment pursuant to adoption of ASU 2018-02	—	—	(1,772)	1,772	—	—
Net income	—	—	100,941	—	—	100,941
Other comprehensive income (loss)	—	—	—	2,112	—	2,112
Dividends on common stock (\$0.32 per share)	—	—	(26,855)	—	—	(26,855)
Proceeds from stock-based awards	56	1,176	—	—	—	1,232
Stock-based compensation expense	211	2,323	—	—	—	2,534
Exercise of stock warrants	109	(109)	—	—	—	—
Treasury stock acquired	—	—	—	—	(96,979)	(96,979)
Balance at March 31, 2018	\$ 135,334	\$ 1,664,275	\$ 1,115,204	\$ 8,899	\$(935,039)	\$ 1,988,673

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

	Six Months Ended March 31,	
	2019	2018
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 104,040	\$ 100,941
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion expense, net	14,924	26,756
Cash received from (paid to) FDIC under loss share agreements, net	—	1,595
Stock-based compensation expense	2,862	2,534
Provision (release) for loan losses	250	(950)
Loss (gain) on sale of investment securities	9	—
Gain on bank owned life insurance	—	(2,416)
Net realized (gain) loss on sales of premises, equipment, and real estate owned	(8,379)	(1,022)
Decrease (increase) in accrued interest receivable	(3,495)	(2,288)
Decrease (increase) in federal and state income tax receivable	1,804	(1,414)
Decrease (increase) in cash surrender value of bank owned life insurance	(2,913)	(3,012)
Decrease (increase) in other assets	21,460	(8,797)
Increase (decrease) in federal and state income tax liabilities	4,080	—
Increase (decrease) in accrued expenses and other liabilities	(25,707)	8,277
Net cash provided by (used in) operating activities	108,935	120,204
CASH FLOWS FROM INVESTING ACTIVITIES		
Origination of loans and principal repayments, net	(417,355)	(199,526)
Loans purchased	—	(143,605)
FHLB & FRB stock purchased	(309,800)	(259,400)
FHLB & FRB stock redeemed	298,600	255,400
Available-for-sale securities purchased	(290,574)	(123,324)
Principal payments and maturities of available-for-sale securities	75,483	104,733
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	70,096	98,781
Proceeds from sales of real estate owned	5,822	6,803
Proceeds from settlement of bank owned life insurance	—	3,484
Cash paid for acquisitions	—	(2,211)
Proceeds from sales of premises and equipment	11,622	1
Premises and equipment purchased and REO improvements	(26,337)	(12,819)
Net cash provided by (used in) investing activities	(581,952)	(442,519)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in customer accounts	335,369	304,001
Proceeds from borrowings	7,745,000	6,485,000
Repayments of borrowings	(7,465,000)	(6,385,000)
Proceeds from stock-based awards	553	1,232
Dividends paid on common stock	(30,775)	(26,855)
Treasury stock purchased	(69,648)	(96,979)
Increase (decrease) in borrower advances related to taxes and insurance, net	(31,578)	(15,346)
Net cash provided by (used in) financing activities	483,921	266,053

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Increase (decrease) in cash and cash equivalents	10,904	(56,262)
Cash, cash equivalents and restricted cash at beginning of period	268,650	313,070
Cash, cash equivalents and restricted cash at end of period	\$279,554	\$256,808

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

	Six Months Ended March 31, 2019 2018 (In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities		
Real estate acquired through foreclosure	\$253	\$1,329
Non-cash financing activities		
Stock issued upon exercise of warrants	1,082	3,761
Cash paid during the period for		
Interest	91,921	160,870
Income taxes	15,252	25,265

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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 vault cash on hand, the Company was not required to maintain cash reserve balances with the Federal Reserve Bank as of March 31, 2019. As of March 31, 2019 and September 30, 2018, the Company pledged cash collateral related to derivative contracts of \$18,000,000 and \$18,000,000, respectively.

