

WASHINGTON FEDERAL INC  
Form 10-Q  
August 09, 2011  
Table of Contents

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 June 30, 2011

or

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

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

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

Washington  
(State or other jurisdiction of  
incorporation or organization)

91-1661606  
(I.R.S. Employer  
Identification No.)

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

(Former name, former address and former fiscal year, if changed since last report.)  
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

**APPLICABLE ONLY TO CORPORATE ISSUERS**

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

Title of class: \_\_\_\_\_ at August 8, 2011

Common stock, \$1.00 par value

110,285,716

---

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I

Item 1. Financial Statements (Unaudited)

The Condensed 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 June 30, 2011 and September 30, 2010 3

Consolidated Statements of Operations for the quarters and nine months ended June 30, 2011 and 2010 4

Consolidated Statements of Cash Flows for the nine months ended June 30, 2011 and 2010 5

Notes to Consolidated Financial Statements 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 21

Item 3. Quantitative and Qualitative Disclosures About Market Risk 28

Item 4. Controls and Procedures 29

PART II

Item 1. Legal Proceedings 30

Item 1A. Risk Factors 30

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 31

Item 3. Defaults Upon Senior Securities 31

Item 5. Other Information 31

Item 6. Exhibits 31

Signatures 33

Table of Contents

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

	June 30, 2011	September 30, 2010
	(In thousands, except share data)	
<b>ASSETS</b>		
Cash and cash equivalents	\$658,160	\$888,622
Available-for-sale securities, including encumbered securities of \$950,368 and \$933,315, at fair value	3,126,410	2,481,093
Held-to-maturity securities, including encumbered securities of \$47,553 and \$60,970, at amortized cost	49,503	80,107
Loans receivable, net	8,023,610	8,423,703
Covered loans, net	417,881	534,474
Interest receivable	51,873	49,020
Premises and equipment, net	165,466	162,721
Real estate held for sale	161,927	188,998
Covered real estate held for sale	67,908	44,155
FDIC indemnification asset	106,952	131,128
FHLB stock	151,753	151,748
Intangible assets, net	256,616	257,718
Federal and state income taxes, net	9,015	8,093
Other assets	76,266	84,799
	\$13,323,340	\$13,486,379
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Customer accounts		
Savings and demand accounts	\$8,684,725	\$8,825,918
Repurchase agreements with customers	28,965	26,622
	8,713,690	8,852,540
FHLB advances	1,862,997	1,865,548
Other borrowings	800,000	800,000
Advance payments by borrowers for taxes and insurance	23,866	39,504
Federal and State income taxes	—	—
Accrued expenses and other liabilities	62,465	87,640
	11,463,018	11,645,232
<b>Stockholders' equity</b>		
Common stock, \$1.00 par value, 300,000,000 shares authorized; 129,815,441 and 129,555,956 shares issued; 110,438,317 and 112,483,632 shares outstanding	129,815	129,556
Paid-in capital	1,581,562	1,578,527
Accumulated other comprehensive income, net of taxes	41,940	49,682
Treasury stock, at cost; 19,377,124 and 17,072,324 shares	(245,605)	(208,985)
Retained earnings	352,610	292,367
	1,860,322	1,841,147
	\$13,323,340	\$13,486,379

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Table of Contents

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

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)			
<b>INTEREST INCOME</b>				
Loans	\$127,736	\$141,744	\$394,286	\$421,513
Mortgage-backed securities	30,529	21,790	80,386	70,169
Investment securities and cash equivalents	3,266	3,837	10,988	6,394
	161,531	167,371	485,660	498,076
<b>INTEREST EXPENSE</b>				
Customer accounts	27,581	37,682	89,765	111,865
FHLB advances and other borrowings	27,818	30,404	83,474	92,120
	55,399	68,086	173,239	203,985
Net interest income	106,132	99,285	312,421	294,091
Provision for loan losses	21,000	20,736	77,750	153,909
Net interest income after provision for loan losses	85,132	78,549	234,671	140,182
<b>OTHER INCOME</b>				
Gain on FDIC-assisted transaction	—	—	—	85,608
Gain on sale of investments	—	—	8,147	20,428
Other	4,277	5,154	13,067	14,409
	4,277	5,154	21,214	120,445
<b>OTHER EXPENSE</b>				
Compensation and benefits	18,471	16,756	54,018	54,570
Occupancy	3,628	3,711	10,780	10,358
FDIC insurance premiums	5,100	4,874	15,299	13,313
Other	6,975	7,536	21,677	21,574
	34,174	32,877	101,774	99,815
Loss on real estate acquired through foreclosure, net	(8,171)	(31,031)	(28,369)	(60,386)
Income before income taxes	47,064	19,795	125,742	100,426
Income tax provision (benefit)	16,943	7,127	45,267	(2,264)
<b>NET INCOME</b>	<b>\$30,121</b>	<b>\$12,668</b>	<b>\$80,475</b>	<b>\$102,690</b>
<b>PER SHARE DATA</b>				
Basic earnings	\$0.27	\$0.11	\$0.72	\$0.91
Diluted earnings	0.27	0.11	0.72	0.91
Cash dividends per share	0.06	0.05	0.18	0.15
Basic weighted average number of shares outstanding	111,158,254	112,470,205	111,962,708	112,424,364
Diluted weighted average number of shares outstanding, including dilutive stock options	111,248,177	112,705,160	112,043,350	112,693,009
<b>SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</b>				

Table of Contents

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

	Nine Months Ended	
	June 30, 2011	June 30, 2010
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$80,475	\$102,690
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) of fees, discounts, premiums and intangible assets, net	32,456	7,488
Cash received from FDIC under loss share	20,977	76,140
Depreciation	4,950	4,200
Stock option compensation expense	815	922
Provision for loan losses	77,750	153,909
Loss on investment securities and real estate held for sale, net	20,222	39,958
Gain on FDIC-assisted transaction	—	(85,608)
Decrease (increase) in accrued interest receivable	(2,853)	) 7,024
Increase (decrease) in income taxes payable/receivable	3,575	(28,350)
FHLB stock dividends	(5)	) (4)
Decrease (increase) in other assets	8,533	(59,778)
Decrease in accrued expenses and other liabilities	(25,175)	) (66,101)
Net cash provided by operating activities	221,720	152,490
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Loan originations) principal collections, net	336,426	185,715
Available-for-sale securities purchased	(1,279,983)	) (1,001,644)
Principal payments and maturities of available-for-sale securities	485,597	643,263
Available-for-sale securities sold	131,361	368,309
Principal payments and maturities of held-to-maturity securities	31,383	17,972
Net cash received from acquisition	—	111,684
Proceeds from sales of real estate held for sale	63,575	103,323
Premises and equipment purchased	(7,695)	) (8,838)
Net cash provided (used) by investing activities	(239,336)	) 419,784
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in customer accounts	(138,850)	) 224,909
Net decrease in borrowings	(2,551)	) (137,138)
Proceeds from exercise of common stock options	1,045	1,757
Dividends paid	(20,232)	) (16,829)
Treasury stock purchased	(36,620)	) —
Decrease in advance payments by borrowers for taxes and insurance	(15,638)	) (14,418)
Net cash provided (used) by financing activities	(212,846)	) 58,281
Increase in cash and cash equivalents	(230,462)	) 630,555
Cash and cash equivalents at beginning of period	888,622	498,388
Cash and cash equivalents at end of period	\$658,160	\$1,128,943
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Non-cash investing activities		
Non-covered real estate acquired through foreclosure	\$64,873	\$192,091
Covered real estate acquired through foreclosure	46,008	24,459
Cash paid during the period for		
Interest	174,511	203,754

Income taxes	41,627	27,489
--------------	--------	--------

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5

---



Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies

The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal, Inc. (“Company”). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2010 Consolidated Statement of Financial Condition was derived from audited financial statements.

The information included in this Form 10-Q should be read in conjunction with Company’s 2010 Annual Report on Form 10-K (“2010 Form 10-K”) as filed with the SEC. Interim results are not necessarily indicative of results for a full year.

Loans receivable – When a borrower fails to make a required payment on a loan, the Company attempts to cure the deficiency by contacting the borrower. Contact is made after a payment is 30 days past its grace period. In most cases, deficiencies are cured promptly. If the delinquency is not cured within 90 days, the Company may institute appropriate action to foreclose on the property. If foreclosed, the property will be sold at a public sale and may be purchased by the Company.

The Company will consider modifying the interest rates and terms of a loan if it determines that a modification is a better alternative to foreclosure.

