WASHINGTON FEDERAL INC
Form 10-Q
August 11, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2014
or

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

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

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

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

(Former name, former address and former fiscal year, if changed since last report.)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
APPLICABLE ONLY TO CORPORATE ISSUERS
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Title of class:	at July 31, 2014

Common stock, $1.00 par value	99,512,647

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

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

	June 30, 2014	September 30, 2013
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$861,304	$203,563
Available-for-sale securities, at fair value	3,103,021	2,360,948
Held-to-maturity securities, at amortized cost	1,583,853	1,654,666
Loans receivable, net	7,965,954	7,528,030
Covered loans, net	207,207	295,947
Interest receivable	51,392	49,218
Premises and equipment, net	246,800	206,172
Real estate held for sale	57,352	72,925
Real estate held for investment	10,780	9,392
Covered real estate held for sale	26,339	30,980
FDIC indemnification asset	44,065	64,615
FHLB & FRB stock	162,904	173,009
Intangible assets, net	303,983	264,318
Federal and state income tax assets, net	25,258	44,000
Other assets	139,743	125,076
	$14,789,955	$13,082,859
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities		
Customer accounts		
Transaction deposit accounts	$5,315,781	$3,540,842
Time deposit accounts	5,449,899	5,549,429
	10,765,680	9,090,271
FHLB advances	1,930,000	1,930,000
Advance payments by borrowers for taxes and insurance	28,513	42,443
Accrued expenses and other liabilities	75,127	82,510
	12,799,320	11,145,224
Stockholders’ equity		
Common stock, $1.00 par value, 300,000,000 shares authorized; 133,332,272 and 132,572,475 shares issued; 100,296,268 and 102,484,671 shares outstanding	133,332	132,573
Paid-in capital	1,638,070	1,625,051
Accumulated other comprehensive income, net of taxes	24,421	6,378
Treasury stock, at cost; 33,036,004 and 30,087,804 shares	(485,048)	(420,817)
Retained earnings	679,860	594,450
	1,990,635	1,937,635
	$14,789,955	$13,082,859

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
INTEREST INCOME				
Loans	$108,089	$112,932	$321,650	$342,654
Mortgage-backed securities	20,507	11,951	60,947	34,325
Investment securities and cash equivalents	6,415	3,293	16,023	9,010
	135,011	128,176	398,620	385,989
INTEREST EXPENSE				
Customer accounts	14,238	16,385	44,517	51,851
FHLB advances and other borrowings	17,494	17,075	51,877	50,966
	31,732	33,460	96,394	102,817
Net interest income	103,279	94,716	302,226	283,172
Provision for (reversal of) loan losses	(3,000)	—	(11,936)	3,600
Net interest income after provision for (reversal of) loan losses	106,279	94,716	314,162	279,572
OTHER INCOME	8,072	5,059	20,562	16,062
OTHER EXPENSE				
Compensation and benefits	28,946	24,582	81,908	68,731
Occupancy	6,060	4,530	17,668	13,801
FDIC insurance premiums	2,978	2,831	8,679	9,280
Information technology	3,505	2,371	10,365	7,661
Amortization of intangible assets	1,052	660	2,601	1,386
Other	10,752	6,636	28,250	20,214
	53,293	41,610	149,471	121,073
Gain (loss) on real estate acquired through foreclosure, net	(2,056)	176	(3,454)	(7,145)
Income before income taxes	59,002	58,341	181,799	167,416
Income tax provision	21,092	21,003	64,996	58,818
NET INCOME	$37,910	$37,338	$116,803	$108,598
PER SHARE DATA				
Basic earnings	$0.38	$0.36	$1.15	$1.03
Diluted earnings	0.37	0.36	1.14	1.03
Basic weighted average number of shares outstanding	100,979,219	104,143,915	101,777,112	105,119,097
Diluted weighted average number of shares outstanding, including dilutive stock options	101,393,936	104,192,444	102,234,350	105,167,959

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

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Net income	$37,910	$37,338	$116,803	$108,598
Other comprehensive income (loss) net of tax:				
Net unrealized gain (loss) on available-for-sale securities	22,026	(10,697)	28,527	(12,925)
Related tax benefit (expense)	(8,095)	3,931	(10,484)	4,750
Other comprehensive income (loss)	13,931	(6,766)	18,043	(8,175)
Comprehensive income	$51,841	$30,572	$134,846	$100,423

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

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
			(In thousands)			
Balance at October 1, 2013	$132,573	$1,625,051	$594,450	$6,378	$(420,817)	$1,937,635
Net income			116,803			116,803
Other comprehensive income adjustment				18,043		18,043
Dividends paid on common stock			(31,393)			(31,393)
Compensation expense related to common stock options		900				900
Proceeds from exercise of common stock options	759	9,599				10,358
Restricted stock		2,520				2,520
Treasury stock acquired					(64,231)	(64,231)
Balance at June 30, 2014	$133,332	$1,638,070	$679,860	$24,421	$(485,048)	$1,990,635

(In thousands)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
			(In thousands)			
Balance at October 1, 2012	$129,950	$1,586,295	$480,780	$13,306	$(310,579)	$1,899,752
Net income			108,598			108,598
Other comprehensive income adjustment				(8,175)		(8,175)
Dividends paid on common stock			(27,591)			(27,591)
Compensation expense related to common stock options		900				900
Proceeds from exercise of common stock options	26	271				297
Proceeds from issuance of common stock	1,996	31,495				33,491
Restricted stock	418	2,239				2,657
Treasury stock acquired					(87,037)	(87,037)
Balance at June 30, 2013	$132,390	$1,621,200	$561,787	$5,131	$(397,616)	$1,922,892

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Nine Months Ended June 30, 2014	2013
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$116,803	$108,598
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,467	10,507
Cash received from FDIC under loss share	949	13,014
Stock option compensation expense	900	900
(Reversal of) provision for loan losses	(11,936)	3,600
Loss (gain) on real estate held for sale, net	598	(18)
(Increase) decrease in accrued interest receivable	(2,174)	872
Increase in FDIC loss share receivable	(2,029)	(1,346)
Increase (decrease) in income taxes payable	8,258	(9,446)
(Increase) decrease in other assets	(14,514)	36,665
Decrease in accrued expenses and other liabilities	(10,487)	(23,177)
Net cash provided by operating activities	94,835	140,169
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (loan originations) principal collections	(329,076)	475,354
FHLB & FRB stock redemption	9,952	4,391
Available-for-sale securities purchased	(1,080,476)	(506,966)
Principal payments and maturities of available-for-sale securities	363,103	198,555
Available-for-sale securities sold	—	43,198
Held-to-maturity securities purchased	—	(821,215)
Principal payments and maturities of held-to-maturity securities	68,981	428,827
Net cash received from acquisitions	1,776,660	202,308
Proceeds from real estate owned and held for investment	66,766	104,360
Premises and equipment purchased	(35,647)	(22,941)
Net cash provided by investing activities	840,263	105,871
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in customer accounts	(178,161)	(250,364)
Net proceeds from borrowings	—	27,529
Proceeds from exercise of common stock options and related tax benefit	10,358	297
Dividends paid on common stock	(31,393)	(26,651)
Treasury stock purchased	(64,231)	(87,037)
Decrease in advance payments by borrowers for taxes and insurance	(13,930)	(14,387)
Net cash used by financing activities	(277,357)	(350,613)
Increase (decrease) in cash and cash equivalents	657,741	(104,573)
Cash and cash equivalents at beginning of period	203,563	751,430
Cash and cash equivalents at end of period	$861,304	$646,857

