TFS Financial CORP
Form 10-K
November 27, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2018
or
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For transition period from to
Commission File Number 001-33390

TFS FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

United States of America	52-2054948
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
7007 Broadway Avenue	
Cleveland, Ohio	44105
(Address of Principal Executive Offices)	(Zip Code)

(216) 441-6000
(Registrant’s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value $0.01 per share
(Title of class)
The NASDAQ Stock Market, LLC
(Name of exchange on which registered)
Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
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 every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer",

"accelerated filer," "smaller reporting company," and "emerging growth company" Rule 12b-2 of the Exchange Act:

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

Emerging growth company o

If an emerging company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on March 31, 2018, as reported by the NASDAQ Global Select Market, was approximately $767.9 million.

At November 23, 2018, there were 280,206,257 shares of the Registrant's common stock, par value $0.01 per share, outstanding, of which 227,119,132 shares, or 81.05% of the Registrant's common stock, were held by Third Federal Savings and Loan Association of Cleveland, MHC, the Registrant's mutual holding company.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2019 Annual Meeting of Shareholders are incorporated by reference in Part III hereof to the extent indicated therein.

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GLOSSARY OF TERMS

TFS Financial Corporation provides the following list of acronyms and other terms as a tool for the reader. The acronyms and other terms identified below are used throughout the document.

ACT: Tax Cuts and Jobs Act
AOCI: Accumulated Other Comprehensive Income
ARM: Adjustable Rate Mortgage
ASC: Accounting Standards Codification
ASU: Accounting Standards Update
Association: Third Federal Savings and Loan Association of Cleveland
BOLI: Bank Owned Life Insurance
CDs: Certificates of Deposit
CFPB: Consumer Financial Protection Bureau
CLTV: Combined Loan-to-Value
Company: TFS Financial Corporation and its subsidiaries
DFA: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EaR: Earnings at Risk
EPS: Earnings per Share
ESOP: Third Federal Employee (Associate) Stock Ownership Plan
EVE: Economic Value of Equity
Fannie Mae: Federal National Mortgage Association
FASB: Financial Accounting Standards Board
FDIC: Federal Deposit Insurance Corporation
FHFA: Federal Housing Finance Agency
FHLB: Federal Home Loan Bank
FICO: Financing Corporation
FRB-Cleveland: Federal Reserve Bank of Cleveland
Freddie Mac: Federal Home Loan Mortgage Association
FRS: Board of Governors of the Federal Reserve System
GAAP: Generally Accepted Accounting Principles
Ginnie Mae: Government National Mortgage Association
GVA: General Valuation Allowance
HARP: Home Affordable Refinance Program
HPI: Home Price Index
IRR: Interest Rate Risk
IRS: Internal Revenue Service
IVA: Individual Valuation Allowance
LIHTC: Low Income Housing Tax Credit
LIP: Loans-in-Process
LTV: Loan-to-Value
MGIC: Mortgage Guaranty Insurance Corporation
OCC: Office of the Comptroller of the Currency
OCI: Other Comprehensive Income
OTS: Office of Thrift Supervision
PMI: Private Mortgage Insurance
PMIC: PMI Mortgage Insurance Co.
QTL: Qualified Thrift Lender
REMICs: Real Estate Mortgage Investment Conduits
SEC: United States Securities and Exchange Commission
TDR: Troubled Debt Restructuring
Third Federal Savings, MHC: Third Federal Savings and Loan Association of Cleveland, MHC

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PART I

Item 1. Business

Forward Looking Statements

This report contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include, among other things:

- statements of our goals, intentions and expectations;
- statements regarding our business plans and prospects and growth and operating strategies;
- statements concerning trends in our provision for loan losses and charge-offs;
- statements regarding the trends in factors affecting our financial condition and results of operations, including asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors that could affect the actual outcome of future events:

- significantly increased competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- general economic conditions, either globally, nationally or in our market areas, including employment prospects, real estate values and conditions that are worse than expected;
- decreased demand for our products and services and lower revenue and earnings because of a recession or other events;
- adverse changes and volatility in the securities markets, credit markets or real estate markets;
- legislative or regulatory changes that adversely affect our business, including changes in regulatory costs and capital requirements and changes related to our ability to pay dividends and the ability of Third Federal Savings, MHC to waive dividends;
- our ability to enter new markets successfully and take advantage of growth opportunities, and the possible short-term dilutive effect of potential acquisitions or de novo branches, if any;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board or the Public Company Accounting Oversight Board;
- future adverse developments concerning Fannie Mae or Freddie Mac;
- changes in monetary and fiscal policy of the U.S. Government, including policies of the U.S. Treasury and the FRS and changes in the level of government support of housing finance;
- changes in policy and/or assessment rates of taxing authorities that adversely affect us;
- changes in our organization, or compensation and benefit plans and changes in expense trends (including, but not limited to trends affecting non-performing assets, charge-offs and provisions for loan losses);
- the continuing governmental efforts to restructure the U.S. financial and regulatory system;
- the inability of third-party providers to perform their obligations to us;
- a slowing or failure of the prevailing economic recovery;
- changes in accounting and tax estimates;
- the adoption of implementing regulations by a number of different regulatory bodies under the DFA, and uncertainty in the exact nature, extent and timing of such regulations and the impact they will have on us;
- the strength or weakness of the real estate markets and of the consumer and commercial credit sectors and its impact on the credit quality of our loans and other assets;
- the ability of the U.S. Government to manage federal debt limits; and
- cyber attacks, computer viruses and other technological risks that may breach the security of our websites or other systems to obtain unauthorized access to confidential information, destroy data or disable our systems.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by any forward-looking statements. Any forward-looking statement made by us in this report speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new

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information, future developments or otherwise, except as may be required by law. Please see Item 1A. Risk Factors for a discussion of certain risks related to our business.