Loans are placed on nonaccrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is deducted from interest income. The Company does not accrue interest on loans 90 days past due or more. If payment is made on a loan so that the loan becomes less than 90 days past due, and the Company expects full collection of principal and interest, the loan is returned to full accrual status. Any interest ultimately collected is credited to income in the period of recovery. A loan is charged-off when the loss is estimable and it is confirmed that the borrower will not be able to meet its contractual obligations.

The Company maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing, quarterly assessments of the probable and estimable losses inherent in the loan portfolio. The Company’s methodology for assessing the appropriateness of the allowance consists of two components, which include the general allowance and specific allowances.

The general loan loss allowance is established by applying a loss percentage factor to the different loan types. Management believes loan types are the most relevant factor to group loans for the allowance calculation as the risk characteristics in these groups are similar. The loss percentage factor is made up of 2 parts – the historical loss factor (“HLF”) and the qualitative loss factor (“QLF”). The HLF takes into account historical charge-offs, while the QLF is determined by loan type and allows management to augment reserve levels to reflect the current environment and portfolio performance trends including recent charge-off trends. The allowances are provided based on Management’s continuing evaluation of the pertinent factors underlying the quality of the loan portfolio, including changes in the size and composition of the loan portfolio, actual loan loss experience, current economic conditions, collateral values, geographic concentrations, seasoning of the loan portfolio, specific industry conditions, and the duration of the current business cycle. The recovery of the carrying value of loans is susceptible to future market conditions beyond the Company’s control, which may result in losses or recoveries differing from those provided.

Specific allowances are established for loans which are individually evaluated, in cases where Management has identified significant conditions or circumstances related to a loan that Management believes indicate the probability that a loss has been incurred.

Impaired loans consist of loans receivable that are not expected to have their principal and interest repaid in accordance with their contractual terms. Collateral dependent impaired loans are measured using the fair value of the collateral, less selling costs. Non-collateral dependent loans are measured at the present value of expected future cash flows.

The Company receives fees for originating loans in addition to various fees and charges related to existing loans, which may include prepayment charges, late charges and assumption fees. Deferred loan fees and costs are recognized over the life of the loans using the effective interest method.

Off-Balance-Sheet Credit Exposures – The only material off-balance-sheet credit exposure is loans in process (“LIP”), which had a balance at June 30, 2011, excluding covered loans, of \$164,747,000. The Company estimates losses on LIP by including LIP with the related principal balance outstanding and then applying its general reserve methodology to the gross amount.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
 (UNAUDITED)

Certain reclassifications have been made to the financial statements to conform prior periods to current classifications.

## NOTE B – Dividends

On July 22, 2011 the Company paid its 114<sup>th</sup> consecutive quarterly cash dividend on common stock. Dividends per share were \$.06 and \$.05 for the quarters ended June 30, 2011 and 2010.

## NOTE C – Comprehensive Income

The Company's comprehensive income includes all items which comprise net income plus the unrealized gains (losses) on available-for-sale securities. Total comprehensive income for the quarters ended June 30, 2011 and June 30, 2010 totaled \$54,481,000 and \$23,809,000 respectively. Total comprehensive income for the nine months ended June 30, 2011 and June 30, 2010 totaled \$72,733,000 and \$103,287,000 respectively. The difference between the Company's net income and total comprehensive income for the nine months ended June 30, 2011 was as follows:

	(In thousands)
Comprehensive income:	
Net income	\$ 80,475
Other comprehensive income, net of tax of:	
Unrealized gain (loss) on securities	(2,589 )
Reclassification adjustment	(5,153 )
Total comprehensive income	\$ 72,733

## NOTE D – Loans Receivable (excluding Covered Loans)

	June 30, 2011		September 30, 2010		
	(In thousands)				
Single-family residential	\$6,281,072	74.8	% \$6,551,837	74.7	%
Construction - speculative	143,964	1.7	169,712	1.9	
Construction - custom	270,894	3.2	256,384	2.9	
Land - acquisition & development	230,901	2.8	307,230	3.5	
Land - consumer lot loans	169,714	2.0	186,840	2.1	
Multi-family	717,107	8.6	697,351	7.9	
Commercial real estate	303,023	3.6	315,915	3.6	
Commercial & industrial	82,091	1.0	83,070	1.0	
HELOC	114,676	1.4	116,143	1.3	
Consumer	73,061	0.9	92,624	1.1	
	8,386,503	100	% 8,777,106	100	%
Less:					
Allowance for probable losses	161,099		163,094		
Loans in process	164,747		154,171		
Deferred net origination fees	37,047		36,138		
	362,893		353,403		

\$8,023,610

\$8,423,703

7

---

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
(UNAUDITED)

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

	June 30, 2011 (In thousands)		September 30, 2010		
Non-accrual loans:					
Single-family residential	\$ 129,798	55.8	% \$ 115,155	46.8	%
Construction - speculative	24,539	10.5	39,915	16.3	
Construction - custom	—	—	—	—	
Land - acquisition & development	51,100	22.0	64,883	26.4	
Land - consumer lot loans	6,148	2.6	7,540	3.1	
Multi-family	7,850	3.4	4,931	2.0	
Commercial real estate	12,186	5.2	10,831	4.4	
Commercial & industrial	257	0.1	371	0.2	
HELOC	590	0.3	929	0.4	
Consumer	284	0.1	977	0.4	
Total non-accrual loans	\$ 232,752	100	% \$ 245,532	100	%

The following table provides an analysis of the age of loans in past due status as of June 30, 2011.

Type of Loans	Amount of Loans Net of LIP & Chg.-Off (In thousands)	Days Delinquent Based on \$ Amount of Loans				Total	% based on \$	
		Current	30	60	90			
Single-Family Residential	\$ 6,279,633	\$ 6,063,988	\$ 48,811	\$ 37,563	\$ 129,271	\$ 215,645	3.43	%
Construction - Speculative	115,271	101,797	1,372	1,546	10,556	13,474	11.69	%
Construction - Custom	147,339	146,704	635	—	—	635	0.43	%
Land - Acquisition & Development	221,967	182,912	7,756	17,888	13,411	39,055	17.59	%
Land - Consumer Lot Loans	169,714	161,206	1,538	822	6,148	8,508	5.01	%
Multi-Family	715,875	705,930	292	7,310	2,343	9,945	1.39	%
Commercial Real Estate	302,142	291,692	1,546	5,702	3,202	10,450	3.46	%
Commercial & Industrial	82,078	81,784	140	26	128	294	0.36	%
HELOC	114,676	113,603	216	267	590	1,073	0.94	%
Consumer	73,061	70,934	1,342	501	284	2,127	2.91	%
	\$ 8,221,756	\$ 7,920,550	\$ 63,648	\$ 71,625	\$ 165,933	\$ 301,206	3.66	%

## NOTE E – Allowance for Losses on Loans

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

borrowers or loans. Based on that risk rating, the loans are assigned a grade and classified as follows:

**Pass** – the credit does not meet one of the definitions defined 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.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
 (UNAUDITED)

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

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

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

The following table summarizes the activity in the allowance for loan losses for the quarter ended June 30, 2011:

	Beginning Allowance (In thousands)	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
Single-family residential	\$66,883	\$(8,985)	) \$969	\$15,694	\$74,561
Construction - speculative	21,536	(733)	) 564	1,108	22,475
Construction - custom	548	(80)	) —	122	590
Land - acquisition & development	44,648	(12,027)	) 158	2,576	35,355
Land - consumer lot loans	5,675	(1,169)	) —	1,307	5,813
Multi-family	8,007	(1,100)	) —	22	6,929
Commercial real estate	3,499	(75)	) 53	874	4,351
Commercial & industrial	6,406	(189)	) 70	(1,224)	) 5,063
HELOC	1,148	(496)	) 110	386	1,148
Consumer	5,267	(983)	) 395	135	4,814
	\$163,617	\$(25,837)	) \$2,319	\$21,000	\$161,099

The Company recorded a \$21,000,000 provision for loan losses during the quarter ended June 30, 2011, while a \$20,736,000 provision was recorded for the same quarter one year ago. Non-performing assets (“NPAs”) amounted to \$394,679,000, or 2.96%, of total assets at June 30, 2011, compared to \$473,121,000, or 3.45%, of total assets one year ago. Covered loans are not classified as non-performing loans because, at acquisition, the carrying value of these loans was adjusted to reflect fair value and are covered under FDIC loss sharing agreements. There was no allowance for loan losses related to the covered loans at June 30, 2011, as these loans are performing as anticipated or better than the projections used in the purchase accounting fair value calculations. Non-accrual loans decreased from \$292,335,000 at June 30, 2010, to \$232,752,000 at June 30, 2011, a 20.4% decrease. The Company had net charge-offs of \$23,519,000 for the quarter ended June 30, 2011, compared with \$41,862,000 of net charge-offs for the same quarter one year ago.