(CONTINUED)
SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(UNAUDITED)

	Nine Months Ended June 30,	
	2014	2013
	(In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities		
Non-covered real estate acquired through foreclosure	$32,818	$72,762
Covered real estate acquired through foreclosure	6,163	10,245
Cash paid during the period for		
Interest	97,485	104,370
Income taxes	54,072	48,111
The following summarizes the non-cash activities related to acquisitions		
Fair value of assets acquired	$80,384	$819,904
Fair value of liabilities assumed	(1,857,044)	(776,009)
Net fair value of (liabilities) assets	$(1,776,660)	$43,895

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED JUNE 30, 2014 AND 2013
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies

Nature of Operations. Washington Federal is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through a federally-insured national bank subsidiary. The Bank is principally engaged in the business of attracting deposits from the general public and investing these funds, together with borrowings and other funds, in one-to-four family residential real estate loans, multi-family real estate loans and commercial loans. As used throughout this document, the terms "Washington Federal" or the "Company" refer to Washington Federal, Inc. and its consolidated subsidiaries and the term "Bank" refers to the operating subsidiary Washington Federal, National Association.

Use of Estimates. The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates.

Summary of Significant Accounting Policies. The significant accounting policies used in preparation of the Company's consolidated financial statements are disclosed in its 2013 Form 10-K. Other than as discussed below, there have not been any additions or material changes in its significant accounting policies compared to those contained in its 2013 Form 10-K.

Off-Balance-Sheet Credit Exposures – The only material off-balance-sheet credit exposures are loans in process and unused lines of credit, which had a combined balance at June 30, 2014, excluding covered loans, of $528 million. The Company estimates losses on off-balance-sheet credit exposures by including the exposures with the related principal balance outstanding and then applying its general reserve methodology.

In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2013 Consolidated Statement of Financial Condition was derived from audited financial statements. The information included in this Form 10-Q should be read in conjunction with Company’s 2013 Annual Report on Form 10-K (“2013 Form 10-K”) as filed with the Securities and Exchange Commission. Interim results are not necessarily indicative of results for a full year.

NOTE B - Acquisitions

Certain Branches of Bank of America, National Association

During this fiscal year, the Bank has acquired seventy-four branches from Bank of America, National Association. Effective as of the close of business on October 31, 2013, the Bank completed the acquisition of eleven branches that are located in New Mexico. Effective as of the close of business on December 6, 2013, the Bank completed the acquisition of another forty branches that are located in Washington, Oregon, and Idaho. Effective as of the close of business on May 2, 2014, the Bank completed the acquisition of another twenty-three branches that are located in Arizona and Nevada.

Management believes that these transactions represent a significant enhancement of our branch network. This transaction will bring new customers to the Company and improve the deposit mix and reduce overall funding costs.

The combined acquisitions provided $1.9 billion in deposit accounts, $13 million of loans, and $25 million in branch properties. The Bank paid a 1.99% premium on the total deposits and received $1.8 billion in cash from the transactions.

The acquisition method of accounting was used to account for the acquisitions. The purchased assets and assumed liabilities are recorded at their respective acquisition date estimated fair values. The Bank recorded $11 million in core deposit intangible and $31 million in goodwill related to these transactions.

The operating results of the Company include the operating results produced by the first eleven branches for the period from November 1, 2013 to June 30, 2014, for the additional forty branches from December 7, 2013 to June 30, 2014, and for the most recent twenty-three branches from May 3, 2014 to June 30, 2014.

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

	Adjusted Fair Value Recorded by Washington Federal (In thousands)
Assets:	
Cash	$1,776,660
Loans receivable, net	12,881
Property and equipment, net	25,097
Core deposit intangible	11,040
Goodwill	31,225
Other assets	70
Total Assets	1,856,973
Liabilities:	
Customer accounts	1,853,798
Other liabilities	3,175
Total Liabilities	1,856,973
Net assets acquired	$—

NOTE C – Dividends

On July 18, 2014, the Company paid its 126th consecutive quarterly cash dividend. Dividends per share were $.11 and $.09 for the quarters ended June 30, 2014 and 2013, respectively.

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
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(UNAUDITED)

NOTE D – Loans Receivable (excluding Covered Loans)

	June 30, 2014 (In thousands)			September 30, 2013		
Non-acquired loans						
Single-family residential	$5,466,771	64.7	%	$5,359,149	67.1	%
Construction - speculative	126,926	1.5		130,778	1.6	
Construction - custom	372,789	4.4		302,722	3.8	
Land - acquisition & development	88,319	1.1		77,775	1.1	
Land - consumer lot loans	111,919	1.4		121,671	1.5	
Multi-family	893,742	10.6		831,684	10.4	
Commercial real estate	523,850	6.2		414,961	5.1	
Commercial & industrial	333,552	3.9		243,199	3.0	
HELOC	117,177	1.4		112,186	1.4	
Consumer	132,062	1.5		47,141	0.6	
Total non-acquired loans	8,167,107	96.7		7,641,266	95.6	
Non-impaired acquired loans						
Single-family residential	12,014	0.2		14,468	0.2	
Construction - speculative	—	—		—	—	
Construction - custom	—	—		—	—	
Land - acquisition & development	1,069	—		1,489	—	
Land - consumer lot loans	2,654	—		3,313	—	
Multi-family	3,057	—		3,914	0.1	
Commercial real estate	103,215	1.1		133,423	1.7	
Commercial & industrial	60,349	0.7		75,326	0.9	
HELOC	8,469	0.1		10,179	0.1	
Consumer	6,427	0.1		8,267	0.1	
Total non-impaired acquired loans	197,254	2.2		250,379	3.1	
Credit-impaired acquired loans						
Single-family residential	326	—		333	—	
Construction - speculative	—	—		—	—	
Land - acquisition & development	1,670	—		2,396	—	
Multi-family	—	—		—	—	
Commercial real estate	66,356	0.9		76,909	1.1	
Commercial & industrial	4,280	0.1		7,925	0.1	
HELOC	10,658	0.1		11,266	0.1	
Consumer	58	—		71	—	
Total credit-impaired acquired loans	83,348	1.1		98,900	1.3	
Total loans						
Single-family residential	5,479,111	64.9		5,373,950	67.3	
Construction - speculative	126,926	1.5		130,778	1.6	
Construction - custom	372,789	4.4		302,722	3.8	
Land - acquisition & development	91,058	1.1		81,660	1.1	
Land - consumer lot loans	114,573	1.4		124,984	1.5	
Multi-family	896,799	10.6		835,598	10.5	

Commercial real estate	693,421	8.2	625,293	7.9
Commercial & industrial	398,181	4.7	326,450	4.0