Equity Securities - The Company records equity securities within Other assets in its Consolidated Statements of Financial Condition. Investments in equity securities with readily determinable fair values (marketable) are measured at fair value, with changes in the fair value recognized as a component of Other income in the Consolidated Statements of Operations. Investments in equity investments that do not have readily determinable fair values (non-marketable) are accounted for at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer, also referred to as the measurement alternative. Any adjustments to the carrying value of these investments are recorded in Other income in the Consolidated Statements of Operations.

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 \$2,265,227,000 and \$2,180,162,000 at March 31, 2019 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 April 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, that clarifies and improves areas of guidance related to the recently issued standards on credit losses (ASU 2016-13), hedging (ASU 2017-12), and recognition and measurement of financial instruments (ASU 2016-01). The amendments generally have the same effective dates as their related standards. If already adopted, the amendments of ASU 2016-01 and ASU 2016-13 are effective for fiscal years beginning after December 15, 2019 and the amendments of ASU 2017-12 are effective as of the beginning of the Company’s next annual reporting period; early adoption is permitted. The Company previously adopted both ASU 2017-12 and ASU 2016-01 and does not expect the amendments of ASU 2019-04 will have a material impact

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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on its consolidated financial statements. The Company is continuing to evaluate the impact of ASU 2016-13 and will consider the amendments of ASU 2019-04 as part of that process.

In August 2018, the FASB issued 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 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 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 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.

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In February 2016, the FASB issued ASU 2016-02, Leases. The ASU, as amended, requires 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 and introduces new disclosure requirements for leasing arrangements. Accounting by lessors is largely unchanged. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company will adopt the standard effective October 1, 2019. 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. The Company leases a number of properties under non-cancelable operating leases which will be subject to this ASU. We do not expect a material impact to our Consolidated Statement of Operations as a result of this ASU. While the Company has not quantified the impact to its Consolidated Statement of Condition, 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. For information on the Company's future minimum lease payments, refer to Note I Premises and Equipment in our Annual Report on Form 10-K for the year ended September 30, 2018.

NOTE C – Dividends and Share Repurchases

On February 22, 2019, the Company paid a regular dividend on common stock of \$0.20 per share, which represented the 144th consecutive quarterly cash dividend. Dividends per share were \$0.20 and \$0.17 for the quarters ended March 31, 2019 and 2018, respectively. On April 29, 2019, the Company declared a regular dividend on common stock of \$0.20 per share, which represents its 145th consecutive quarterly cash dividend. This dividend will be paid on May 24, 2019 to common shareholders of record on May 10, 2019.

For the three months ended March 31, 2019, the Company repurchased 698,705 shares at an average price of \$29.65. As of March 31, 2019, there are 9,593,701 remaining shares authorized to be repurchased under the current Board approved share repurchase program.

NOTE D – Loans Receivable

The following table is a summary of loans receivable.

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	March 31, 2019		September 30, 2018	
	(In thousands)		(In thousands)	
Gross loans by category				
Single-family residential	\$5,861,404	44.3 %	\$5,798,966	45.1 %
Construction	1,980,274	15.0	1,890,668	14.7
Construction - custom	586,515	4.4	624,479	4.9
Land - acquisition & development	194,739	1.5	155,204	1.2
Land - consumer lot loans	97,152	0.7	102,036	0.8
Multi-family	1,423,723	10.7	1,385,125	10.8
Commercial real estate	1,570,502	11.9	1,452,168	11.3
Commercial & industrial	1,230,888	9.3	1,140,874	8.9
HELOC	139,203	1.0	130,852	1.0
Consumer	156,002	1.2	173,306	1.3
Total gross loans	13,240,402	100 %	12,853,678	100 %
Less:				
Allowance for loan losses	133,086		129,257	
Loans in process	1,162,787		1,195,506	
Net deferred fees, costs and discounts	49,693		51,834	
Total loan contra accounts	1,345,566		1,376,597	
Net loans	\$11,894,836		\$11,477,081	