A loan is charged-off when the loss is estimable and it is confirmed that the borrower will not be able to meet its contractual obligations. While the percentage of loans 30 days or more delinquent decreased from 3.95% at June 30, 2010, to 3.66% at June 30, 2011, delinquencies in the single-family residential portfolio, the largest portion of the loan portfolio, increased from 3.09% at June 30, 2010, to 3.43% at June 30, 2011. In addition to these mixed asset quality trends, real estate values remain under pressure in most of the Company's primary markets, thus the Company recorded a similar provision for loan losses in the current quarter as compared to the same quarter one year ago. \$114,159,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining \$46,940,000 was made up of specific reserves on loans that were deemed to be impaired at June 30, 2011. For the period ending June 30, 2010, \$89,759,000 of the



Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
 (UNAUDITED)

allowance was calculated under the formulas contained in our general allowance methodology and the remaining \$83,668,000 was made up of specific reserves on loans that were deemed to be impaired. The primary reasons for the shift in total allowance allocation from specific reserves to general reserves is due to the Company having already addressed many of the problem loans focused in the speculative construction and land A&D portfolios, combined with an increase in delinquencies and elevated charge-offs in the single-family residential portfolio.

The following table shows a summary of loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves as of June 30, 2011:

	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment			
	General Reserve Allocation	Gross Loans Subject to General Reserve (1)	Ratio	Specific Reserve Allocation	Gross Loans Subject to Specific Reserve (1)	Ratio	
	(In thousands)			(In thousands)			
Single-family residential	\$70,755	\$ 6,265,274	1.1	% \$3,806	\$ 15,798	24.1	%
Construction - speculative	15,069	98,464	15.3	7,406	45,500	16.3	
Construction - custom	590	270,894	0.2	—	—	—	
Land - acquisition & development	6,196	53,351	11.6	29,159	177,550	16.4	
Land - consumer lot loans	4,579	167,418	2.7	1,234	2,296	53.7	
Multi-family	3,474	695,986	0.5	3,455	21,121	16.4	
Commercial real estate	2,690	268,519	1.0	1,661	34,504	4.8	
Commercial & industrial	4,844	77,884	6.2	219	4,207	5.2	
HELOC	1,148	114,676	1.0	—	—	—	
Consumer	4,814	73,061	6.6	—	—	—	
	\$114,159	\$ 8,085,527	1.4	\$46,940	\$ 300,976	15.6	

(1) Excludes covered loans

The following tables provide information on loans based on credit quality indicators (defined in Note A) as of June 30, 2011:

Credit Risk Profile by Internally Assigned Grade:

	Internally Assigned Grade					Total Gross Loans
	Pass	Special mention	Substandard	Doubtful	Loss	
	(In thousands)					
Single-family residential	\$6,149,861	\$—	\$131,211	\$—	\$—	\$6,281,072
Construction - speculative	31,871	5,484	106,609	—	—	143,964
Construction - custom	270,894	—	—	—	—	270,894
Land - acquisition & development	42,791	2,470	185,640	—	—	230,901
Land - consumer lot loans	169,590	—	124	—	—	169,714
Multi-family	680,729	3,756	32,622	—	—	717,107
Commercial real estate	263,993	4,345	34,685	—	—	303,023
Commercial & industrial	75,834	1,316	4,941	—	—	82,091

Edgar Filing: WASHINGTON FEDERAL INC - Form 10-Q

HELOC	114,676	—	—	—	—	114,676
Consumer	72,264	511	286	—	—	73,061
	\$7,872,503	\$17,882	\$496,118	\$—	\$—	\$8,386,503
Total grade as a % of total gross loans	93.9	% 0.2	% 5.9	% —	% —	%

10

---

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
 (UNAUDITED)

## Credit Risk Profile Based on Payment Activity:

	Performing Loans		Non-Performing Loans		
	Amount	% of Total Gross Loans	Amount	% of Total Gross Loans	
	(In thousands)				
Single-family residential	\$6,151,274	97.9	% \$129,798	2.1	%
Construction - speculative	119,425	83.0	24,539	17.0	
Construction - custom	270,894	100.0	—	—	
Land - acquisition & development	179,801	77.9	51,100	22.1	
Land - consumer lot loans	163,566	96.4	6,148	3.6	
Multi-family	709,257	98.9	7,850	1.1	
Commercial real estate	290,837	96.0	12,186	4.0	
Commercial & industrial	81,834	99.7	257	0.3	
HELOC	114,086	99.5	590	0.5	
Consumer	72,777	99.6	284	0.4	
	\$8,153,751	97.2	\$232,752	2.8	

The following table provides information on impaired loans based on loan types as of June 30, 2011:

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
 (UNAUDITED)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
	(In thousands)			
With no related allowance recorded:				
Single-family residential	\$—	\$—	\$—	\$—
Construction - speculative	23,523	32,184	—	28,839
Construction - custom	—	—	—	—
Land - acquisition & development	44,320	78,408	—	26,180
Land - consumer lot loans	—	—	—	—
Multi-family	5,206	6,306	—	2,564
Commercial real estate	16,399	16,885	—	5,536
Commercial & industrial	—	—	—	—
HELOC	—	—	—	—
Consumer	—	—	—	—
	89,448	133,783	—	63,119
With an allowance recorded:				
Single-family residential	287,504	287,504	25,368	251,584
Construction - speculative	41,914	42,091	7,406	37,197
Construction - custom	—	—	—	—
Land - acquisition & development	64,836	64,836	29,159	41,410
Land - consumer lot loans	—	—	1,234	—
Multi-family	16,934	16,934	3,455	6,097
Commercial real estate	3,784	3,784	1,661	1,632
Commercial & industrial	279	279	219	741
HELOC	—	—	—	—
Consumer	—	—	—	—
	415,251	415,428	68,502	(1) 338,661
Total:				
Single-family residential	287,504	287,504	25,368	251,584
Construction - speculative	65,437	74,275	7,406	66,036
Construction - custom	—	—	—	—
Land - acquisition & development	109,156	143,244	29,159	67,590
Land - consumer lot loans	—	—	1,234	—
Multi-family	22,140	23,240	3,455	8,661
Commercial real estate	20,183	20,669	1,661	7,168
Commercial & industrial	279	279	219	741
HELOC	—	—	—	—
Consumer	—	—	—	—
	\$ 504,699	\$ 549,211	\$ 68,502	(1) \$ 401,780

---

(1) Includes \$46,940,000 of specific reserves and \$21,562,000 included in the general reserves.

NOTE F – New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-04, Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurements and Disclosure

12

---

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
(UNAUDITED)

Requirements in U.S. GAAP and IFRSs. ASU 2011-04 developed common requirements between U.S. GAAP and IFRSs for measuring fair value and for disclosing information about fair value measurements. The effective date of ASU 2011-04 will be during interim or annual period beginning after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Company is evaluating the impact this ASU will have on its financial condition and results of operations.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220) – Presentation of Comprehensive Income. ASU 2011-05 attempts to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The effective date of ASU 2011-05 will be the first interim or fiscal period beginning after December 15, 2011 and should be applied retrospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is permitted. The Company is evaluating the impact this ASU will have on its financial condition and results of operations.

NOTE G – Fair Value Measurements

U.S. GAAP 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. U.S. GAAP also establishes a fair value hierarchy which 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 following is a description of the valuation methodologies used to measure and report fair value of financial assets and liabilities on a recurring or nonrecurring basis:

Measured on a Recurring Basis

Securities

Securities available for sale are recorded at fair value on a recurring basis. Securities at fair value are priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and under the provisions of the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification are considered a Level 2 input method.