HELOC	136,304	1.6	133,631	1.6
Consumer	138,547	1.6	55,479	0.7
Total Loans	8,447,709	100 %	7,990,545	100 %
Less:				
Allowance for probable losses	114,150		116,741	
Loans in process	303,084		275,577	
Discount on acquired loans	28,480		34,143	
Deferred net origination fees	36,041		36,054	
	481,755		462,515	
	$7,965,954		$7,528,030	

Changes in the carrying amount and accretable yield for acquired non-impaired and credit-impaired loans (excluding covered loans) for the nine months ended June 30, 2014 and the fiscal year ended September 30, 2013 were as follows:

June 30, 2014	Acquired Impaired		Acquired Non-impaired	
	Accretable Yield	Net Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
	(In thousands)			
Balance as of beginning of period	$37,236	$69,718	$4,977	$245,373
Reclassification from nonaccretable balance, net (1)	7,300	—	—	—
Accretion	(8,884)	8,884	(606)	606
Transfers to REO	—	(1,188)	—	(4,710)
Payments received, net	—	(17,616)	—	(48,988)
Balance as of end of period	$35,652	$59,798	$4,371	$192,281

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

September 30, 2013	Acquired Impaired		Acquired Non-impaired	
	Accretable Yield	Net Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
	(In thousands)			
Balance as of beginning of period	$16,928	$77,613	$—	$—
Reclassification from nonaccretable balance, net (1)	30,026	—	—	—
Additions (2)	—	9,865	10,804	351,335
Accretion	(9,718)	9,718	(5,827)	5,827
Transfers to REO	—	(3,975)	—	(7,755)
Payments received, net	—	(23,503)	—	(104,034)
Balance as of end of period	$37,236	$69,718	$4,977	$245,373

(1) reclassification due to improvements in expected cash flows of the underlying loans.
(2) includes loans which were acquired as part of the South Valley Bank acquisition.

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

	June 30, 2014			September 30, 2013		
	(In thousands)					
Non-accrual loans:						
Single-family residential	$78,317	83.2	%	$100,460	76.5	%
Construction - speculative	1,966	2.1		4,560	3.5	
Construction - custom	143	0.2		—	—	
Land - acquisition & development	2,295	2.4		2,903	2.2	
Land - consumer lot loans	1,879	2.0		3,337	2.5	
Multi-family	2,103	2.2		6,573	5.0	
Commercial real estate	5,442	5.8		11,736	8.9	
Commercial & industrial	516	0.5		477	0.4	
HELOC	970	1.0		263	0.2	
Consumer	595	0.6		990	0.8	
Total non-accrual loans	$94,226	100	%	$131,299	100	%

The following tables provide an analysis of the age of loans (excluding covered loans) in past due status as of June 30, 2014 and September 30, 2013, respectively. These balances are net of LIP and charge-offs only.

June 30, 2014	Amount of Loans	Days Delinquent Based on $ Amount of Loans					% based	
Type of Loan	Net of LIP & Chg.-Offs	Current	30	60	90	Total	on $	
	(In thousands)							
Non-acquired loans								
Single-Family Residential	$5,464,370	$5,367,245	$18,990	$12,878	$65,257	$97,125	1.78	%
Construction - Speculative	85,412	84,635	301	—	476	777	0.91	
Construction - Custom	201,475	201,288	44	—	143	187	0.09	
Land - Acquisition & Development	72,241	70,183	227	—	1,831	2,058	2.85	
Land - Consumer Lot Loans	111,860	108,591	1,220	170	1,879	3,269	2.92	
Multi-Family	868,968	865,518	2,829	214	407	3,450	0.40	
Commercial Real Estate	476,863	474,923	95	—	1,845	1,940	0.41	
Commercial & Industrial	333,543	333,430	3	—	110	113	0.03	
HELOC	117,178	116,188	53	370	567	990	0.84	
Consumer	132,156	130,797	774	421	164	1,359	1.03	
Total non-acquired loans	7,864,066	7,752,798	24,536	14,053	72,679	111,268	1.41	%
Non-impaired acquired loans								
	12,014	11,990	—	—	24	24	0.20	%

Single-Family Residential							
Construction - Speculative	—	—	—	—	—	—	NM
Construction - Custom	—	—	—	—	—	—	NM
Land - Acquisition & Development	1,069	663	—	—	406	406	37.98

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

Land - Consumer Lot Loans	2,651	2,651	—	—	—	—	—	
Multi-Family	3,057	3,057	—	—	—	—	—	
Commercial Real Estate	103,189	102,421	—	—	768	768	0.74	
Commercial & Industrial	60,348	60,136	212	—	—	212	0.35	
HELOC	8,468	8,335	133	—	—	133	1.57	
Consumer	6,427	5,626	12	358	431	801	12.46	
Total non-impaired acquired loans	197,223	194,879	357	358	1,629	2,344	1.19	%
Credit-impaired acquired loans								
Single-Family Residential	326	326	—	—	—	—	—	%
Construction - Speculative	—	—	—	—	—	—	NM	
Construction - Custom	—	—	—	—	—	—	NM	
Land - Acquisition & Development	1,670	1,670	—	—	—	—	—	
Land - Consumer Lot Loans	—	—	—	—	—	—	NM	
Multi-Family	—	—	—	—	—	—	NM	
Commercial Real Estate	66,344	65,996	—	—	348	348	0.52	
Commercial & Industrial	4,281	3,863	12	—	406	418	9.76	
HELOC	10,658	10,027	228	—	403	631	5.92	
Consumer	58	58	—	—	—	—	—	
Total credit-impaired acquired loans	83,337	81,940	240	—	1,157	1,397	1.68	%
Total Loans	$8,144,626	$8,029,617	$25,133	$14,411	$75,465	$115,009	1.41	%

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

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

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

Most loans restructured in troubled debt restructurings ("TDRs") are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. The concession for these loans is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twenty-four months. Interest-only payments may also be approved during the modification period. As of June 30, 2014, single-family residential loans comprised 86.1% of TDRs.