TFS FINANCIAL CORPORATION

TFS Financial Corporation ("we," "us," or "our") was organized in 1997 as the mid-tier stock holding company for the Association. We completed our initial public stock offering in 2007 and issued 100,199,618 shares of common stock, or 30.16% of our post-offering outstanding common stock, to subscribers in the offering. Additionally, at the time of the public offering, 5,000,000 shares of our common stock, or 1.50% of our outstanding shares, were issued to the newly formed charitable foundation, Third Federal Foundation. Third Federal Savings, MHC, our mutual holding company parent, holds the remainder of our outstanding common stock (227,119,132 shares). Net proceeds from our initial public stock offering were approximately $886 million and reflected the costs we incurred in completing the offering as well as a $106.5 million loan to the ESOP related to its acquisition of shares in the initial public stock offering.

Our ownership of the Association remains our primary business activity.

We also operate Third Capital, Inc. as a wholly-owned subsidiary. See Third Capital, Inc. below.

As the holding company of the Association, we are authorized to pursue other business activities permitted by applicable laws and regulations for savings and loan holding companies, which include making equity investments and the acquisition of banking and financial services companies.

Our cash flow depends primarily on earnings from the investment of the portion of the net offering proceeds we retained, and any dividends we receive from the Association and Third Capital, Inc. All of our officers are also officers of the Association. In addition, we use the services of the support staff of the Association from time to time. We may hire additional employees, as needed, to the extent we expand our business in the future.

THIRD CAPITAL, INC.

Third Capital, Inc. is a Delaware corporation that was organized in 1998 as our wholly-owned subsidiary. At September 30, 2018, Third Capital, Inc. had consolidated assets of $83.4 million, and for the fiscal year ended September 30, 2018, Third Capital, Inc. had consolidated net income of $1.9 million. Third Capital, Inc. has no separate operations other than as the holding company for its operating subsidiaries, and as a minority investor or partner in other entities. The following is a description of the entities in which Third Capital, Inc. is the owner, an investor or a partner.

Hazelmere Investment Group I, Ltd. This Ohio limited liability company engages in net lease transactions of commercial buildings in targeted markets. Third Capital, Inc. is a partner of this entity, receives a priority return on amounts contributed to acquire investment properties and has a 70% ownership interest in remaining earnings. Hazelmere Investment Group I, Ltd.recorded net income of $0.7 million during the fiscal year ended September 30, 2018.

Third Cap Associates, Inc. This Ohio corporation owns 49% and 60% of two title agencies that provide escrow and settlement services in the State of Ohio and Florida, primarily to customers of the Association. For the fiscal year ended September 30, 2018, Third Cap Associates, Inc. recorded net income of $0.8 million.

THIRD FEDERAL SAVINGS AND LOAN ASSOCIATION OF CLEVELAND

General

The Association is a federally chartered savings and loan association headquartered in Cleveland, Ohio, that was organized in 1938. In 1997 the Association reorganized into its current two-tier mutual holding company structure. The Association's principal business consists of originating and servicing residential real estate mortgage loans and attracting retail savings deposits.

The Association's business strategy is to originate mortgage loans with interest rates that are competitive with those of similar products offered by other financial institutions in its markets. Similarly, the Association offers high-yield checking accounts and high-yield savings accounts and certificate of deposit accounts, each bearing interest rates that are competitive with similar products offered by other financial institutions in its markets. The Association expects to continue to pursue this business philosophy. While this strategy does not enable the Association to earn the highest rates of interest on loans that it offers or to pay the lowest rates on its deposit accounts, the Association believes that this strategy is the primary reason for its successful growth in the past and will continue to be a successful strategy in the future.

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The Association attracts retail deposits from the general public in the areas surrounding its main office and its branch offices. It also utilizes its internet website, direct mail solicitation and its customer service call center to generate loan applications and attract retail deposits. Since 2013, brokered CDs and more extensive use of longer-term advances from the FHLB of Cincinnati as well as shorter-term advances from the FHLB of Cincinnati, hedged to longer effective durations by interest rate exchange contracts, have also been used as cost effective funding alternatives. In addition to residential real estate mortgage loans, the Association originates residential construction loans to individuals for the construction of their personal residences by a qualified builder. The Association also offers home equity loans and lines of credit subject to certain property and credit performance conditions. The Association retains in its portfolio a large portion of the loans that it originates. Since 2013, loans that the Association sells consist primarily of long-term, fixed-rate residential real estate mortgage loans. The Association retains the servicing rights on all loans that it sells. The Association's revenues are derived primarily from interest on loans and, to a lesser extent, interest on interest-earning deposits in other financial institutions, deposits maintained at the FRS, federal funds sold, and investment securities, including mortgage-backed securities and dividends from FHLB of Cincinnati stock. The Association also generates revenues from fees and service charges. The Association's primary sources of funds are deposits, borrowings, principal and interest payments on loans and securities and proceeds from loan sales.

The Association's website address is www.thirdfederal.com. Filings of the Company made with the SEC are available, without charge, on the Association's website. Information on that website is not and should not be considered a part of this document.

Market Area

The Association conducts its operations from its main office in Cleveland, Ohio, and from 38 additional, full-service branches and eight loan production offices located throughout the states of Ohio and Florida. In Ohio, the Association maintains 21 full-service offices located in the northeast Ohio counties of Cuyahoga, Lake, Lorain, Medina and Summit, four loan production offices located in the central Ohio counties of Franklin and Delaware (Columbus, Ohio) and four loan production offices located in the southern Ohio counties of Butler and Hamilton (Cincinnati, Ohio). In Florida, the Association maintains 17 full-service branches located in the counties of Pasco, Pinellas, Hillsborough, Sarasota, Lee, Collier, Palm Beach and Broward.

The Association also provides savings products in all 50 states and first mortgage refinance loans and home equity lines of credit in 21 states and the District of Columbia. First mortgage loans and bridge loans to purchase homes are provided in 13 states while other equity loan products are provided in eight states. These products are provided through its branch network for customers in its core markets of Ohio, Florida, Kentucky and selected counties in Indiana as well as its customer service call center and its internet site for all customers not served by its branch network.

Competition

The Association faces intense competition in its market areas both in making loans and attracting deposits. Its market areas have a high concentration of financial institutions, including large money center and regional banks, community banks and credit unions, and it faces additional competition for deposits from money market funds, brokerage firms, mutual funds and insurance companies. Some of its competitors offer products and services that the Association currently does not offer, such as commercial business loans, trust services and private banking.