The following table presents the balance of assets measured at fair value on a recurring basis at June 30, 2011:

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
(UNAUDITED)

	Fair Value at June 30, 2011			Total
	Level 1	Level 2	Level 3	
	(In thousands)			
Available-for-sale securities				
Equity securities	\$—	\$520	\$—	\$520
Obligations of U.S. government	—	275,625	—	275,625
Obligations of states and political subdivisions	—	21,969	—	21,969
Obligations of foreign governments	—	—	—	—
Corporate debt securities	—	10,811	—	10,811
Mortgage-backed securities				
Agency pass-through certificates	—	2,817,485	—	2,817,485
Other debt securities	—	—	—	—
Balance at end of period	\$—	\$3,126,410	\$—	\$3,126,410

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the quarter ended June 30, 2011.

## Measured on a Nonrecurring Basis

## Impaired Loans &amp; Real Estate Held for Sale

From time to time, and on a nonrecurring basis, fair value adjustments to collateral dependent loans and real estate held for sale are recorded to reflect write-downs of principal balances based on the current appraised or estimated value of the collateral.

Real estate held for sale consists principally of properties acquired through foreclosure.

The following table presents the aggregated balance of assets measured at estimated fair value on a nonrecurring basis through the quarter ended June 30, 2011, and the total losses resulting from those fair value adjustments for the quarter and nine months ended June 30, 2011. The following estimated fair values are shown gross of estimated selling costs:

	Through June 30, 2011				Quarter	Nine Months
	Level 1	Level 2	Level 3	Total	Ended June 30, 2011 Total Losses	Ended June 30, 2011
	(In thousands)					
Impaired loans (1)	\$—	\$—	\$199,547	\$199,547	\$6,586	\$35,890
Real estate held for sale (2)	—	—	120,252	120,252	9,019	34,364
Balance at end of period	\$—	\$—	\$319,799	\$319,799	\$15,605	\$70,254

(1) The losses represents remeasurements of collateral dependent loans.

(2) The losses represents aggregate writedowns and charge-offs on real estate held for sale.

There were no liabilities carried at fair value, measured on a recurring or nonrecurring basis, at June 30, 2011.

## Fair Values of Financial Instruments

U. S. GAAP 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.



Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
 (UNAUDITED)

	June 30, 2011		September 30, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial assets				
Cash and cash equivalents	\$658,160	\$658,160	\$888,622	\$888,622
Available-for-sale securities:				
Equity securities	520	520	—	—
Obligations of U.S. government	275,625	275,625	341,006	341,006
Obligations of states and political subdivisions	21,969	21,969	—	—
Obligations of foreign governments	—	—	—	—
Corporate debt securities	10,811	10,811	10,000	10,000
Mortgage-backed securities				
Agency pass-through certificates	2,817,485	2,817,485	2,130,087	2,130,087
Other debt securities	—	—	—	—
Total available-for-sale securities	3,126,410	3,126,410	2,481,093	2,481,093
Held-to-maturity securities:				
Equity securities	—	—	—	—
Obligations of U.S. government	—	—	—	—
Obligations of states and political subdivisions	1,950	2,048	7,055	7,269
Obligations of foreign governments	—	—	—	—
Corporate debt securities	—	—	—	—
Mortgage-backed securities				
Agency pass-through certificates	47,553	50,890	73,052	77,631
Other debt securities	—	—	—	—
Total held-to-maturity securities	49,503	52,938	80,107	84,900
Loans receivable	8,023,611	8,600,812	8,423,703	8,899,937
Covered loans	417,881	412,171	534,474	534,474
FHLB stock	151,753	151,753	151,748	151,748
Financial liabilities				
Customer accounts	8,713,690	8,557,383	8,852,540	8,811,009
FHLB advances and other borrowings	2,662,997	2,907,059	2,665,548	2,965,921

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 priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and under the provisions of the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification are considered a Level 2 input method.

Loans receivable and covered loans – For certain homogeneous categories of loans, such as fixed- and variable-rate residential mortgages, fair value is estimated for securities backed by similar loans, adjusted for differences in loan characteristics, using the same methodology described above for AFS and HTM securities. The fair value of other loan types is estimated by discounting the future cash flows and estimated prepayments using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining term. Some loan types were valued at carrying value because of their floating



Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
 (UNAUDITED)

rate or expected maturity characteristics. Net deferred loan fees are not included in the fair value calculation but are included in the carrying amount.

FHLB stock – The fair value is based upon the par value of the stock which 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 and other borrowings – 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.

The following is a reconciliation of amortized cost to fair value of available-for-sale and held-to-maturity securities:

	June 30, 2011					
	Amortized Cost (In thousands)	Gross Gains	Unrealized Losses	Fair Value	Yield	
Available-for-sale securities						
U.S. government and agency securities due						
Within 1 year	\$500	\$20	\$—	\$520	4.00	%
1 to 5 years	—	—	—	—	—	%
5 to 10 years	9,300	4,381	—	13,681	10.38	%
Over 10 years	295,974	1,502	(13,563)	283,913	3.07	%
Corporate bonds due						
5 to 10 years	10,000	811	—	10,811	6.00	%
Mortgage-backed securities						
Agency pass-through certificates	2,744,328	81,404	(8,247)	2,817,485	4.79	%
	3,060,102	88,118	(21,810)	3,126,410	4.65	%
Held-to-maturity securities						
Tax-exempt municipal bonds due						
1 to 5 years	—	—	—	—	—	%
5 to 10 years	1,950	98	—	2,048	5.72	%
Over 10 years	—	—	—	—	—	%
U.S. government and agency securities due						
1 to 5 years	—	—	—	—	—	%
Mortgage-backed securities						
Agency pass-through certificates	47,553	3,337	—	50,890	5.31	%
	49,503	3,435	—	52,938	5.33	%
	\$3,109,605	\$91,553	\$(21,810)	\$3,179,348	4.66	%

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
 (UNAUDITED)

	September 30, 2010					
	Amortized Cost (In thousands)	Gross Gains	Unrealized Losses	Fair Value	Yield	
Available-for-sale securities						
U.S. government and agency securities due						
Within 1 year	\$ 500	\$ 26	\$—	\$ 526	4.00	%
1 to 5 years	25,000	180	—	25,180	3.25	%
5 to 10 years	158,915	5,344	(105)	164,154	3.59	%
Over 10 years	150,000	1,161	(15)	151,146	3.50	%
Corporate bonds due						
5 to 10 years	10,000	—	—	10,000	6.00	%
Mortgage-backed securities						
Agency pass-through certificates	2,058,130	72,853	(896)	2,130,087	5.26	%
	2,402,545	79,564	(1,016)	2,481,093	5.02	%
Held-to-maturity securities						
Tax-exempt municipal bonds due						
1 to 5 years	1,105	65	—	1,170	6.11	%
5 to 10 years	1,940	115	—	2,055	5.67	%
Over 10 years	4,010	34	—	4,044	5.60	%
U.S. government and agency securities due						
1 to 5 years	—	—	—	—	—	%
Mortgage-backed securities						
Agency pass-through certificates	73,052	4,579	—	77,631	5.59	%
	80,107	4,793	—	84,900	5.60	%
	\$ 2,482,652	\$ 84,357	\$(1,016)	\$ 2,565,993	5.04	%

During the period ending June 30, 2011, \$131,361,000 of available-for-sale securities were sold, resulting in a gain of \$8,147,000. \$368,309,000 of available-for-sale securities were sold during the period ending June 30, 2010, resulting in a gain of \$20,428,000.

Substantially all mortgage-backed securities have contractual due dates that exceed 10 years.

The following table shows the unrealized gross losses and fair value of securities at June 30, 2011, by length of time that individual securities in each category have been in a continuous loss position. There were no securities that were in a continuous loss position for 12 or more months as of June 30, 2011. While the Company had \$21,810,000 of securities that were in a continuous loss position for less than 12 months as of June 30, 2011, Management believes that the declines in fair value of these investments are not an other than temporary impairment.

	Less than 12 months		12 months or more		Total	
	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value
U.S. agency securities	\$(13,563)	\$ 261,945	\$—	\$—	\$(13,563)	\$ 261,945
Agency pass-through certificates	(8,247)	779,449	—	—	(8,247)	779,449

(21,810 ) \$1,041,394 \$— \$— (21,810 ) \$1,041,394

NOTE H – Covered Assets

Covered assets represent loans and real estate held for sale acquired from the FDIC that are subject to loss sharing agreements

17

---

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
 (UNAUDITED)

and were \$485,789,000 as of June 30, 2011, versus \$578,629,000 as of September 30, 2010.