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

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

	Quarter Ended June 30, 2014			2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:						
Single-Family Residential	48	$10,693	$ 10,693	111	$27,619	$ 27,619
Construction - Speculative	—	—	—	—	—	—
Construction - Custom	—	—	—	—	—	—
Land - Acquisition & Development	3	756	756	—	—	—
Land - Consumer Lot Loans	5	573	573	4	685	685
Multi-Family	—	—	—	—	—	—
Commercial Real Estate	2	1,398	1,398	1	2,411	2,411
Commercial & Industrial	—	—	—	—	—	—
HELOC	—	—	—	—	—	—
Consumer	—	—	—	1	11	11
	58	$13,420	$ 13,420	117	$30,726	$ 30,726

	Nine Months Ended June 30, 2014			2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:						
Single-Family Residential	199	45,132	45,132	337	88,085	88,085
Construction - Speculative	—	—	—	1	2,481	2,481
Construction - Custom	—	—	—	—	—	—
Land - Acquisition & Development	3	756	756	—	—	—
	10	1,746	1,746	20	3,027	3,027

Land - Consumer Lot Loans						
Multi-Family	2	1,201	1,201	1	44	44
Commercial Real Estate	3	2,197	2,197	1	2,411	2,411
Commercial & Industrial	—	—	—	—	—	—
HELOC	1	261	261	1	199	199
Consumer	3	207	207	1	11	11
	221	$51,500	$ 51,500	362	$96,258	$ 96,258

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

	Quarter Ended June 30,			
	2014		2013	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(In thousands)		(In thousands)	
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-Family Residential	17	$3,088	25	$6,833
Construction - Speculative	—	—	—	—
Construction - Custom	—	—	—	—
Land - Acquisition & Development	—	—	—	—
Land - Consumer Lot Loans	1	69	1	109
Multi-Family	—	—	—	—
Commercial Real Estate	—	—	—	—
Commercial & Industrial	—	—	—	—
HELOC	—	—	1	79
Consumer	1	170	—	—
	19	$3,327	27	$7,021

	Nine Months Ended June 30,			
	2014		2013	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(In thousands)		(In thousands)	
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-Family Residential	42	$9,206	65	$15,366
Construction - Speculative	—	—	—	—
Construction - Custom	—	—	—	—
Land - Acquisition & Development	—	—	1	838
Land - Consumer Lot Loans	4	445	2	237
Multi-Family	—	—	—	—
Commercial Real Estate	—	—	—	—
Commercial & Industrial	—	—	—	—
HELOC	—	—	2	113
Consumer	1	170	—	—
	47	$9,821	70	$16,554

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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 below.

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

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

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

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

The following table summarizes the activity in the allowance for loan losses (excluding acquired and covered loans) for the quarter ended June 30, 2014 and fiscal year ended September 30, 2013:

Quarter Ended June 30, 2014	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$63,348	$(2,530)	$4,717	$(3,175)	$62,360
Construction - speculative	6,773	—	2	(388)	6,387
Construction - custom	1,599	—	—	79	1,678
Land - acquisition & development	6,027	—	85	843	6,955
Land - consumer lot loans	2,974	(86)	—	(26)	2,862
Multi-family	4,187	—	—	(46)	4,141
Commercial real estate	5,924	(32)	24	773	6,689
Commercial & industrial	20,403	(38)	4	(1,673)	18,696
HELOC	975	(18)	—	58	1,015
Consumer	2,721	(696)	787	555	3,367
	$114,931	$(3,400)	$5,619	$(3,000)	$114,150

Fiscal Year Ended September 30, 2013	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$81,815	$(20,947)	$9,416	$(6,100)	$64,184
Construction - speculative	12,060	(1,446)	501	(2,708)	8,407
Construction - custom	347	(481)	—	1,016	882
Land - acquisition & development	15,598	(3,983)	4,105	(6,555)	9,165
Land - consumer lot loans	4,937	(1,363)	40	(62)	3,552
Multi-family	5,280	(1,043)	171	(592)	3,816
Commercial real estate	1,956	(747)	17	4,369	5,595
Commercial & industrial	7,626	(1,145)	95	10,038	16,614
HELOC	965	(163)	—	200	1,002
Consumer	2,563	(2,783)	2,000	1,744	3,524
	$133,147	$(34,101)	$16,345	$1,350	$116,741

The Company recorded a $3,000,000 reversal of the provision for loan losses during the quarter ended June 30, 2014, while $0 provision was recorded for the same quarter one year ago. The primary reason for the current period recovery is the credit quality of the portfolio has been improving significantly and economic conditions are more favorable. Non-performing assets ("NPAs") amounted to $162,357,000, or 1.10%, of total assets at June 30, 2014, compared to $213,616,000, or 1.63%, of total assets as of September 30, 2013. Acquired loans, including covered loans, are not initially classified as non-performing loans because, at acquisition, the carrying value of these loans is adjusted to reflect fair value. Non-accrual loans decreased from $131,299,000 at September 30, 2013, to $94,226,000 at June 30, 2014, a 28.2% decrease.

The Company had net recoveries of $2,219,000 for the quarter ended June 30, 2014, compared with $4,780,000 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.

For the period ending June 30, 2014, $114,090,000 of the allowance was calculated under the Company's general allowance methodology and the remaining $60,000 was made up of specific reserves on loans that were deemed to be impaired. For the period ending September 30, 2013, these amounts were $113,268,000 and $3,473,000, respectively.

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

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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 as compared to prior to the 2009-2011 financial crisis.
The following tables shows a summary of loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves as of June 30, 2014 and September 30, 2013:

June 30, 2014	Loans Collectively Evaluated for Impairment				Loans Individually Evaluated for Impairment			
	General Reserve Allocation	Gross Loans Subject to General Reserve (1)	Ratio		Specific Reserve Allocation	Gross Loans Subject to Specific Reserve (1)	Ratio	
	(In thousands)				(In thousands)			
Single-family residential	$62,360	$ 5,388,306	1.2	%	$—	$ 78,464	—	%
Construction - speculative	6,327	116,420	5.4		60	10,506	0.6	
Construction - custom	1,678	372,789	0.5		—	—	—	
Land - acquisition & development	6,955	86,030	8.1		—	2,289	—	
Land - consumer lot loans	2,862	98,860	2.9		—	13,059	—	
Multi-family	4,141	888,346	0.5		—	5,395	—	
Commercial real estate	6,689	495,988	1.4		—	27,863	—	
Commercial & industrial	18,696	377,271	5.0		—	40	—	
HELOC	1,015	116,174	0.9		—	1,004	—	
Consumer	3,367	132,061	2.6		—	—	—	
	$114,090	$ 8,072,245	1.4	%	$60	$ 138,620	—	%

(1) Excludes acquired loans with discounts sufficient to absorb potential losses and covered loans

September 30, 2013	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	$64,184	$ 5,262,159	1.2	%	$—	$ 96,989	—	%
Construction - speculative	7,307	115,554	6.3		1,100	15,224	7.2	
Construction - custom	882	302,722	0.3		—	—	—	
Land - acquisition & development	6,943	67,521	10.3		2,222	10,254	21.7	
Land - consumer lot loans	3,506	107,216	3.3		46	14,455	0.3	
Multi-family	3,711	824,279	0.5		105	7,405	1.4	
Commercial real estate	5,595	400,789	1.4		—	14,172	—	
Commercial & industrial	16,614	256,954	6.5		—	48	—	
HELOC	1,002	111,169	0.9		—	1,017	—	
Consumer	3,524	47,141	7.5		—	—	—	
	$113,268	$ 7,495,504	1.5	%	$3,473	$ 159,564	2.2	%

(1) Excludes acquired loans with discounts sufficient to absorb potential losses and covered loans

The following tables provide information on loans based on credit quality indicators (defined above) as of June 30, 2014 and September 30, 2013.