The majority of the Association's deposits are held in its offices located in Cuyahoga County, Ohio. As of June 30, 2018 (the latest date for which information is publicly available), the Association had $4.7 billion of deposits in Cuyahoga County, and ranked fifth among all financial institutions with offices in the county in terms of deposits, with a market share of 8.74%. As of that date, the Association had $6.1 billion of deposits in the State of Ohio, and ranked ninth among all financial institutions in the state in terms of deposits, with a market share of 1.78%. As of June 30, 2018, the Association had $2.4 billion of deposits in the State of Florida, and ranked 32rd among all financial institutions in terms of deposits, with a market share of 0.41%. This market share data excludes deposits held by credit unions, whose deposits are not insured by the FDIC.

Many financial institutions, including institutions that compete in our markets, have targeted retail deposit gathering as a more attractive funding source than borrowings, and have become more active and more competitive in their deposit product pricing. The combination of reduced demand for borrowed funds, more competition with respect to rates paid to depositors, and low savings rates that lead to reduced appeal for investors that have traditionally allocated a portion of their portfolios to insured savings accounts, has created an increasingly difficult marketplace for attracting deposits, which could adversely affect future operating results.

From October 2017 through September 30, 2018, per data furnished by MarketTrac®, the Association had the largest market share of conventional purchase mortgage loans originated in Cuyahoga County, Ohio. For the same period, it also had the largest market share of conventional purchase mortgage loans originated in the seven northeast Ohio counties which

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comprise the Cleveland and Akron metropolitan statistical areas. In addition, based on the same statistics, the Association has consistently been one of the ten largest lenders in both Franklin County (Columbus, Ohio) and Hamilton County (Cincinnati, Ohio) since it entered those markets in 1999.

The Association's primary strategy for increasing and retaining its customer base is to offer competitive deposit and loan rates and other product features, delivered with exceptional customer service, in each of the markets it serves. We rely on the reputation that has been built during the Association's over 80-year history of serving its customers and the communities in which it operates, the Association's high capital levels, and the Association's extensive liquidity alternatives which, in combination, serve to maintain and nurture customer and marketplace confidence. The Company's high capital ratio continues to reflect the beneficial impact of our 2007 initial public offering, which raised net proceeds of $886 million. At September 30, 2018, our ratio of shareholders' equity to total assets was 12.4%. Our liquidity alternatives include management and monitoring of the level of liquid assets held in our portfolio as well as the maintenance of alternative wholesale funding sources. For the year ended September 30, 2018, our liquidity ratio averaged 5.57% (which we compute as the sum of cash and cash equivalents plus unpledged investment securities for which ready markets exist, divided by total assets) and, through the Association, we had the ability to immediately borrow an additional $129.0 million from the FHLB of Cincinnati under existing credit arrangements along with $55.6 million from the Federal Reserve Bank of Cleveland. From the perspective of collateral value securing FHLB of Cincinnati advances, our capacity limit for additional borrowings beyond the immediately available limit at September 30, 2018 was $4.78 billion, subject to satisfaction of the FHLB of Cincinnati's common stock ownership requirement. To satisfy the common stock ownership requirement we would have to increase our ownership of FHLB of Cincinnati common stock by an additional $95.5 million. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources."

We continue to utilize a multi-faceted approach to support our efforts to instill customer and marketplace confidence. First, we provide thorough and timely information to all of our associates so as to prepare them for their day-to-day interactions with customers and other individuals who are not part of the Company. We believe that it is important that our customers and others sense the comfort level and confidence of our associates throughout their dealings. Second, we encourage our management team to maintain a presence and to be available in our branches and other areas of customer contact, so as to provide more opportunities for informal contact and interaction with our customers and community members. Third, our CEO remains accessible to both local and national media, as a spokesman for our institution as well as an observer and interpreter of financial marketplace situations and events. Fourth, we periodically include advertisements in local newspapers that display our strong capital levels and history of service. We also continue to emphasize our traditional tagline—"STRONG * STABLE * SAFE"—in our advertisements and branch displays. Finally, for customers who adhere to the old adage of trust but verify, we refer them to the safety/security rankings of a nationally recognized, independent rating organization that specializes in the evaluation of financial institutions, which has awarded the Association its highest rating for more than one hundred consecutive quarters.

Lending Activities

The Association's principal lending activity is the origination of fixed-rate and adjustable-rate, first mortgage loans to purchase or refinance residential real estate in its core markets in Ohio, Florida and Kentucky. Adjustable-rate and 10-year fixed rate first mortgage loans to refinance real estate are offered in a total of 21 states, including its core markets, and the District of Columbia. Also, the Association offers adjustable-rate and 10-year fixed rate first mortgage loans to purchase real estate in a total of 13 states including its core markets. Further, the Association originates residential construction loans to individuals (for the construction of their personal residences by a qualified builder) in Ohio and Florida. The Association also offers home equity lines of credit in a total of 21 states, including its core markets, and the District of Columbia and home equity loans in a total of eight states including its core markets. Between 2010 and 2015, the Association, in various steps, modified its home equity lending products and the markets they were offered in response to the 2008 financial crisis. Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - Monitoring and Limiting Our Credit Risk for additional information regarding home equity loans and lines of credit. At September 30, 2018, residential real estate, fixed-rate and adjustable-rate, first mortgage loans totaled $11.03 billion, or 85.4% of our loan portfolio, home equity loans and lines of credit totaled $1.82 billion, or 14.1% of our loan portfolio, and residential construction loans totaled $64.0

million, or 0.5% of our loan portfolio. At September 30, 2018, adjustable-rate, residential real estate, first mortgage loans totaled $5.17 billion and comprised 40.0% of our loan portfolio.

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Loan Portfolio Composition. The following table sets forth the composition of the portfolio of loans held for investment, by type of loan segregated by geographic location for the periods indicated, excluding loans held for sale. The majority of our construction loan portfolio is secured by properties located in Ohio and the balances of consumer loans are immaterial. Therefore, neither was segregated by geographic location.