Changes in the carrying amount and accretible yield for acquired impaired and non-impaired loans were as follows for the quarter ended June 30, 2011:

	Acquired Impaired		Acquired Non-impaired	
	Accretible Yield	Carrying Amount of Loans	Accretible Yield	Carrying Amount of Loans
	(In thousands)			
Balance at beginning of period	\$27,019	\$190,530	\$39,813	\$343,944
Accretion	(8,337	) 8,337	(7,058	) 7,058
Transfers to REO		(46,008	) —	
Payments received, net		(24,152	) —	(61,828
Balance at end of period	\$18,682	\$128,707	\$32,755	\$289,174

At June 30, 2011, none of the acquired impaired or non-impaired loans were classified as non-performing assets. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans. There was no allowance for loan losses related to the covered loans at June 30, 2011, as these loans are performing as anticipated in the projections used in the purchase accounting fair value calculations.

The outstanding principal balance of acquired loans was \$540,133,000 and \$685,384,000 as of June 30, 2011 and September 30, 2010, respectively. The discount balance related to the acquired loans was \$122,252,000 and \$150,910,000 as of June 30, 2011 and September 30, 2010, respectively.

The following table shows the year to date activity for the FDIC indemnification asset:

	June 30, 2011	September 30, 2010
	(In thousands)	
Balance at beginning of period	\$131,128	\$—
Additions	—	227,500
Payments received	(20,978	) (92,551
Amortization	(5,645	) (8,150
Accretion	2,447	4,329
Balance at end of period	\$106,952	\$131,128

The following tables provide information on covered loans based on credit quality indicators (defined in Note A) as of June 30, 2011:

Credit Risk Profile by Internally Assigned Grade:

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
 (UNAUDITED)

	Internally Assigned Grade					Total Net Loans
	Pass	Special mention	Substandard	Doubtful	Loss	
(In thousands)						
Purchased non-credit impaired loans:						
Single-family residential	\$47,898	\$—	\$626	\$—	\$—	\$48,524
Construction - speculative	2,253	—	—	—	—	2,253
Construction - custom	—	—	—	—	—	—
Land - acquisition & development	8,878	7,277	324	—	—	16,479
Land - consumer lot loans	562	—	111	—	—	673
Multi-family	32,827	—	2,462	—	—	35,289
Commercial real estate	126,838	530	29,784	—	—	157,152
Commercial & industrial	20,489	4,886	5,821	—	—	31,196
HELOC	22,161	—	—	—	—	22,161
Consumer	1,311	—	—	—	—	1,311
	263,217	12,693	39,128	—	—	315,038
Total grade as a % of total net loans	83.6	% 4.0	% 12.4	% —	% —	%
Purchased credit impaired loans:						
Pool 1 - Construction and land A&D	9,062	3,975	63,912	—	—	76,949
Pool 2 - Single-family residential	3,911	—	9,030	—	—	12,941
Pool 3 - Multi-family	—	—	3,342	—	—	3,342
Pool 4 - HELOC & other consumer	3,888	—	5,504	—	—	9,392
Pool 5 - Commercial real estate	1,553	29,985	49,824	—	—	81,362
Pool 6 - Commercial & industrial	515	5,327	35,267	—	—	41,109
	\$18,929	\$39,287	\$166,879	\$—	\$—	225,095
						Total covered loans 540,133
						Discount (122,252 )
						Covered loans, net \$417,881

The following table provides an analysis of the age of purchased non-credit impaired loans in past due status for the period ended June 30, 2011.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010  
 (UNAUDITED)

Type of Loans	Amount of Loans Net of LIP & Chg.-Off	Days Delinquent Based on \$ Amount of Loans					Total	% based on \$	
		Current	30	60	90				
Single-Family Residential	\$ 48,524	\$43,880	\$2,527	\$16	\$2,101	\$4,644	9.57	%	
Construction - Speculative	2,253	2,253	—	—	—	—	—	%	
Construction - Custom	—	—	—	—	—	—	—	%	
Land - Acquisition & Development	16,479	15,658	590	—	231	821	4.98	%	
Land - Consumer Lot Loans	673	546	16	—	111	127	18.87	%	
Multi-Family	35,289	33,577	204	—	1,508	1,712	4.85	%	
Commercial Real Estate	157,152	152,999	2,756	152	1,245	4,153	2.64	%	
Commercial & Industrial	31,196	28,913	203	776	1,304	2,283	7.32	%	
HELOC	22,161	19,647	1,753	389	372	2,514	11.34	%	
Consumer	1,311	1,093	150	9	59	218	16.63	%	
	\$ 315,038	\$298,566	\$8,199	\$1,342	\$6,931	\$16,472	7.97	%	



Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

**FORWARD LOOKING STATEMENTS**

In addition to historical information, this Quarterly Report on Form 10-Q includes certain “forward-looking statements,” as defined in the Securities Act of 1933 and the Securities Exchange Act of 1934, based on current management expectations. Actual results could differ materially from those management expectations. Such forward-looking statements include statements regarding the Company’s intentions, beliefs or current expectations as well as the assumptions on which such statements are based. Stockholders and potential stockholders are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Factors that could cause future results to vary from current management expectations include, but are not limited to: general economic conditions; legislative and regulatory changes, including without limitation the potential effect of the Dodd-Frank Wall Street Reform and Consumer Protection Act and regulations to be promulgated thereunder; monetary fiscal policies of the federal government; changes in tax policies; rates and regulations of federal, state and local tax authorities; changes in interest rates; deposit flows; cost of funds; demand for loan products; demand for financial services; competition; changes in the quality or composition of the Company’s loan and investment portfolios; changes in accounting principles; policies or guidelines and other economic, competitive, governmental and technological factors affecting the Company’s operations, markets, products, services and fees, including without limitation the Bank’s ability to comply in a timely and satisfactory manner with the requirements of the memorandum of understanding entered into with the Office of Thrift Supervision. The Company undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

**GENERAL**

Washington Federal, Inc. (“Company”) is a savings and loan holding company. The Company’s primary operating subsidiary is Washington Federal. The name of the primary operating subsidiary was changed from Washington Federal Savings to Washington Federal effective July 7, 2011.

**INTEREST RATE RISK**

The Company accepts a higher level of interest rate volatility as a result of its significant holdings of fixed-rate single-family home loans that are longer in term than the characteristics of its primary liabilities of customer accounts and borrowings. As a result, assets do not respond as quickly to changes in interest rates as liabilities and net interest income typically declines when interest rates rise and expands when interest rates fall as compared to a portfolio of matched maturities of assets and liabilities.

At June 30, 2011, the Company had approximately \$2.7 billion more liabilities subject to repricing in the next year than assets, which amounted to a negative one-year maturity gap of 20% of total assets. This is an increase from the 16% gap as of September 30, 2010. During the current year, the Company has changed the model used to calculate these one year maturity gap results. Results for previous periods have been revised using the output from the new model. The new model uses the Company's specific data, at a granular level, to project estimated cash flows on loans and deposits. In particular, the loan prepayment assumptions incorporate our recent portfolio experience.

The potential impact of rising interest rates on net income for one year has also been estimated using the new model. In the event of an immediate and parallel increase of 200 basis points in interest rates, we would expect net interest income to decrease by 7.4%. In the event of a gradual increase from current rates by 200 basis points over a twelve-month period, we would expect a decrease in net interest income of 2.4%.

This analysis continues to assume zero balance sheet growth and constant percentage composition of assets and liabilities. It also assumes that loan and deposit prices respond in full to the increase in market rates. Actual results will differ from the assumptions used in this model, as Management monitors and adjusts loan and deposit pricing and the size and composition of the balance sheet to respond to changing interest rates.

The net portfolio value (“NPV”) is the difference between the present value of interest-bearing assets and the present value of expected cash flows from interest-earning liabilities and off-balance-sheet contracts. The sensitivity of the NPV to changes in interest rates is another measure of interest rate risk. This approach provides a longer term view of interest rate risk as it incorporates all future expected cash flows. In the event of an immediate and parallel increase of 200 basis points in interest rates, the NPV is estimated to decline by \$829 million and the NPV to total assets ratio to decline to 9.92%. As of September 30, 2010, the estimated decrease in NPV in the event of a 200 basis point decline in rates was estimated to decline by \$398 million and the NPV to total assets ratio to decline to 11.49%. This increase in NPV sensitivity is primarily due to slower prepayment estimates.

Table of Contents

## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

## PART I – Financial Information

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The interest rate spread increased to 3.15% at June 30, 2011 from 3.09% at September 30, 2010. The spread increased due to a continued declining cost of deposits based on the low interest rate environment. As of June 30, 2011, the weighted average rate on earning assets decreased by 14 basis points compared to September 30, 2010, while the weighted average rates on customer deposit accounts and borrowings decreased by 20 basis points over the same period.