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

	March 31, 2019		September 30, 2018	
	(In thousands, except ratio data)			
Non-accrual loans:				
Single-family residential	\$24,474	50.0 %	\$27,643	49.6 %
Construction	1,282	2.6	2,427	4.4
Land - acquisition & development	242	0.5	920	1.7
Land - consumer lot loans	579	1.2	787	1.4
Commercial real estate	9,162	18.7	8,971	16.1
Commercial & industrial	12,366	25.3	14,394	25.8
HELOC	812	1.7	523	0.9
Consumer	24	—	21	—
Total non-accrual loans	\$48,941	100 %	\$55,686	100 %
% of total net loans	0.41	%	0.49	%

The Company recognized interest income on non-accrual loans of approximately \$1,571,000 in the six months ended March 31, 2019. Had these loans been on accrual status and performed according to their original contract terms, the Company would have recognized interest income of approximately \$1,151,000 for the six months ended March 31, 2019. Recognized interest income for the six months ended March 31, 2019 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.

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March 31, 2019	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	\$5,860,365	\$5,830,848	\$ 10,018	\$ 2,672	\$ 16,827	\$ 29,517	0.50 %
Construction	1,139,970	1,138,688	—	—	1,282	1,282	0.11
Construction - custom	307,405	306,929	—	476	—	476	0.15
Land - acquisition & development	152,546	152,394	152	—	—	152	0.10
Land - consumer lot loans	97,033	96,278	502	—	253	755	0.78
Multi-family	1,423,701	1,422,270	1,431	—	—	1,431	0.10
Commercial real estate	1,570,502	1,566,393	743	—	3,366	4,109	0.26
Commercial & industrial	1,230,888	1,221,571	311	—	9,006	9,317	0.76
HELOC	139,203	137,982	388	229	604	1,221	0.88
Consumer	156,002	155,749	91	16	146	253	0.16
Total Loans	\$12,077,615	\$12,029,102	\$ 13,636	\$ 3,393	\$ 31,484	\$ 48,513	0.40 %
Delinquency %		99.60%	0.11%	0.03%	0.26%	0.40%	

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 0.40% as of March 31, 2019 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 March 31, 2019		2018			
	Pre-Modification Outstanding	Post-Modification Outstanding	Pre-Modification Outstanding	Post-Modification Outstanding		
	Number of Recorded	Number of Recorded	Number of Recorded	Number of Recorded		
	Contracts	Contracts	Contracts	Contracts		
	Investment (\$ in thousands)	Investment (\$ in thousands)	Investment (\$ in thousands)	Investment (\$ in thousands)		
Troubled Debt Restructurings:						
Single-family residential	2	\$ 39	\$ 39	12	\$ 2,183	\$ 2,183
Land - consumer lot loans	1	40	40	—	—	—
	3	\$ 79	\$ 79	12	\$ 2,183	\$ 2,183

	Six Months Ended March 31, 2019		2018			
	Pre-Modification Outstanding	Post-Modification Outstanding	Pre-Modification Outstanding	Post-Modification Outstanding		
	Number of Recorded	Number of Recorded	Number of Recorded	Number of Recorded		
	Contracts	Contracts	Contracts	Contracts		
	Investment (\$ in thousands)	Investment (\$ in thousands)	Investment (\$ in thousands)	Investment (\$ in thousands)		
Troubled Debt Restructurings:						
Single-family residential	3	\$ 323	\$ 323	20	\$ 4,195	\$ 4,195
Land - consumer lot loans	1	40	40	—	—	—
Commercial & Industrial	—	—	—	3	7,256	7,256
	4	\$ 363	\$ 363	23	\$ 11,451	\$ 11,451