	September 30,									
	2018		2017		2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Perc
	(Dollars in thousands)									
Real estate loans:										
Residential Core (1)										
Ohio	$6,052,208		$6,061,515		$5,937,114		$5,903,051		$5,986,801	
Florida	1,758,762		1,739,098		1,678,798		1,621,763		1,570,087	
Other	3,119,841		2,945,591		2,453,740		1,938,125		1,271,951	
Total	10,930,811	84.7 %	10,746,204	86.2 %	10,069,652	85.5 %	9,462,939	83.9 %	8,828,839	82.
Residential Home Today (1)										
Ohio	90,604		103,803		116,253		129,416		146,974	
Florida	4,150		4,924		5,414		6,050		6,909	
Other	179		237		271		280		313	
Total	94,933	0.7	108,964	0.9	121,938	1.0	135,746	1.2	154,196	1.5
Home equity loans and lines of credit										
Ohio	652,271		606,301		597,735		641,321		675,911	
Florida	369,252		340,530		370,111		421,904		475,375	
California	268,230		205,157		210,004		216,233		213,309	
Other	529,165		400,327		353,432		345,781		332,334	
Total	1,818,918	14.1	1,552,315	12.4	1,531,282	13.0	1,625,239	14.4	1,696,929	15.
Construction	64,012	0.5	60,956	0.5	61,382	0.5	55,421	0.5	57,104	0.5
Other consumer loans	3,021	—	3,050	—	3,116	—	3,468	—	4,721	—
Total loans receivable	12,911,695	100.0%	12,471,489	100.0%	11,787,370	100.0%	11,282,813	100.0%	10,741,789	100
Deferred loan expenses (fees), net	38,566		30,865		19,384		10,112		(1,155)	
Loans in process	(36,549)		(34,100)		(36,155)		(33,788)		(28,585)	
Allowance for loan losses	(42,418)		(48,948)		(61,795)		(71,554)		(81,362)	
Total loans receivable,	$12,871,294		$12,419,306		$11,708,804		$11,187,583		$10,630,687	

net

(1) Residential Core and Home Today loans are primarily one- to four-family residential mortgage loans. See the Residential Real Estate Mortgage Loans section which follows for a further description of Home Today and Core loans.

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Loan Portfolio Yield. The following tables set forth the interest yield as of September 30, 2018 for the portfolio of loans held for investment, by type of loan, structure and geographic location.

	September 30, 2018		
	Balance	Percent	Yield
	(Dollars in thousands)		
Real Estate Loans:			
Fixed Rate			
Terms less than or equal to 10 years	$1,822,918	14.1 %	2.91%
Terms greater than 10 years	4,036,544	31.3 %	4.08%
Total Fixed-Rate loans	5,859,462	45.4 %	3.71%
ARMs	5,166,282	40.0 %	3.03%
Home Equity Loans and Lines of Credit	1,818,918	14.1 %	4.30%
Construction and Consumer	67,033	0.5 %	3.63%
Total Loans Receivable, net	$12,911,695	100.0%	3.52%

	September 30, 2018			
	Balance	Fixed Rate Balance	Percent	Yield
	(Dollars in thousands)			
Residential Mortgage Loans				
Ohio	$6,142,813	$4,194,107	47.6 %	3.62%
Florida	1,762,912	703,899	13.6 %	3.35%
Other	3,120,019	961,456	24.2 %	2.96%
Total Residential Mortgage Loans	$11,025,744	$5,859,462	85.4 %	3.39%

Loan Portfolio Maturities. The following table summarizes the scheduled repayments of the loan portfolio at September 30, 2018, according to each loan's final due date. Demand loans, loans having no stated repayment schedule or maturity, are reported as being due in the fiscal year ending September 30, 2019. Maturities are based on the final contractual payment date and do not reflect the impact of prepayments and scheduled principal amortization.

Due During the Years Ending September 30,	Residential Real Estate		Home Equity Loans and Lines of Credit	Construction Loans	Other Consumer Loans	Total
	Core	Home Today				
	(In thousands)					
2019	$2,005	$28	$20,180	$ —	$ 3,021	$25,234
2020	6,842	62	8,280	—	—	15,184
2021	13,329	27	2,597	—	—	15,953
2022 to 2023	264,754	402	18,521	—	—	283,677
2024 to 2028	2,109,398	800	295,175	—	—	2,405,373
2029 to 2033	742,042	16,072	123,714	5,026	—	886,854
2034 and beyond	7,792,441	77,542	1,350,451	58,986	—	9,279,420
Total	$10,930,811	$94,933	$1,818,918	$ 64,012	$ 3,021	$12,911,695

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The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at September 30, 2018 that are contractually due after September 30, 2019.

	Due After September 30, 2019		
	Fixed	Adjustable	Total
	(In thousands)		
Real estate loans:			
Residential Core	$5,763,431	$5,165,375	$10,928,806
Residential Home Today	94,820	85	94,905
Home Equity Loans and Lines of Credit	115,170	1,683,568	1,798,738
Construction	64,012	—	64,012
Total	$6,037,433	$6,849,028	$12,886,461

Residential Real Estate Mortgage Loans. The Association’s primary lending activity is the origination of residential real estate mortgage loans. A comparison of 2018 data to the corresponding 2017 data can be found in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation.” The Association currently offers fixed-rate conventional mortgage loans with terms of 30 years or less that are fully amortizing with monthly loan payments, and adjustable-rate mortgage loans that amortize over a period of up to 30 years, provide an initial fixed interest rate for three or five years and then adjust annually, subject to rate reset options as discussed later in this section. At September 30, 2018, there were no “interest only” residential real estate mortgage loans held in the Association's portfolio.

The Association generally originates both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the FHFA, which is currently $453,100 and $679,650, respectively, for single-family homes in most of our lending markets. The Association also originates loans in amounts that exceed the lending limit for conforming loans, which the Association refers to as “jumbo loans.” The Association generally underwrites jumbo loans in a manner similar to conforming loans. Jumbo loans are not uncommon in the Association’s market areas.