As of June 30, 2011, the Company had decreased total assets by \$163,039,000, or 1.2%, from \$13,486,379,000 at September 30, 2010. For the quarter ended June 30, 2011, compared to September 30, 2010, loans (both non-covered and covered) decreased \$516,686,000, or 5.8%. To help offset the reduced income from loans, investment securities increased \$614,713,000, or 24.0%. Cash and cash equivalents of \$658,160,000 and stockholders’ equity of \$1,860,322,000 provides management with flexibility in managing interest rate risk going forward.

## LIQUIDITY AND CAPITAL RESOURCES

The Company’s net worth at June 30, 2011 was \$1,860,322,000, or 13.96%, of total assets. This was an increase of \$19,175,000 from September 30, 2010 when net worth was \$1,841,147,000, or 13.65%, of total assets. The Company’s net worth was impacted in the quarter by net income of \$30,121,000, the payment of \$6,712,000 in cash dividends, treasury stock purchases that totaled \$26,016,000, as well as an increase in other comprehensive income of \$24,360,000.

Management believes this strong net worth position will help the Company manage its interest rate risk and provide the capital support needed for controlled growth in a regulated environment. To be categorized as well capitalized, Washington Federal must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table.

	Actual		Capital Adequacy Guidelines		Categorized as Well Capitalized Under Prompt Corrective Action Provisions		
	Capital (In thousands)	Ratio	Capital	Ratio	Capital	Ratio	
June 30, 2011							
Total capital to risk-weighted assets	\$1,619,301	24.26	% \$533,881	8.00	% \$667,351	10.00	%
Tier I capital to risk-weighted assets	1,536,983	23.03	% N/A	N/A	400,411	6.00	%
Core capital to adjusted tangible assets	1,536,983	11.82	% N/A	N/A	650,082	5.00	%
Core capital to total assets	1,536,983	11.82	% 390,049	3.00	% N/A	N/A	
Tangible capital to tangible assets	1,536,983	11.82	% 195,025	1.50	% N/A	N/A	
September 30, 2010							
Total capital to risk-weighted assets	1,619,206	23.39	% 553,761	8.00	% 692,201	10.00	%
Tier I capital to risk-weighted assets	1,534,681	22.17	% N/A	N/A	415,321	6.00	%
Core capital to adjusted tangible assets	1,534,681	11.67	% N/A	N/A	657,606	5.00	%
Core capital to total assets	1,534,681	11.67	% 394,563	3.00	% N/A	N/A	
Tangible capital to tangible assets	1,534,681	11.67	% 197,282	1.50	% N/A	N/A	

CHANGES IN FINANCIAL CONDITION

Available-for-sale and held-to-maturity securities: Available-for-sale securities increased \$645,317,000, or 26.0%, during the nine months ended June 30, 2011, which included the purchase of \$1,279,983,000 of available-for-sale investment securities. During the same period, \$131,361,000 of available-for-sale securities were sold at a gain of \$8,147,000. There were no purchases or sales of held-to-maturity securities in the same period. As of June 30, 2011, the Company had net unrealized gains on available-for-sale securities of \$41,940,000, net of tax, which were recorded as part of stockholders' equity. The Company increased its available-for-sale investment portfolio to partially invest additional customer deposits and replace some of the lost interest income on

Table of Contents

## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

## PART I – Financial Information

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

maturing or prepaying loans and mortgage-backed securities.

Loans receivable: During the quarter ended June 30, 2011, the balance of loans receivable decreased 4.7% to \$8,023,610,000 compared to \$8,423,703,000 at September 30, 2010. This decrease is consistent with management’s strategy to reduce the Company’s exposure to land and construction loans and not aggressively compete for 30 year fixed-rate mortgages at current market rates. The Company’s current decision not to originate and hold in its loan portfolio 30 year fixed-rate loans at rates below 4.50%, due to the duration risk associated with such low mortgage rates, contributed to the net run off of the loan portfolio. Additionally, during the year to date period, \$64,873,000 of loans were transferred to REO. If the current low rates on 30 year fixed-rate mortgages persist, management will consider continuing to shrink the Company's loan portfolio. The following table shows the loan portfolio by category for the last three quarters.

Loan Portfolio by Category *	December 31, 2010 (In thousands)		March 31, 2011		June 30, 2011			
Single-family residential	\$6,333,040	74.9	% \$6,254,244	75.0	% \$6,281,072	74.8	%	
Construction - speculative	146,933	1.7	145,282	1.7	143,964	1.7		
Construction - custom	239,337	2.8	243,739	2.9	270,894	3.2		
Land - acquisition & development	275,396	3.3	253,377	3.0	230,901	2.8		
Land - consumer lot loans	181,205	2.1	174,929	2.1	169,714	2.0		
Multi-family	696,601	8.2	717,533	8.6	717,107	8.6		
Commercial real estate	315,332	3.7	294,181	3.5	303,023	3.6		
Commercial & industrial	78,082	0.9	74,248	0.9	82,091	1.0		
HELOC	115,660	1.4	114,840	1.4	114,676	1.4		
Consumer	85,987	1.0	79,184	0.9	73,061	0.9		
	8,467,573	100	% 8,351,557	100	% 8,386,503	100	%	
Less:								
Allowance for probable losses	159,288		163,617		161,099			
Loans in process	129,472		142,776		164,747			
Deferred net origination fees	35,865		36,503		37,047			
	324,625		342,896		362,893			
	\$8,142,948		\$8,008,661		\$8,023,610			

\* Excludes covered loans

Covered loans: As of June 30, 2011, covered loans had decreased 21.8%, or \$116,593,000, to \$417,881,000, compared to September 30, 2010, due to continued paydowns and transfers of the properties into covered real estate owned.

Non-performing assets: Non-performing assets, which excludes covered assets acquired in FDIC-assisted transactions, decreased during the quarter ended June 30, 2011 to \$394,679,000 from \$434,530,000 at September 30, 2010, a 9.2% decrease. The continued elevated level of NPAs is a result of the significant decline in housing values in the western United States and the national recession over the last three years. Non-performing assets as a percentage of total assets was 2.96% at June 30, 2011 compared to 3.22% at September 30, 2010. This level of NPAs remains significantly higher than the 0.82% average in the Company’s 28+ year history as a public company. The Company anticipates NPAs will continue to be elevated in the future until the residential real estate market stabilizes and values recover.

The following table sets forth information regarding restructured and non-accrual loans and REO held by the Company at the dates indicated.

23

---

Table of Contents

## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

## PART I – Financial Information

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

	June 30, 2011 (In thousands)		September 30, 2010		
Restructured loans:					
Single-family residential	\$283,445	78.0	% \$207,040	75.9	%
Construction - speculative	14,922	4.1	9,893	3.6	
Construction - custom	—	—	—	—	
Land - acquisition & development	32,505	8.9	33,497	12.3	
Land - consumer lot loans	10,493	2.9	7,095	2.6	
Multi - family	19,914	5.5	12,862	4.7	
Commercial real estate	1,449	0.4	1,503	0.6	
Commercial & industrial	857	0.2	954	0.3	
HELOC	78	—	78	—	
Consumer	—	—	—	—	
Total restructured loans (1)	363,663	100	% 272,922	100	%
Non-accrual loans:					
Single-family residential	129,798	55.8	% 115,155	46.8	%
Construction - speculative	24,539	10.5	39,915	16.3	
Construction - custom	—	—	—	—	
Land - acquisition & development	51,100	22.0	64,883	26.4	
Land - consumer lot loans	6,148	2.6	7,540	3.1	
Multi-family	7,850	3.4	4,931	2.0	
Commercial real estate	12,186	5.2	10,831	4.4	
Commercial & industrial	257	0.1	371	0.2	
HELOC	590	0.3	929	0.4	
Consumer	284	0.1	977	0.4	
Total non-accrual loans (2)	232,752	100	% 245,532	100	%
Total REO (3)	132,006		160,754		
Total REHI (3)	29,921		28,244		
Total non-performing assets	\$394,679		\$434,530		
Total non-performing assets and performing restructured loans as a percentage of total assets	5.19	%	4.89	%	
(1) Restructured loans were as follows:					
Performing	\$297,423	81.8	% \$225,195	82.5	%
Non-accrual *	66,240	18.2	47,727	17.5	
	\$363,663	100	% \$272,922	100	%

\* Included in "Total non-accrual loans" above

The Company recognized interest income on nonaccrual loans of approximately \$3,293,000 in the nine months (2)ended June 30, 2011. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately \$10,384,000 for the nine months ended June 30, 2011.