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 March 31,	
	2019	2018
	Number of Recorded	Number of Recorded
	Contracts	Contracts
	Investment (\$ in thousands)	Investment (\$ in thousands)
Trouble Debt Restructurings That Subsequently Defaulted:		
Single-family residential	4	\$ 755
	4	\$ 755
	1	\$ 162
	1	\$ 162

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	Six Months Ended March	
	2019	2018
	Number of Recorded	Number of Recorded
	Contract	Contract
	(\$ in thousands)	(\$ in thousands)
Trouble Debt Restructurings That Subsequently Defaulted:		
Single-family residential	5 \$ 1,298	2 \$ 206
	5 \$ 1,298	2 \$ 206

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 March 31, 2019, 96.9% of the Company's \$140,599,000 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 March 31, 2019, single-family residential loans comprised 89.8% of TDRs.

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

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NOTE E – Allowance for Losses on Loans

The following tables summarize the activity in the allowance for loan losses.

Three Months Ended March 31, 2019	Beginning Allowance (In thousands)	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
Single-family residential	\$31,484	\$ (150)	\$ 310	\$ (168)	\$ 31,476
Construction	31,463	—	—	1,933	33,396
Construction - custom	1,926	—	—	50	1,976
Land - acquisition & development	9,156	—	1,300	(722)	9,734
Land - consumer lot loans	2,144	(48)	—	(20)	2,076
Multi-family	7,884	—	—	(490)	7,394
Commercial real estate	12,711	—	244	(507)	12,448
Commercial & industrial	30,279	(285)	24	556	30,574
HELOC	1,064	(200)	43	175	1,082
Consumer	3,054	(332)	265	(57)	2,930
	\$131,165	\$ (1,015)	\$ 2,186	\$ 750	\$ 133,086
Three Months Ended March 31, 2018	Beginning Allowance (In thousands)	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
Single-family residential	\$35,928	\$ (290)	\$ 211	\$ (1,705)	\$ 34,144
Construction	25,214	—	—	2,175	27,389
Construction - custom	2,052	—	—	29	2,081
Land - acquisition & development	7,355	—	1,207	(940)	7,622
Land - consumer lot loans	2,906	(18)	—	(35)	2,853
Multi-family	7,904	—	—	78	7,982
Commercial real estate	11,625	(36)	1	(2)	11,588
Commercial & industrial	29,268	—	115	(53)	29,330
HELOC	808	(1)	—	(5)	802
Consumer	4,095	(94)	276	(492)	3,785
	\$127,155	\$ (439)	\$ 1,810	\$ (950)	\$ 127,576

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Six Months Ended March 31, 2019	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	\$33,033	\$ (175)	\$ 539	\$ (1,921)	\$ 31,476
Construction	31,317	—	—	2,079	33,396
Construction - custom	1,842	—	—	134	1,976
Land - acquisition & development	7,978	—	3,082	(1,326)	9,734
Land - consumer lot loans	2,164	(120)	265	(233)	2,076
Multi-family	8,329	—	—	(935)	7,394
Commercial real estate	11,852	(339)	770	165	12,448
Commercial & industrial	28,702	(464)	58	2,278	30,574
HELOC	781	(1,086)	44	1,343	1,082
Consumer	3,259	(472)	477	(334)	2,930
	\$ 129,257	\$ (2,656)	\$ 5,235	\$ 1,250	\$ 133,086
Six Months Ended March 31, 2018	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	\$36,892	\$ (750)	\$ 331	\$ (2,329)	\$ 34,144
Construction	24,556	—	—	2,833	27,389
Construction - custom	1,944	(50)	—	187	2,081
Land - acquisition & development	6,829	—	4,579	(3,786)	7,622
Land - consumer lot loans	2,649	(66)	—	270	2,853
Multi-family	7,862	—	—	120	7,982
Commercial real estate	11,818	(36)	1	(195)	11,588
Commercial & industrial	28,524	(116)	170	752	29,330
HELOC	855	(1)	1	(53)	802
Consumer	1,144	(172)	562	2,251	3,785
	\$ 123,073	\$ (1,191)	\$ 5,644	\$ 50	\$ 127,576