The Association has always considered the promotion of home ownership a primary goal. In that regard, it has historically offered affordable housing programs in all of its market areas. These programs are targeted toward low- and moderate-income home buyers. During the latter portion of fiscal 2016, the Association began to market its HomeReady mortgage loan product for low- and moderate-income homeowners. Third Federal’s HomeReady product is designed to be saleable to Fannie Mae under its HomeReady program. Previously, the Association’s primary program was referred to as "Home Today" and is described in detail below. The vast majority of loans originated under the Home Today program had higher risk characteristics. Borrowers in our Home Today program were not charged higher fees or interest rates than our Core (non-Home Today) borrowers. Home Today loans were not "interest only" or negative amortizing and contain no low initial payment features or adjustable interest rates. While the credit risk profiles of the Association’s borrowers in the Home Today program were generally higher risk than the credit risk profiles of its Core borrowers, the Association attempted to mitigate that higher risk through the use of private mortgage insurance and continued pre- and post-purchase counseling. The Association’s philosophy has been to provide borrowers the opportunity for home ownership within their financial means.

Coinciding with the Association's marketing of the HomeReady mortgage loan product in 2016, the Association no longer originates loans under its Home Today program. As of September 30, 2018, the Association had $94.9 million of loans outstanding that were originated through its Home Today program, most of which were originated prior to March 2009 and were originated with its standard terms, but to borrowers who might not have otherwise qualified for such loans. The Association originated loans with a LTV ratio of up to 97% through its Home Today program, provided that any loan originated through this program with a LTV ratio in excess of 80% must have met the underwriting criteria mandated by the Association's private mortgage insurance carrier. Because the Association previously applied less stringent underwriting and credit standards to these loans, the majority of loans originated under the Home Today program generally have greater credit risk than our Core residential real estate mortgage loans. Effective October 2007, the private mortgage insurance carrier that provides coverage for the Home Today loans with LTV ratios in excess of 80% imposed more restrictive lending requirements that decreased the volume of Home

Today lending. At September 30, 2018, of the loans that were originated under the Home Today program, 8.8% were delinquent 30 days or more compared to 0.2% for the portfolio of Core loans as of that date. At September 30, 2018, $3.8 million, or 4.0%, of loans originated under the Home Today program were delinquent 90 days and over and $14.6 million of Home Today loans were non-accruing loans, representing 18.8% of total non-accruing loans as of that date. See “Non-performing Assets and Restructured Loans—Delinquent Loans” for a discussion of the asset quality of this portion of the Association’s loan portfolio.

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Prior to November 2008, the Association also originated loans under its high LTV program. These loans had initial LTV ratios of 90% or greater and could be as high as 95%. To qualify for this program, the loan applicant was required to satisfy more stringent underwriting criteria (credit score, income qualification, and other criteria). Borrowers did not obtain private mortgage insurance with respect to these loans. High LTV loans were originated with higher interest rates than the Association's other residential real estate loans. The Association believes that the higher credit quality of this portion of the portfolio offsets the risk of not requiring private mortgage insurance. While these loans were not initially covered by private mortgage insurance, the Association had negotiated with a private mortgage insurance carrier a contract under which, at the Association's option, a pre-determined dollar amount of qualifying loans could be grouped and submitted to the carrier for pooled private mortgage insurance coverage. As of September 30, 2018, the Association had $45.1 million of loans outstanding that were originated through its High LTV program, $38.7 million of which the Association has insured through the private mortgage insurance carrier. The High LTV program was suspended in November 2008.

For loans with LTV ratios in excess of 85% but equal to or less than 95%, the Association requires private mortgage insurance. LTV ratios in excess of 80% are not available for refinance transactions except for adjustable-rate, first mortgage loans and HomeReady loans. The HomeReady product requires private mortgage insurance on purchase transactions in excess of 80% to 97% LTV and refinance transactions in excess of 80% to 95% LTV.

The Association actively monitors its interest rate risk position to determine its desired level of investment in fixed-rate mortgages. While the sales of first mortgage loans remain strategically important for us, since fiscal 2010, they have played a lesser role in our management of interest rate risk.

The Association currently retains the servicing rights on all loans sold in order to generate fee income and reinforce its commitment to customer service. One- to four-family residential mortgage real estate loans that have been sold were underwritten generally to Fannie Mae guidelines and comply with applicable federal, state and local laws. At the time of the closing of these loans the Association owned the loans and subsequently sold them to Fannie Mae and others providing normal and customary representations and warranties, including representations and warranties related to compliance, generally with Fannie Mae underwriting standards. At the time of sale, the loans were free from encumbrances except for the mortgages filed by the Association which, with other underwriting documents, were subsequently assigned and delivered to Fannie Mae and others. During each of the fiscal years ended September 30, 2018 and 2017, the Association recognized servicing fees, net of amortization, related to these servicing rights of $4.3 million. As of September 30, 2018 and 2017, the principal balance of loans serviced for others totaled $1.93 billion and $1.85 billion, respectively. In November 2013, the Association entered into a resolution agreement with Fannie Mae, pursuant to which the Association remitted $3.1 million to Fannie Mae. The remittance amount included $0.4 million related to outstanding mortgage insurance claim payments on 42 loans. Under the terms of the resolution agreement, Fannie Mae withdrew all outstanding repurchase and make-whole demands and generally waived its right to enforce future repurchase obligations with respect to all mortgage loans (approximately 23,400 active loans or loans with a remaining balance) that were originated by the Association between 2000 and 2008 and delivered to Fannie Mae prior to 2009. At September 30, 2018, substantially all of the loans serviced for Fannie Mae and others were performing in accordance with their contractual terms and management believes that it has no material repurchase obligations associated with these loans. However, at September 30, 2018 an accrual for $0.6 million has been maintained for potential repurchase or loss reimbursement requests.