In addition to the nonaccrual loans reflected in the above table, at June 30, 2011, the Company had \$235,528,000 of loans that were less than 90 days delinquent but which it had classified as substandard for one or more reasons. If these loans were deemed non-performing, the Company's ratio of total NPAs and performing restructured loans as a percent of total assets would have increased to 6.96% at June 30, 2011.

(3) Total REO and REHI (included in real estate held for sale on the Statement of Financial Condition) includes real estate held



Table of Contents

## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

## PART I – Financial Information

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

for sale acquired in settlement of loans or acquired from purchased institutions in settlement of loans. Excludes covered REO.

Restructured single-family residential loans are reserved for under the Company’s general reserve methodology. If any individual loan is significant in balance, the Company may establish a specific reserve as warranted.

Most restructured loans are accruing and performing loans where the borrower has proactively approached the Company about modifications due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. Single-family residential loans comprised 78% of restructured loans as of June 30, 2011. The concession for these loans is typically a payment reduction through a rate reduction of from 100 to 200 bps for a specific term, usually six to twelve months. Interest-only payments may also be approved during the modification period. The subsequent default rate on restructured single-family mortgage loans has been approximately 15% since inception of the program in November 2008. Concessions for construction (4.1%), land A&D (8.9%) and multi-family loans (5.5%) are typically an extension of maturity combined with a rate reduction of normally 100 bps. The subsequent default rate on restructured commercial loans has been less than 10% since December 2009.

For commercial loans, six consecutive payments on newly restructured loan terms are required prior to returning the loan to accrual status. In some instances after the required six consecutive payments are made, a management assessment will conclude that collection of the entire principal balance is still in doubt. In those instances, the loan will remain on non-accrual. Homogeneous loans may or may not be on accrual status at the time of restructuring, but all are placed on accrual status upon the restructuring of the loan. Homogeneous loans are restructured only if the borrower can demonstrate the ability to meet the restructured payment terms; otherwise, collection is pursued and the loan remains on non-accrual status until liquidated. If the homogeneous restructured loan does not perform it will be placed in non-accrual status when it is 90 days delinquent.

A loan that defaults and is subsequently modified would impact the Company’s delinquency trend, which is part of the qualitative risk factors component of the general reserve calculation. Any modified loan that re-defaults and is charged-off would impact the historical loss factors component of our general reserve calculation.

Allocation of the allowance for loan losses: The following table shows the allocation of the Company’s allowance for loan losses at the dates indicated.

	June 30, 2011			September 30, 2010		
	Amount	Loans to Total Loans (1)	Coverage Ratio (2)	Amount	Loans to Total Loans (1)	Coverage Ratio (2)
	(In thousands)					
Single-family residential	\$74,561	74.8	% 1.2	% \$47,381	74.8	% 0.7
Construction - speculative	22,475	1.7	15.3	26,666	1.9	15.7
Construction - custom	590	3.2	0.2	450	2.9	0.2
Land - acquisition & development	35,355	2.8	12.8	61,530	3.5	20.0
Land - consumer lot loans	5,813	2.0	3.2	4,793	2.1	2.6
Multi-family	6,929	8.6	1.0	5,050	7.9	0.7
Commercial real estate	4,351	3.6	1.4	3,165	3.6	1.0
Commercial & industrial	5,063	1.0	6.5	6,079	0.9	7.3
HELOC	1,148	1.4	1.0	586	1.3	0.5
Consumer	4,814	0.9	5.6	7,394	1.1	8.0

Edgar Filing: WASHINGTON FEDERAL INC - Form 10-Q

\$161,099      100.0      %                      \$163,094      100.0      %

---

(1) Represents the total amount of the loan category as a % of total gross non-covered loans outstanding.

(2) Represents the allocated allowance of the loan category as a % of total gross non-covered loans outstanding for the same loan category.

Customer accounts: Customer accounts decreased \$138,850,000, or 1.57%, to \$8,713,690,000 at June 30, 2011 compared with \$8,852,540,000 at September 30, 2010. The following table shows the composition of the Company's customer accounts as of the dates shown:

Table of Contents

## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

## PART I – Financial Information

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

## Deposits by Type

	June 30, 2011			September 30, 2010				
	(In thousands)			Wtd. Avg.		Wtd. Avg.		
			Rate				Rate	
Checking (non-interest)	\$221,656	2.5	% —	%	\$184,240	2.1	% —	%
NOW (interest)	512,457	5.9	0.40	%	482,132	5.4	0.39	%
Savings (passbook/stmt)	246,260	2.8	0.25	%	234,673	2.7	0.51	%
Money Market	1,637,812	18.8	0.41	%	1,653,718	18.7	0.66	%
CD’s	6,095,505	70.0	1.62	%	6,297,777	71.1	1.91	%
Total	\$8,713,690	100	% 1.24	%	\$8,852,540	100	% 1.51	%

FHLB advances and other borrowings: Total borrowings decreased slightly to \$2,662,997,000 at June 30, 2011, compared with \$2,665,548,000 at September 30, 2010. The Company has a credit line with the FHLB Seattle equal to 50% of total assets, providing a substantial source of liquidity if needed. FHLB advances are collateralized as provided for in the Advances, Pledge and Security Agreement by all FHLB stock owned by the Company, deposits with the FHLB and certain mortgages or deeds of trust securing such properties as provided in the agreements with the FHLB.

Table of Contents

## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

## PART I – Financial Information

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

## RESULTS OF OPERATIONS

**Net Income:** The quarter ended June 30, 2011, produced net income of \$30,121,000 compared to \$12,668,000 for the same quarter one year ago. For the nine months ended June 30, 2011, net income totaled \$80,475,000 compared to \$102,690,000 for the nine months ended June 30, 2010. The net income for the nine months ended June 30, 2010 included a \$54,789,000 after tax gain on the acquisition of Horizon and a \$38,865,000 tax benefit related to the settlement of a contingent tax liability. The net income for the quarter and nine months ended June 30, 2011 benefited from overall lower credit costs, which included the provision for loan losses and real estate owned expenses. The provision for loan losses amounted to \$21,000,000, for the quarter, and \$77,750,000, for the nine months ended June 30, 2011, as compared to \$20,736,000 and \$153,909,000, for the three and nine month periods one year ago. See related discussion in “Provision for Loan Losses” section below for reasons for the slight increase in the provision for loan losses. In addition, losses recognized on real estate acquired through foreclosure was \$8,171,000 for the quarter ended June 30, 2011 and \$28,369,000 for the nine months ended June 30, 2011 as compared to \$31,031,000 and \$60,386,000 for the three and nine month periods one year ago.

**Net Interest Income:** The largest component of the Company’s earnings is net interest income, which is the difference between the interest and dividends earned on loans and other investments and the interest paid on customer deposits and borrowings. Net interest income is impacted primarily by two factors; first, the volume of earning assets and liabilities and second, the rate earned on those assets or the rate paid on those liabilities.

The following table sets forth certain information explaining changes in interest income and interest expense for the periods indicated compared to the same periods one year ago. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in volume (changes in volume multiplied by old rate) and (2) changes in rate (changes in rate multiplied by old volume). The change in interest income and interest expense attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

## Rate / Volume Analysis:

	Comparison of Quarters Ended 06/30/11 and 06/30/10			Comparison of Nine Months Ended 06/30/11 and 06/30/10		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
<b>Interest income:</b>						
Loans and covered loans	\$(11,229 )	\$(2,779 )	\$(14,008 )	\$(26,145 )	\$(1,082 )	\$(27,227 )
Mortgaged-backed securities	9,477	(739 )	8,738	16,020	(5,803 )	10,217
Investments (1)	(1,115 )	545	(570 )	783	3,811	4,594
All interest-earning assets	(2,867 )	(2,973 )	(5,840 )	(9,342 )	(3,074 )	(12,416 )
<b>Interest expense:</b>						
Customer accounts	(811 )	(9,290 )	(10,101 )	3,371	(25,471 )	(22,100 )
FHLB advances and other borrowings	(2,295 )	(291 )	(2,586 )	(6,947 )	(1,699 )	(8,646 )
All interest-bearing liabilities	(3,106 )	(9,581 )	(12,687 )	(3,576 )	(27,170 )	(30,746 )
Change in net interest income	\$239	\$6,608	\$6,847	\$(5,766 )	\$24,096	\$18,330