The Company recorded a provision for loan losses of \$750,000 for the three months ended March 31, 2019, compared to a \$950,000 release of allowance for loan losses for the three months ended March 31, 2018. A provision for loan losses of \$250,000 and a release of allowance for loan losses of \$950,000 was recorded for the six months ended March 31, 2019 and March 31, 2018, respectively. 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 \$1,171,000 for the three months ended March 31, 2019, compared to net recoveries of \$1,371,000 during the three months ended March 31, 2018. Recoveries, net of charge-offs, totaled \$2,579,000 for the six months ended March 31, 2019, compared to net recoveries of \$4,453,000 during the six months ended March 31, 2018.

Non-performing assets were \$59,572,000, or 0.36% of total assets, at March 31, 2019, compared to \$70,093,000, or 0.44% of total assets, at September 30, 2018. Non-accrual loans were \$48,941,000 at March 31, 2019, compared to \$55,686,000 at September 30, 2018. Delinquencies, as a percent of total loans, were 0.40% at March 31, 2019, compared to 0.42% at September 30, 2018.

The reserve for unfunded commitments was \$6,250,000 as of March 31, 2019, 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 \$139,336,000, or 1.05% of gross loans as of March 31, 2019, 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.

March 31, 2019	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	\$ 31,476	\$ 5,848,663	0.5 %	\$ —	\$ 16,836	—	%
Construction	33,396	1,138,688	2.9	—	1,282	—	
Construction - custom	1,976	307,405	0.6	—	—	—	
Land - acquisition & development	9,727	152,304	6.4	7	242	2.9	
Land - consumer lot loans	2,076	92,614	2.2	—	309	—	
Multi-family	7,390	1,422,864	0.5	4	837	0.5	
Commercial real estate	12,328	1,552,990	0.8	120	17,512	0.7	
Commercial & industrial	30,329	1,219,921	2.5	245	12,651	1.9	
HELOC	1,082	137,716	0.8	—	528	—	
Consumer	2,930	154,201	1.9	—	52	—	
	\$ 132,710	\$ 12,027,366	1.1 %	\$ 376	\$ 50,249	0.7	%
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 March 31, 2019, \$132,710,000 of the allowance was calculated under the Company's general allowance methodology and the remaining \$376,000 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.

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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.

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The following tables provide information on loans based on risk rating categories as defined above.

March 31, 2019	Internally Assigned Grade					Total Gross Loans
	Pass	Special mention	Substandard	Doubtful	Loss	
	(In thousands, except ratio data)					
Loan type						
Single-family residential	\$5,831,775	\$ —	\$29,629	\$ —	\$ —	\$5,861,404
Construction	1,978,992	—	1,282	—	—	1,980,274
Construction - custom	586,515	—	—	—	—	586,515
Land - acquisition & development	190,807	2,424	1,508	—	—	194,739
Land - consumer lot loans	96,573	—	579	—	—	97,152
Multi-family	1,415,872	—	7,851	—	—	1,423,723
Commercial real estate	1,529,461	7,599	33,442	—	—	1,570,502
Commercial & industrial	1,195,835	4,238	30,815	—	—	1,230,888
HELOC	138,391	—	812	—	—	139,203
Consumer	155,978	—	24	—	—	156,002
Total gross loans	\$13,120,199	\$ 14,261	\$105,942	\$ —	\$ —	\$13,240,402

Total grade as a % of total gross loans	99.1	% 0.1	% 0.8	% —	% —%
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September 30, 2018	Internally Assigned Grade					Total Gross Loans
	Pass	Special mention	Substandard	Doubtful	Loss	
	(In thousands, except ratio data)					

Loan type

Single-family residential \$5,766,096