The Association currently offers "Smart Rate" adjustable-rate mortgage loan products secured by residential properties with interest rates that are fixed for an initial period of three or five years, after which the interest rate generally resets every year based upon a contractual spread or margin linked to the Prime Rate as published in the Wall Street Journal. As part of a loan retention program, these adjustable-rate loans provide the borrower with an attractive rate reset option, which allow the borrower to re-lock the rate an unlimited number of times at the Association's then current lending rates, for another three or five years (which must be the same as the original lock period). Adjustable-rate mortgage loans generally present different credit risks than fixed-rate mortgage loans primarily because the underlying debt service payments of the borrowers increase as interest rates increase, thereby increasing the potential for default. Prior to 2010, the Association's adjustable-rate mortgage loan products secured by residential properties offered interest rates that were fixed for an initial period ranging from one year to five years, after which the interest rate generally reset every year based upon a contractual spread or margin above the average yield on U.S. Treasury securities, adjusted to a constant maturity of one year, as published weekly by the FRS (“Traditional ARM”). All of the Association’s adjustable-rate mortgage loans are subject to periodic and lifetime limitations on interest rate changes. All adjustable-rate mortgage loans with initial fixed-rate periods of three or five years have initial and periodic caps of two percentage points on interest rate changes, with a cap of six percentage points for the life of the loan for Traditional ARM and five or six percentage points for the life of Smart Rate loans. Previously, the Association also offered Traditional ARM loans with an initial fixed-rate period of seven years. Loans originated under that program, which was discontinued in 2007, had a cap of five percentage points on the initial change in interest rate, with a two percentage point cap on subsequent changes and a cap of five percentage points for the life of the loan. Many of the borrowers who select adjustable-rate mortgage loans have shorter-

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term credit needs than those who select long-term, fixed-rate mortgage loans. The Association will permit borrowers to convert Traditional ARMs into fixed-rate mortgage loans at no cost to the borrower. The Association has never offered “Option ARM” loans, where borrowers can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan. At September 30, 2018, "Smart Rate" adjustable-rate mortgage loans totaled $5.09 billion, or 98.5% of the adjustable-rate mortgage loan portfolio and Traditional ARMs totaled $75.5 million, or 1.5% of the adjustable-rate mortgage loan portfolio.

The Association requires title insurance on all of its residential real estate mortgage loans. The Association also requires that borrowers maintain fire and extended coverage casualty insurance (and, if appropriate, flood insurance up to $250 thousand) in an amount at least equal to the lesser of the loan balance or the replacement cost of the improvements. A majority of its residential real estate mortgage loans have a mortgage escrow account from which disbursements are made for real estate taxes and to a lesser extent for hazard insurance and flood insurance. The Association does not conduct environmental testing on residential real estate mortgage loans unless specific concerns for hazards are identified by the appraiser used in connection with the origination of the loan.

Home Equity Loans and Home Equity Lines of Credit. The Association offers home equity loans and home equity lines of credit, which are primarily secured by a second mortgage on residences. Home equity products offered by the Association varied significantly between 2010 and 2015. Prior to June 2010, the Association offered home equity loans and home equity lines of credit. The Association also offered a home equity lending product that was secured by a third mortgage, although the Association only originated this loan to borrowers where the Association also held the second mortgage. Between June 2010 and March 2012, we suspended the acceptance of new home equity credit applications with the exception of bridge loans (loans where borrowers can utilize the existing equity in their current home to fund the purchase of a new home before they have sold their current home) and, in accordance with a directive from our primary federal banking regulator, actively pursued strategies to decrease the outstanding balance of our home equity lending portfolio as well as our exposure to undrawn home equity lines of credit. Beginning March 2012, we again offered new home equity lines of credit to qualifying existing home equity customers. In 2013, we further modified the product design and we extended the offer to both existing home equity customers and new consumers in Ohio, Florida, and selected counties in Kentucky. Over the course of the fiscal year ended September 30, 2014, we expanded the home equity product offering to include 21 states and the District of Columbia. Home equity lines of credit originated since 2013 contain a provision for amortizing loan payments during the draw period. These offers were, and are, subject to certain property and credit performance conditions which, among other items, related to CLTV, geography, borrower income verification, minimum credit scores and draw period duration. At September 30, 2018 and 2017, home equity loans totaled $440.8 million, or 3.4%, and $307.5 million, or 2.5%, respectively, of total loans receivable (which included $305.1 million and $217.8 million, respectively, of home equity lines of credit which were in the amortization period and no longer eligible to be drawn upon and $27.8 million and $17.3 million of bridge loans), and home equity lines of credit totaled $1.38 billion, or 10.7%, and $1.24 billion, or 10.0%, respectively, of total loans receivable. A bridge loan permits a borrower to utilize the existing equity in their current home to fund the purchase of a new home before the current home is sold. Bridge loans are originated for a one-year term, with no prepayment penalties. These loans have fixed interest rates, and are currently limited to a combined 80% LTV ratio (first and second mortgage liens). The Association charges a closing fee with respect to bridge loans. Additionally, at September 30, 2018 and 2017, the unadvanced amounts of home equity lines of credit totaled $1.77 billion and $1.43 billion, respectively.

Prior to June 28, 2010, the underwriting standards for home equity loans and home equity lines of credit were less restrictive than current underwriting standards, which impacted acceptable LTV ratios, minimum credit scores, income and employment verification and line amounts. Generally, the least restrictive qualifications and the most attractive product features from a borrower’s perspective were in place during portions of fiscal 2006 and 2007. Between 2007 and 2010 the home equity lending parameters became increasingly restrictive. The Association originated its home equity loans and home equity lines of credit without application fees (except for bridge loans) or borrower-paid closing costs. Home equity loans were offered with fixed interest rates, were fully amortizing and had terms of up to 15 years. The Association’s home equity lines of credit were offered with adjustable rates of interest indexed to the Prime Rate, as reported in The Wall Street Journal.

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The following table sets forth credit exposure, principal balance, percent delinquent 90 days or more, the mean CLTV percent at the time of origination and the current CLTV percent of our home equity loans, home equity lines of credit and bridge loan portfolio as of September 30, 2018. Home equity lines of credit in the draw period are reported according to geographical distribution.