(1)Includes interest on cash equivalents and dividends on FHLB stock

**Provision for Loan Losses:** The Company recorded a \$21,000,000 provision for loan losses during the quarter ended June 30, 2011, while a \$20,736,000 provision was recorded for the same quarter one year ago. Non-performing assets amounted to \$394,679,000, or 2.96% , of total assets at June 30, 2011, compared to \$473,121,000, or 3.45%, of total

assets one year ago. Non-accrual loans decreased from \$292,335,000 at June 30, 2010, to \$232,752,000 at June 30, 2011, a 20.4% decrease. The Company had net charge-offs of \$23,519,000 for the quarter ended June 30, 2011, compared with \$41,862,000 of net charge-offs for the same quarter one year ago. While the percentage of loans 30 days or more delinquent decreased from 3.95% at June 30, 2010, to 3.66% at June 30, 2011, delinquencies in the single-family residential portfolio, the largest portion of the loan portfolio, increased from 3.09% at June 30, 2010 to 3.43% at June 30, 2011. In addition to these mixed asset quality trends, real estate values remain under pressure in most of the Company's primary markets, thus the Company recorded a similar provision for loan losses in the

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

current quarter as compared to the same quarter one year ago. Management expects the provision to remain at elevated levels until NPAs and charge-offs improve measurably. Management believes the allowance for loan losses, totaling \$161,099,000, is sufficient to absorb estimated losses inherent in the portfolio.

See Note E for further discussion and analysis of the allowance for loan losses for the quarter ended June 30, 2011.

Other Income: The quarter ended June 30, 2011 produced total other income of \$4,277,000 compared to \$5,154,000 for the same quarter one year ago, a decrease of \$877,000.

Other Expense: The quarter ended June 30, 2011, produced total other expense of \$34,174,000 compared to \$32,877,000 for the same quarter one year ago, a 3.9% increase. The increase in total other expense over the same comparable period one year ago was primarily due to the increase of \$1,715,000 in compensation and benefits which included the accrual of a performance bonus for employees resulting from the growth in earnings. Total other expense for the quarters ended June 30, 2011 and 2010 equaled 1.02% and 0.96%, respectively, of average assets. The number of staff, including part-time employees on a full-time equivalent basis, was 1,215 and 1,235 at June 30, 2011 and 2010, respectively.

Taxes: Income taxes increased to \$16,943,000 for the quarter ended June 30, 2011, as compared to \$7,127,000 for the same period one year ago. The effective tax rate for the quarters ended June 30, 2011 and 2010, was 36.00%. The Company expects an effective tax rate of 36.00% going forward.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management believes that there have been no material changes in the Company’s quantitative and qualitative information about market risk since September 30, 2010. For a complete discussion of the Company’s quantitative and qualitative market risk, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s 2010 Form 10-K.

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer along with the Company's Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 ("Exchange Act") Rule 13a-15. Based upon that evaluation, the Company's President and Chief Executive Officer, along with the Company's Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings. There have been no significant changes in the Company's internal controls or in other factors that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Disclosure controls and procedures are Company controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART II – Other Information

Item 1. Legal Proceedings

From time to time the Company or its subsidiaries are engaged in legal proceedings in the ordinary course of business, none of which are considered to have a material impact on the Company's financial position or results of operations.

Item 1A. Risk Factors

In addition to the other information contained in this Quarterly Report on Form 10-Q, the following risk factors represent material updates and additions to the risk factors previously disclosed in the Company's Annual Report on Form 10-K. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations.

Financial reform legislation will, among other things, eliminate the Office of Thrift Supervision ("OTS"), tighten capital standards, create a new Consumer Financial Protection Bureau and result in new laws and regulations that may increase our costs of operations.

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. It requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Act may not be known for many months or years.

One change that is particularly significant to the Company and the Bank is the abolition of the OTS, the Bank's historical federal financial institution regulator, effective one year from the enactment date (with the possibility of a six-month extension). After the agency is abolished, supervision and regulation of the Company will move to the Board of Governors of the Federal Reserve System ("Federal Reserve") and supervision and regulation of the Bank will move to the Office of the Comptroller of the Currency ("OCC"). Except as described below, however, the laws and regulations applicable to the Company and the Bank will not generally change – the Home Owners Loan Act and the regulations issued under the Act will generally still apply (although these laws and regulations will be interpreted by the Federal Reserve and the OCC, respectively).

In addition, the Company for the first time will be subject to consolidated capital requirements and will be required to serve as a source of strength to the Bank. The Bank will be subject to the same lending limits as national banks. At this time, we do not anticipate that being subject to any of these provisions will have a material effect on the Company or the Bank.

The Act also broadens the base for Federal Deposit Insurance Corporation insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. This could result in an increase in deposit insurance assessments to be paid by the Bank. The Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2008, and non-interest bearing transaction accounts will have unlimited deposit insurance from March 31, 2011 through December 31, 2012. The Federal Reserve will also be adopting a rule addressing interchange fees applicable to debit card transactions that is expected to lower fee income generated from this source. At this time, we do not anticipate that being subject to any of these provisions will have a material effect on the Company or the Bank.

The Act will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and authorizes the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates for election as directors using a company's proxy materials. The legislation also directs the federal financial institution regulatory agencies to promulgate rules prohibiting excessive compensation being paid to financial institution executives.

The Act creates a new Consumer Financial Protection Bureau to take over responsibility for the principal federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate



Settlement Procedures Act and the Truth in Saving Act, among others, with broad rule-making, supervisory and examination authority in this area over institutions that have assets of \$10 billion or more, such as the Bank. The Act also narrows the scope of federal preemption of state laws related to federally chartered institutions.

Many of the provisions of the Act will not become effective until a year or more after its enactment and, if required, the adoption

30

---

Table of Contents

## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

## PART II – Other Information

and effectiveness of implementing regulations. In addition, the scope and impact of many of the Act's provisions will be determined through the rulemaking process. As a result, we cannot predict the ultimate impact of the Act on the Company or the Bank at this time, including the extent to which it could increase costs or limit our ability to pursue business opportunities in an efficient manner, or otherwise adversely affect our business, financial condition and results of operations. Nor can we predict the impact or substance of other future legislation or regulation. However, it is expected that at a minimum they will increase our operating and compliance costs.

The Bank has entered into a memorandum of understanding with the OTS that will entail compliance costs. Failure to comply with the memorandum could result in formal enforcement action or regulatory constraints on the Bank.

As previously disclosed, the Bank entered into a memorandum of understanding ("MOU") with the Office of Thrift Supervision on July 28, 2010. The MOU does not affect dividend policy or require additional capital, but a finding by the OTS that the Bank failed to comply with the MOU could result in additional regulatory scrutiny, constraints on the Bank's business, or formal enforcement action. Any of those events could have a material adverse effect on the Bank's future operations, financial condition, growth or other aspects of our business.

The MOU will remain in effect until the OCC, as the successor to the OTS, decides to modify, suspend or terminate it.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to purchases made by or on behalf of the Company of the Company's common stock during the three months ended June 30, 2011.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (1)	Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period
April 1, 2011 to April 30, 2011	859,375	\$15.88	859,375	1,378,939
May 1, 2011 to May 31, 2011	452,825	15.68	452,825	10,926,114
June 1, 2011 to June 30, 2011	342,600	15.39	342,600	10,583,514
Total	1,654,800	\$15.72	1,654,800	10,583,514

The Company's only stock repurchase program was publicly announced by the Board of Directors on February 3, (1) 1995 and has no expiration date. Under this ongoing program, a total of 31,956,264 shares have been authorized for repurchase.

## Item 3. Defaults Upon Senior Securities

Not applicable

Item 5. Other Information  
Not applicable

Item 6. Exhibits

31

---

Table of Contents

(a) Exhibits

31.1 Section 302 Certification by the Chief Executive Officer

31.2 Section 302 Certification by the Chief Financial Officer

32 Section 906 Certification by the Chief Executive Officer and the Chief Financial Officer

101 Financial Statements from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2011 formatted in XBRL

32

---

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

August 9, 2011

/S/ ROY M. WHITEHEAD  
ROY M. WHITEHEAD  
Chairman, President and Chief Executive Officer

August 9, 2011

/S/ BRENT J. BEARDALL  
BRENT J. BEARDALL  
Executive Vice President and Chief  
Financial Officer