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

June 30, 2014	Internally Assigned Grade					Total
	Pass	Special mention	Substandard	Doubtful	Loss	Gross Loans
	(In thousands)					
Non-acquired loans						
Single-family residential	$5,325,757	$2,993	$138,021	$—	$—	$5,466,771
Construction - speculative	116,002	—	10,924	—	—	126,926
Construction - custom	372,789	—	—	—	—	372,789
Land - acquisition & development	79,820	—	8,499	—	—	88,319
Land - consumer lot loans	111,459	—	460	—	—	111,919
Multi-family	888,836	—	4,906	—	—	893,742
Commercial real estate	490,940	17,097	15,813	—	—	523,850
Commercial & industrial	312,811	16,508	4,123	110	—	333,552
HELOC	116,929	—	248	—	—	117,177
Consumer	131,910	—	152	—	—	132,062
	7,947,253	36,598	183,146	110	—	8,167,107
Non-impaired acquired loans						
Single-family residential	12,014	—	—	—	—	12,014
Construction - speculative	—	—	—	—	—	—
Construction - custom	—	—	—	—	—	—
Land - acquisition & development	663	—	406	—	—	1,069
Land - consumer lot loans	2,654	—	—	—	—	2,654
Multi-family	3,057	—	—	—	—	3,057
Commercial real estate	89,566	2,516	11,133	—	—	103,215
Commercial & industrial	42,571	13,600	4,144	34	—	60,349
HELOC	8,469	—	—	—	—	8,469
Consumer	6,427	—	—	—	—	6,427
	165,421	16,116	15,683	34	—	197,254
Credit-impaired acquired loans						
Pool 1 - Construction and land A&D	1,340	—	330	—	—	1,670
Pool 2 - Single-family residential	326	—	—	—	—	326
Pool 3 - Multi-family	—	—	—	—	—	—
Pool 4 - HELOC & other consumer	10,716	—	—	—	—	10,716
Pool 5 - Commercial real estate	50,556	2,155	13,645	—	—	66,356
Pool 6 - Commercial & industrial	712	3,162	—	406	—	4,280
Total credit impaired acquired loans	63,650	5,317	13,975	406	—	83,348

Total gross loans	$8,176,324	$58,031	$212,804	$550	$—	$8,447,709
Total grade as a % of total gross loans	96.9 %	0.7 %	2.4 %	— %	— %	

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September 30, 2013	Internally Assigned Grade					Total
	Pass	Special mention	Substandard	Doubtful	Loss	Gross Loans
	(In thousands)					
Non-acquired loans						
Single-family residential	$5,184,101	$4,595	$170,453	$—	$—	$5,359,149
Construction - speculative	99,436	3,199	28,143	—	—	130,778
Construction - custom	302,722	—	—	—	—	302,722
Land - acquisition & development	64,355	775	12,645	—	—	77,775
Land - consumer lot loans	121,039	—	632	—	—	121,671
Multi-family	819,911	2,114	9,659	—	—	831,684
Commercial real estate	373,012	21,652	20,297	—	—	414,961
Commercial & industrial	240,441	1,049	1,709	—	—	243,199
HELOC	112,186	—	—	—	—	112,186
Consumer	46,720	—	421	—	—	47,141
	7,363,923	$33,384	$243,959	$—	$—	$7,641,266
Non-impaired acquired loans						
Single-family residential	14,468	—	—	—	—	14,468
Construction - speculative	—	—	—	—	—	—
Construction - custom	—	—	—	—	—	—
Land - acquisition & development	312	—	1,177	—	—	1,489
Land - consumer lot loans	3,313	—	—	—	—	3,313
Multi-family	3,227	—	687	—	—	3,914
Commercial real estate	105,055	4,190	24,178	—	—	133,423
Commercial & industrial	64,933	1,309	9,084	—	—	75,326
HELOC	10,179	—	—	—	—	10,179
Consumer	8,267	—	—	—	—	8,267
	209,754	5,499	35,126	—	—	250,379
Credit-impaired acquired loans						
Pool 1 - Construction and land A&D	980	461	955	—	—	2,396
Pool 2 - Single-family residential	333	—	—	—	—	333
Pool 3 - Multi-family	—	—	—	—	—	—
Pool 4 - HELOC & other consumer	11,337	—	—	—	—	11,337
Pool 5 - Commercial real estate	52,509	3,155	21,245	—	—	76,909
Pool 6 - Commercial & industrial	881	—	7,044	—	—	7,925
Total credit impaired acquired loans	66,040	3,616	29,244	—	—	98,900

Total gross loans	$7,639,717	$42,499	$308,329	$—	$—	$7,990,545
Total grade as a % of total gross loans	95.6 %	0.5 %	3.9 %	— %	— %	

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Credit Risk Profile Based on Payment Activity (excludes acquired and covered loans):

June 30, 2014	Performing Loans			Non-Performing Loans		
	Amount	% of Total Gross Loans		Amount	% of Total Gross Loans	
	(In thousands)					
Single-family residential	$5,388,454	98.6	%	$78,317	1.4	%
Construction - speculative	124,960	98.5		1,966	1.5	
Construction - custom	372,646	100.0		143	—	
Land - acquisition & development	86,024	97.4		2,295	2.6	
Land - consumer lot loans	110,040	98.3		1,879	1.7	
Multi-family	891,639	99.8		2,103	0.2	
Commercial real estate	518,408	99.0		5,442	1.0	
Commercial & industrial	333,036	99.8		516	0.2	
HELOC	116,207	99.2		970	0.8	
Consumer	131,467	99.5		595	0.5	
	$8,072,881	98.8	%	$94,226	1.2	%

September 30, 2013	Performing Loans			Non-Performing Loans		
	Amount	% of Total Gross Loans		Amount	% of Total Gross Loans	
	(In thousands)					
Single-family residential	$5,258,688	98.1	%	$100,460	1.9	%
Construction - speculative	126,218	96.5		4,560	3.5	
Construction - custom	302,722	100.0		—	—	
Land - acquisition & development	74,872	96.3		2,903	3.7	
Land - consumer lot loans	118,334	97.3		3,337	2.7	
Multi-family	825,111	99.2		6,573	0.8	
Commercial real estate	389,423	97.1		11,736	2.9	
Commercial & industrial	256,525	99.8		477	0.2	
HELOC	111,923	99.8		263	0.2	
Consumer	46,151	97.9		990	2.1	
	$7,509,967	98.3	%	$131,299	1.7	%

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The following table provides information on impaired loan balances and the related allowances by loan types as of June 30, 2014 and September 30, 2013:

June 30, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
	(In thousands)			
With no related allowance recorded:				
Single-family residential	$24,929	$27,853	$—	$22,460
Construction - speculative	1,755	2,378	—	1,762
Construction - custom	360	360	—	180
Land - acquisition & development	1,934	8,931	—	1,794
Land - consumer lot loans	812	910	—	714
Multi-family	130	130	—	130
Commercial real estate	28,024	34,904	—	23,625
Commercial & industrial	3,916	24,183	—	3,809
HELOC	1,154	1,835	—	708
Consumer	439	554	—	380
	63,453	102,038	—	55,562
With an allowance recorded:				
Single-family residential	333,814	339,578	10,956	333,527
Construction - speculative	8,751	9,181	60	8,927
Construction - custom	1,196	1,196	—	1,196
Land - acquisition & development	5,092	6,032	—	5,085
Land - consumer lot loans	12,922	13,305	—	12,852
Multi-family	5,266	5,486	—	5,278
Commercial real estate	19,292	20,160	—	16,837
Commercial & industrial	23	23	—	27
HELOC	1,198	1,198	—	1,198
Consumer	236	236	—	152
	387,790	396,395	11,016	(1) 385,079
Total:				
Single-family residential	358,743	367,431	10,956	355,987
Construction - speculative	10,506	11,559	60	10,689
Construction - custom	1,556	1,556	—	1,376
Land - acquisition & development	7,026	14,963	—	6,879
Land - consumer lot loans	13,734	14,215	—	13,566
Multi-family	5,396	5,616	—	5,408
Commercial real estate	47,316	55,064	—	40,462
Commercial & industrial	3,939	24,206	—	3,836
HELOC	2,352	3,033	—	1,906
Consumer	675	790	—	532
	$451,243	$498,433	$11,016	(1) $440,641

(1)Includes $60,000 of specific reserves and $10,956,000 included in the general reserves.

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September 30, 2013	Recorded Investment	Unpaid Principal Balance	Related Allowance	2013 Average Recorded Investment
	(In thousands)			
With no related allowance recorded:				
Single-family residential	$33,883	$38,928	$—	$21,458
Construction - speculative	3,891	4,099	—	3,339
Construction - custom	—	—	—	—
Land - acquisition & development	3,020	10,705	—	2,548
Land - consumer lot loans	3,186	3,376	—	1,839
Multi-family	4,929	4,929	—	1,734
Commercial real estate	23,537	31,876	—	9,651
Commercial & industrial	7,279	31,197	—	3,123
HELOC	446	946	—	133
Consumer	601	618	—	127
	80,772	126,674	—	43,952
With an allowance recorded:				
Single-family residential	335,140	341,910	15,137	330,407
Construction - speculative	8,892	9,342	1,100	12,362
Construction - custom	—	—	—	—
Land - acquisition & development	2,598	4,002	—	8,315
Land - consumer lot loans	12,631	13,014	2,222	12,301
Multi-family	5,958	6,178	46	7,731
Commercial real estate	7,539	8,476	105	9,321
Commercial & industrial	56	56	—	11
HELOC	938	938	—	858
Consumer	33	33	—	9
	373,785	383,949	18,610	(1) 381,315
Total:				
Single-family residential	369,023	380,838	15,137	351,865
Construction - speculative	12,783	13,441	1,100	15,701
Construction - custom	—	—	—	—
Land - acquisition & development	5,618	14,707	—	10,863
Land - consumer lot loans	15,817	16,390	2,222	14,140
Multi-family	10,887	11,107	46	9,465
Commercial real estate	31,076	40,352	105	18,972
Commercial & industrial	7,335	31,253	—	3,134
HELOC	1,384	1,884	—	991
Consumer	634	651	—	136
	$454,557	$510,623	$18,610	(1) $425,267

(1) Includes $3,473,000 of specific reserves and $15,137,000 included in the general reserves.

NOTE F – New Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-11, Transfers and Servicing (Topic 860) - Repurchase to Maturity Transactions, Repurchase Financings, and Disclosures. Under this new accounting guidance, repurchase-to-maturity transactions will be accounted for as secured borrowings rather than sales of an asset, and transfers of financial assets with contemporaneous repurchase financings will no longer be evaluated to determine whether they should be accounted for on a combined basis as forward contracts. The new guidance also prescribes additional disclosures particularly on the nature of collateral pledged in repurchase financings accounted for as secured borrowings. The new guidance is effective beginning on January 1, 2015. The Company does not expect this guidance to have a material impact on its consolidated financial position or results of operation.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This new accounting guidance clarifies the principles for recognizing revenue from contracts with customers. The new accounting guidance, which does not apply to financial instruments, is effective on a retrospective basis beginning on January 1, 2017. The Company does not expect the new guidance to have a material impact on its consolidated financial position or results of operation.

In January 2014, the FASB issued ASU 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. This new guidance permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Those not electing the proportional amortization method would account for the investment using the equity method or cost method. This new guidance is effective on a retrospective basis beginning after December 15, 2014 with early adoption permitted. The Company has adopted this ASU prospectively as of December 31, 2013 as the retrospective adjustments were not material. The amount of affordable housing tax credits that are expected to be recognized during the 2014 fiscal year is $3 million. The net investment balance recognized as of June 30, 2014 is $38 million. Using the proportional amortization method, the amount recognized as a component of income tax expense for the 2014 fiscal year is $4 million. Contingent commitments for equity contributions during the 2014 calendar year are $31 million. Overall, this adoption does not have a material impact on the Company's consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The new guidance clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additional disclosures are required. The amendments are effective beginning after December 15, 2014. This ASU is not expected to have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, A Similar Tax Loss, or a Tax Credit Carryforward Exists. Some entities present unrecognized tax benefits as a liability unless the unrecognized tax benefit is directly associated with a tax position taken in a tax year that results in, or that resulted in, the recognition of a net operating loss or tax credit carryforward for that year and the net operating loss or tax credit carryforward has not been utilized. Other entities present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward in certain circumstances. The objective of the new guidance is to eliminate this diversity in practice. The new guidance is effective beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. This new guidance is not expected to have a material impact on the Company's consolidated financial statements.

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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.

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

Measured on a Recurring Basis

Securities

Securities available for sale are recorded at fair value on a recurring basis. Most 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. Securities that are traded on active exchanges are considered a Level 1 input method.

The following tables present the balance of assets measured at fair value on a recurring basis at June 30, 2014 and September 30, 2013:

	Fair Value at June 30, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Available-for-sale securities				
Equity securities	$101,981	$—	$—	$101,981
Obligations of U.S. government	—	721,312	—	721,312
Obligations of states and political subdivisions	—	23,277	—	23,277
Corporate debt securities	—	485,083	—	485,083
Mortgage-backed securities			—	
Agency pass-through certificates	—	1,662,001	—	1,662,001
Other Commercial MBS	—	109,367	—	109,367
Total balance at end of period	$101,981	$3,001,040	$—	$3,103,021

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the quarter ended June 30, 2014.

	Fair Value at September 30, 2013			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Available-for-sale securities				
Equity securities	$101,237	$—	$—	$101,237
Obligations of U.S. government	—	533,975	—	533,975
Obligations of states and political subdivisions	—	22,545	—	22,545
Corporate debt securities	—	452,015	—	452,015
Mortgage-backed securities				
Agency pass-through certificates	—	1,251,176	—	1,251,176
Total balance at end of period	$101,237	$2,259,711	$—	$2,360,948

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the fiscal year ended September 30, 2013 other than a transfer from Level 2 to Level 1 of $511 in Equity securities.

Measured on a Nonrecurring Basis

Impaired Loans & 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. When management determines that the fair value of the collateral or the real estate held for sale requires additional adjustments, either as a result of a non-current appraisal value or when there is no observable market price, the Company classifies the impaired loan or real estate held for sale as Level 3. Level 3 assets recorded at fair value on a nonrecurring basis at June 30, 2014 included loans for which a specific reserve allowance was established or a partial charge-off was recorded based on the fair value of collateral, as well as covered REO and real estate held for sale for which fair value of the properties was less than the cost basis.