	Credit Exposure	Principal Balance	Percent Delinquent 90 days or More		Mean CLTV Percent at Origination(2)		Current Mean CLTV Percent(3)	
	(Dollars in thousands)							
Home equity lines of credit in draw period (by state):								
Ohio	$1,265,587	$494,079	0.07	%	59	%	52	%
Florida	482,350	233,745	0.05	%	57	%	51	%
California	412,594	189,234	0.03	%	63	%	57	%
Other (1)	990,529	461,055	0.09	%	64	%	60	%
Total home equity lines of credit in draw period	3,151,060	1,378,113	0.07	%	61	%	54	%
Home equity lines in repayment, home equity loans and bridge loans	440,805	440,805	1.14	%	67	%	50	%
Total	$3,591,865	$1,818,918	0.33	%	61	%	53	%

(1) No individual other state has a committed or drawn balance greater than 10% of total loans and 5% of equity products.

(2) Mean CLTV percent at origination for all home equity lines of credit is based on the committed amount.

(3) Current Mean CLTV is based on best available first mortgage and property values as of September 30, 2018. Property values are estimated using HPI data published by the FHFA. Current Mean CLTV percent for home equity lines of credit in the draw period is calculated using the committed amount. Current Mean CLTV on home equity lines of credit in the repayment period is calculated using the principal balance.

At September 30, 2018, 40.4% of our home equity lending portfolio was either in first lien position (22.6%) or was in a subordinate (second) lien position behind a first lien that we held (13.9%) or behind a first lien that was held by a loan that we originated, sold and now service for others (3.9%). At September 30, 2018, 14.6% of our home equity line of credit portfolio in the draw period was making only the minimum payment on their outstanding line balance.

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The following table sets forth by calendar origination year, the credit exposure, principal balance, percent delinquent 90 days or more, the mean CLTV percent at the time of origination and the current mean CLTV percent of our home equity loans, home equity lines of credit and bridge loan portfolio as of September 30, 2018. Home equity lines of credit in the draw period are included in the year originated:

	Credit Exposure	Principal Balance	Percent Delinquent 90 Days or More		Mean CLTV Percent at Origination(1)		Current Mean CLTV Percent(2)	
	(Dollars in thousands)							
Home equity lines of credit in draw period:								
2008 and Prior	$164,240	$62,944	0.63	%	61	%	49	%
2009	141,061	49,473	0.82	%	55	%	48	%
2010	13,874	4,529	—	%	58	%	44	%
2011	—	—	—	%	—	%	—	%
2012	155	51	—	%	44	%	64	%
2013	12,983	3,907	—	%	60	%	42	%
2014	168,245	60,034	0.19	%	60	%	44	%
2015	245,723	102,806	—	%	60	%	47	%
2016	448,110	198,292	—	%	62	%	53	%
2017	963,443	461,162	—	%	61	%	56	%
2018	993,226	434,915	—	%	61	%	60	%
Total home equity lines of credit in draw period	3,151,060	1,378,113	0.07	%	61	%	54	%
Home equity lines in repayment, home equity loans and bridge loans	440,805	440,805	1.14	%	67	%	50	%
Total	$3,591,865	$1,818,918	0.33	%	61	%	53	%

(1) Mean CLTV percent at origination for all home equity lines of credit is based on the committed amount.

(2) Current Mean CLTV is based on best available first mortgage and property values as of September 30, 2018. Property values are estimated using HPI data published by the FHFA. Current Mean CLTV percent for home equity lines of credit in the draw period is calculated using the committed amount. Current Mean CLTV on home equity lines of credit in the repayment period is calculated using the principal balance.

In general, the home equity line of credit product originated prior to June 2010 (when new home equity lending was temporarily suspended) was characterized by a ten year draw period followed by a ten year repayment period; however, there were two types of transactions that could result in a draw period that extended beyond ten years. The first transaction involved customer requests for increases in the amount of their home equity line of credit. When the customer's credit performance and profile supported the increase, the draw period term was reset for the ten year period following the date of the increase in the home equity line of credit amount. A second transaction that impacted the draw period involved extensions. For a period of time prior to June 2008, the Association had a program that evaluated home equity lines of credit that were nearing the end of their draw period and made a determination as to whether or not the customer should be offered an additional ten year draw period. If the account and customer met certain pre-established criteria, an offer was made to extend the otherwise expiring draw period by ten years from the date of the offer. If the customer chose to accept the extension, the origination date of the account remained unchanged but the account would have a revised draw period that was extended by ten years. As a result of these two programs, the reported draw periods for certain home equity line of credit accounts exceed ten years.

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The following table sets forth by fiscal year when the draw period expires, the principal balance of home equity lines of credit in the draw period as of September 30, 2018, segregated by the current combined LTV range.

	Current CLTV Category					
Home equity lines of credit in draw period (by End of Draw Fiscal Year):	< 80%	80 - 89.9%	90 - 100%	>100%	Unknown (2)	Total
	(Dollars in thousands)					
2019 (1)	$153,818	$2,682	$600	$751	$3,038	$160,889
2020 (1)	111,584	93	14	21	1,256	112,968
2021 (1)	39,074	—	—	—	208	39,282
2022	79	—	—	—	—	79
2023 (1)	19	—	—	—	—	19
2024	—	—	—	9	27	36
Post 2024	1,046,964	6,874	394	129	10,479	1,064,840
Total	$1,351,538	$9,649	$1,008	$910	$15,008	$1,378,113

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(1) Home equity lines of credit whose draw period ends in fiscal years 2019, 2020 and 2021 include $56.5 million, $100.5 million and $39.2 million respectively, of lines where the customer has an amortizing payment during the draw period. All home equity lines of credit whose draw period ends in the fiscal years after 2021 have an amortizing payment during the draw period.

(2) Market data necessary for stratification is not readily available.

As shown in the origination by year table, which is the second preceding table above, the percentage of loans delinquent 90 days or more (seriously delinquent) originated during the years 2009 and earlier are comparatively higher than the years following 2009. Those years saw rapidly increasing housing prices, especially in our Florida market. As housing prices declined along with the general economic downturn and higher levels of unemployment that accompanied the 2008 financial crisis, we see that reflected in delinquencies for those years. Home equity lines of credit originated during those years also saw higher loan amounts, higher permitted LTV ratios, and lower credit scores. However, recent increases in home values have reversed the trend of the general decrease in housing values from the aftermath of the 2008 financial crisis, resulting in current mean CLTV percentages becoming lower than the mean CLTV percentages at origination, which was not the case for a number of years. Increased home values have also allowed customers to refinance their home equity lines of credit approaching the end of draw period. The combination of the principal balance of all home equity products no longer in the draw period, plus those lines originated in 2009 and earlier, is $553.2 million, a reduction of $230.9 million during the current fiscal year. In addition, as shown in the table below, the principal balance of home equity lines of credit in the draw period that have a current mean CLTV over 80% or unknown is $26.6 million at September 30, 2018, a reduction of $72.5 million during the current fiscal year.