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

The following tables present the aggregated balance of assets that were measured at estimated fair value on a nonrecurring basis through the nine months ended June 30, 2014 and June 30, 2013, and the total losses (gains) resulting from those fair value adjustments for the quarters and nine months ended June 30, 2014 and June 30, 2013. These estimated fair values are shown gross of estimated selling costs.

	Nine Months Ended June 30, 2014				Quarter Ended June 30, 2014	Nine Months Ended June 30, 2014
	Level 1	Level 2	Level 3	Total	Total Losses (Gains)	
	(In thousands)					
Impaired loans (1)	$—	$—	$10,156	$10,156	$(775)	$(1,311)
Covered REO (2)	—	—	8,935	8,935	374	503
Real estate held for sale (2)	—	—	43,082	43,082	10,400	16,782
Balance at end of period	$—	$—	$62,173	$62,173	$9,999	$15,974

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	Nine Months Ended June 30, 2013				Quarter Ended June 30, 2013	Nine Months Ended June 30, 2013
	Level 1	Level 2	Level 3	Total	Total Losses	
	(In thousands)					
Impaired loans (1)	$—	$—	$64,500	$64,500	$1,967	$13,005
Covered REO (2)	—	—	18,312	18,312	231	603
Real estate held for sale (2)	—	—	77,080	77,080	5,626	19,650
Balance at end of period	$—	$—	$159,892	$159,892	$7,824	$33,258

(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, 2014 or June 30, 2013.

The following describes the process used to value Level 3 assets measured on a nonrecurring basis:

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

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

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

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

Real estate held for sale ("REO") - These assets are valued based on inputs such as appraisals and third-party price opinions, less estimated selling costs. Assets that are acquired through foreclosure are recorded initially at the lower of the loan balance or fair value at the date of foreclosure. After foreclosure, valuations are updated periodically, and current market conditions may require the assets to be written down further to a new cost basis. The following method is used to value real estate held for sale:

When a loan is reclassified from loan status to real estate held for sale due to the Company taking possession of the collateral, a Special Credits officer, along with the Special Credits manager, obtains a valuation, which may include a third-party appraisal, which is used to establish the fair value of the underlying collateral. The determined fair value net of selling costs, to the extent it does not exceed the carrying value of the loan, becomes the carrying value of the REO asset. In addition to the valuations from independent third-party sources, the carrying balance of REO assets are written down once a bona fide offer is contractually accepted, through execution of a Purchase and Sale Agreement, where the accepted price is lower than the current balance of the particular REO asset. The fair value of REO assets is re-evaluated quarterly and the REO asset is adjusted to reflect the lower of cost or fair value as necessary.

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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.

		June 30, 2014		September 30, 2013	
	Level in Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
		(In thousands)			
Financial assets					
Cash and cash equivalents	1	$861,304	$861,304	$203,563	$203,563
Available-for-sale securities					
Equity securities	1	101,981	101,981	101,237	101,237
Obligations of U.S. government	2	721,312	721,312	533,975	533,975
Obligations of states and political subdivisions	2	23,277	23,277	22,545	22,545
Corporate debt securities	2	485,083	485,083	452,015	452,015
Mortgage-backed securities					
Agency pass-through certificates	2	1,662,001	1,662,001	1,251,176	1,251,176
Other Commercial MBS	2	109,367	109,367	—	—
Total available-for-sale securities		3,103,021	3,103,021	2,360,948	2,360,948
Held-to-maturity securities	2				
Total held-to-maturity securities		1,583,852	1,534,239	1,654,666	1,582,849
Loans receivable	3	7,965,954	8,516,535	7,528,030	8,070,279
Covered loans	3	207,207	212,002	295,947	300,610
FDIC indemnification asset	3	44,065	43,117	64,615	62,300
FHLB and FRB stock	2	162,904	162,904	173,009	173,009
Financial liabilities					
Customer accounts	2	10,765,680	10,050,132	9,090,271	8,585,068
FHLB advances and other borrowings	2	1,930,000	2,055,239	1,930,000	2,064,248

The following methods and assumptions were used to estimate the fair value of financial instruments:
Cash and cash equivalents – The carrying amount of these items is a reasonable estimate of their fair value.
Available-for-sale securities and held-to-maturity securities – Securities at fair value are primarily priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and under the provisions of the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification are considered a Level 2 input method. Equity securities which are exchange traded are considered a Level 1 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 rate or expected maturity characteristics. Net deferred loan fees are not included in the fair value calculation but are included in the carrying amount.

FDIC indemnification asset – The fair value of the indemnification asset is estimated by discounting the expected future cash flows using the current rates.
FHLB and FRB 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 tables provide a reconciliation of amortized cost to fair value of available-for-sale and held-to-maturity securities as of June 30, 2014, and September 30, 2013:

	June 30, 2014				
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value	Yield
	(In thousands)				
Available-for-sale securities					
U.S. government and agency securities due					
1 to 5 years	$111,002	$2,834	$(381)	$113,455	1.57
5 to 10 years	140,989	562	(62)	141,489	1.55
Over 10 years	465,229	1,761	(622)	466,368	1.56
Equity Securities					
Within 1 year	500	13	—	513	1.80
1 to 5 years	100,000	1,468	—	101,468	1.90
5 to 10 years	—	—	—	—	—
Corporate bonds due					
Within 1 year	—	—	—	—	—
1 to 5 years	317,452	2,562	—	320,014	0.72
5 to 10 years	113,165	2,064	(160)	115,069	1.49
Over 10 years	50,000	—	—	50,000	3.00
Municipal bonds due					
Over 10 years	20,407	2,870	—	23,277	6.45
Mortgage-backed securities					
Agency pass-through certificates	1,636,366	27,896	(2,261)	1,662,001	2.59
Other Commercial MBS	109,300	67	—	109,367	1.69
	3,064,410	42,097	(3,486)	3,103,021	2.09
Held-to-maturity securities					
Mortgage-backed securities					
Agency pass-through certificates	1,583,853	6,010	(55,623)	1,534,240	3.13
	$4,648,263	$48,107	$(59,109)	$4,637,261	2.46 %

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	September 30, 2013					
	Amortized	Gross Unrealized		Fair	Yield	
	Cost	Gains	Losses	Value		
	(In thousands)					
Available-for-sale securities						
U.S. government and agency securities due						
1 to 5 years	$61,002	$3,393	$(252)	$64,143	1.98	
5 to 10 years	129,219	—	(1,547)	127,672	0.86	
Over 10 years	344,571	—	(2,411)	342,160	0.93	
Equity Securities						
1 to 5 years	500	11	—	511	2.17	
5 to 10 years	100,000	726	—	100,726	1.80	
Corporate bonds due						
Within 1 year	19,500	3	—	19,503	0.49	
1 to 5 years	317,190	1,980	(130)	319,040	0.75	
5 to 10 years	113,060	1,180	(768)	113,472	1.53	
Municipal bonds due						
Over 10 years	20,422	2,123	—	22,545	6.45	
Mortgage-backed securities						
Agency pass-through certificates	1,245,400	10,270	(4,494)	1,251,176	2.18	
	2,350,864	19,686	(9,602)	2,360,948	1.70	
Mortgage-backed securities						
Agency pass-through certificates	1,654,666	3,387	(75,204)	1,582,849	3.14	
	$4,005,530	$23,073	$(84,806)	$3,943,797	2.30	%

During the quarter ended June 30, 2014, there were no available-for-sale securities sold. There were $43,198,000 of available-for-sale securities sold during the fiscal year ended June 30, 2013, resulting in a gain of $0. These securities were acquired from South Valley Bank and sold on the same day. Substantially all mortgage-backed securities have contractual due dates that exceed 10 years.

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The following tables indicate the total unrealized gross losses in the securities portfolio (shown above). The unrealized gross losses and fair value of securities as of June 30, 2014 and September 30, 2013 are also shown by the length of time that individual securities in each category have been in a continuous loss position. Management believes that the declines in fair value of these investments are not an other than temporary impairment.

June 30, 2014	Less than 12 months		12 months or more		Total	
	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value
	(In thousands)					
Corporate bonds due	$(98)	$24,903	$(62)	$9,938	$(160)	$34,841
U.S. government and agency securities due	(464)	74,536	(602)	217,016	(1,066)	291,552
Agency pass-through certificates	(3,332)	156,691	(54,551)	1,434,549	(57,883)	1,591,240
	$(3,894)	$256,130	$(55,215)	$1,661,503	$(59,109)	$1,917,633

September 30, 2013	Less than 12 months		12 months or more		Total	
	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value
	(In thousands)					
Corporate bonds due	$(660)	$52,434	$(238)	$9,763	$(898)	$62,197
U.S. government and agency securities due	(4,144)	309,109	(66)	14,091	(4,210)	323,200
Agency pass-through certificates	(78,291)	1,703,948	(1,407)	166,503	(79,698)	1,870,451
	$(83,095)	$2,065,491	$(1,711)	$190,357	$(84,806)	$2,255,848

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 and were $233,546,000 as of June 30, 2014 compared to $326,927,000 as of September 30, 2013. Changes in the net carrying amount and accretable yield for acquired impaired and non-impaired covered loans for the year to date period ended June 30, 2014 and the fiscal year ended September 30, 2013 were as follows:

June 30, 2014	Acquired Impaired		Acquired Non-impaired	
	Accretable Yield	Net Carrying Amount of Loans	Accretable Yield	Net Carrying Amount of Loans
	(In thousands)			
Balance at beginning of period	$78,277	$138,091	$17,263	$157,856
Reclassification from nonaccretable balance, net (1)	5,885	(2,069)	—	—
Accretion	(20,230)	20,230	(4,409)	4,409
Transfers to REO	—	(6,359)	—	—
Payments received, net	—	(62,946)	—	(42,005)
Balance at end of period	$63,932	$86,947	$12,854	$120,260

(1) reclassification due to improvements/impairments in expected cash flows of the underlying pools.

September 30, 2013	Acquired Impaired		Acquired Non-impaired	
	Accretable Yield	Net Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
	(In thousands)			
Balance at beginning of period	$50,902	$74,953	$23,789	$213,423
Additions (1)	43,299	107,946	—	—
Reclassification from nonaccretable balance, net (2)	17,850	—	—	—
Accretion	(33,774)	33,774	(6,526)	6,526
Transfers to REO	—	(11,196)	—	—
Payments received, net	—	(67,386)	—	(62,093)
Balance at end of period	$78,277	$138,091	$17,263	$157,856

(1) includes FDIC covered loans which were acquired as part of the South Valley Bank acquisition.
(2) reclassification due to improvements/impairments in expected cash flows of the underlying pools.

At June 30, 2014, none of the acquired impaired or non-impaired covered 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. The allowance for credit losses related to the acquired loans results from decreased expectations of future cash flows due to increased credit losses for certain acquired loan pools.

The outstanding principal balance of acquired covered loans was $251,520,000 and $362,248,000 as of June 30, 2014 and September 30, 2013, respectively. The discount balance related to the acquired covered loans was $42,244,000 and $66,301,000 as of June 30, 2014 and September 30, 2013, respectively.

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

	June 30, 2014	September 30, 2013
	(In thousands)	
Balance at beginning of fiscal year 2014 and 2013	$64,615	$87,571
Additions (1)	2,029	18,101
Payments made (received)	(949)	(13,421)
Amortization	(22,236)	(28,722)
Accretion	606	1,086
Balance at end of period	$44,065	$64,615

(1) Includes FDIC covered loans which were acquired as part of the South Valley Bank acquisition in 2013.

The following tables provide information on covered loans based on credit quality indicators (defined in Note E) as of June 30, 2014 and September 30, 2013:

June 30, 2014	Internally Assigned Grade					Total
	Pass	Special mention	Substandard	Doubtful	Loss	Net Loans
	(In thousands)					
Acquired non-impaired loans:						
Single-family residential	$21,812	$—	$2,656	$—	$—	$24,468
Construction - speculative	—	—	—	—	—	—
Construction - custom	—	—	—	—	—	—
Land - acquisition & development	1,441	—	395	—	—	1,836
Land - consumer lot loans	74	—	—	—	—	74
Multi-family	16,472	—	—	—	—	16,472
Commercial real estate	38,410	136	24,486	—	—	63,032
Commercial & industrial	2,831	—	2,748	—	—	5,579
HELOC	12,725	—	—	—	—	12,725
Consumer	501	—	—	—	—	501
	$94,266	$ 136	$30,285	$—	$—	$124,687
Total grade as a % of total net loans	75.6 %	0.1 %	24.3 %	— %	— %	
Acquired credit-impaired loans:						
Pool 1 - Construction and land A&D	$9,429	$—	$17,919	$—	$—	$27,348
Pool 2 - Single-family residential	16,429	—	982	—	—	17,411
Pool 3 - Multi-family	54	—	836	—	—	890
Pool 4 - HELOC & other consumer	2,938	—	1,227	—	—	4,165
Pool 5 - Commercial real estate	36,298	707	31,377	—	—	68,382
Pool 6 - Commercial & industrial	4,982	—	3,121	534	—	8,637
	$70,130	$ 707	$55,462	$534	$—	$126,833
				Total covered loans		251,520
					Discount	(42,244)
					Allowance	(2,069)
					Covered loans, net	$207,207

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September 30, 2013	Internally Assigned Grade					Total
	Pass	Special mention	Substandard	Doubtful	Loss	Net Loans
	(In thousands)					
Acquired non-impaired loans:						
Single-family residential	$26,426	$ —	$2,034	$—	$—	$28,460
Construction - speculative	—	—	—	—	—	—
Construction - custom	—	—	—	—	—	—
Land - acquisition & development	3,069	1,019	722	—	—	4,810
Land - consumer lot loans	245	—	—	—	—	245
Multi-family	17,217	—				