While there have been recent improvements, the previous past weakness in the housing market and the uncertainty with respect to future employment levels and economic prospects, causes us to continue to conduct an expanded loan level evaluation of our home equity lines of credit which are delinquent 90 days or more.

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The following table sets forth the breakdown of current mean CLTV percentages for our home equity lines of credit in the draw period as of September 30, 2018.

	Credit Exposure	Principal Balance	Percent of Total Principal Balance	Percent Delinquent 90 days or More	Mean CLTV Percent at Origination(2)	Current Mean CLTV Percent(3)
	(Dollars in thousands)					
Home equity lines of credit in draw period (by current mean CLTV):						
< 80%	$3,094,250	$1,351,538	98.1 %	0.06 %	61 %	54 %
80 - 89.9%	20,457	9,649	0.7 %	— %	79 %	82 %
90 - 100%	1,522	1,008	0.1 %	7.44 %	78 %	93 %
> 100%	1,584	910	0.1 %	1.88 %	74 %	130 %
Unknown (1)	33,247	15,008	1.0 %	— %	54 %	(1)
	$3,151,060	$1,378,113	100.0 %	0.07 %	61 %	54 %

(1) Market data necessary for stratification is not readily available.

(2) Mean CLTV percent at origination for all home equity lines of credit is based on the committed amount.

(3) Current Mean CLTV is based on best available first mortgage and property values as of September 30, 2018. Property values are estimated using HPI data published by the FHFA. Current Mean CLTV percent for home equity lines of credit in the draw period is calculated using the committed amount. Current Mean CLTV on home equity lines of credit in the repayment period is calculated using the principal balance.

Construction Loans. The Association originates construction loans to individuals for the construction of their personal single-family residence by a qualified builder (construction/permanent loans). The Association's construction/permanent loans generally provide for disbursements to the builder or sub-contractors during the construction phase as work progresses. During the construction phase, the borrower only pays interest on the drawn balance. Upon completion of construction, the loan converts to a permanent amortizing loan without the expense of a second closing. The Association offers construction/permanent loans with fixed or adjustable rates, and a current maximum loan-to-completed-appraised value ratio of 85%. At September 30, 2018, construction loans totaled $64.0 million, or 0.5% of total loans receivable. At September 30, 2018, the unadvanced portion of these construction loans totaled $36.5 million.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, the Association may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. This is more likely to occur when home prices are falling.

Loan Originations, Purchases, Sales, Participations and Servicing. Lending activities are conducted by the Association's loan personnel (all of whom are non-commissioned associates) operating at our main and branch office locations and at our loan production offices. All loans that the Association originates are underwritten pursuant to its policies and procedures, which, for real estate loans, are consistent with the ability to repay guidance provided by the CFPB. A small number of loans originated with the intent to sell and certain other long-term, fixed-rate loans, as described below, are originated using Fannie Mae processing and underwriting guidelines. The majority of loans however, are originated using guidelines that are similar, but not identical to Fannie Mae processing and underwriting guidelines. The Association originates both adjustable-rate and fixed-rate loans and advertises extensively throughout its market area. Its ability to originate fixed- or adjustable-rate loans is dependent upon the relative consumer demand for such loans, which is affected by current market interest rates as well as anticipated future market interest rates. The Association’s loan origination and sales activity may be adversely affected by a rising interest rate environment or economic recession, which typically results in decreased loan demand. The Association’s residential real estate mortgage loan originations are generated by its in-house loan representatives, by direct mail solicitations, by referrals from existing or past customers, by referrals from local builders and real estate brokers, from calls to its telephone call center and from the internet.

Except for loans originated in accordance with the guidelines of Fannie Mae's HARP II and HomeReady programs, which loans are originated with the intent to sell, the Association decides whether to retain, sell or securitize the loans that it originates,

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after evaluating current and projected market interest rates, its interest rate risk objectives, its liquidity needs and other factors. During the fiscal year ended September 30, 2018, the Association sold to Fannie Mae, in either whole loan or security form, $122.7 million of long-term, fixed-rate residential real estate mortgage loans, and to a private investor, $277.4 million of long-term, fixed-rate residential real estate mortgage loans, all on a servicing retained basis. In addition to sales of long-term, fixed-rate residential real estate mortgage loans, the Association has also previously sold to private parties, non-agency eligible, adjustable-rate loans on a servicing retained basis. Those sales evidenced the saleability of our loans that are not originated in accordance with agency specified procedures, including adjustable-rate loans. As described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - Controlling Our Interest Rate Risk Exposure, the Association implemented loan origination changes in fiscal 2014 with respect to a small portion of our loan originations, which allow that portion of our first mortgage loan originations that were processed using the revised procedures to be eligible for securitization and sale in Fannie Mae mortgage backed security form. The balance of loans held for sale was $0.7 million at September 30, 2018, which were originated pursuant to the guidelines of Fannie Mae's HARP II and HomeReady programs.
Historically, the Association has retained the servicing rights on all residential real estate mortgage loans that it has sold, and intends to continue this practice into the future. At September 30, 2018, the Association serviced loans owned by others with a principal balance of $1.93 billion, including $2.7 million of loans sold to Fannie Mae subject to recourse. All recourse sales occurred prior to the year 2000. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent borrowers, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans. The Association retains a portion of the interest paid by the borrower on the loans it services as consideration for its servicing activities. The Association did not enter into any loan participations during the fiscal year ended September 30, 2018 and does not expect to do so in the near future.
Loan Approval Procedures and Authority. The Association's lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by its Board of Directors. The loan approval process is intended to assess the borrower's ability to repay the loan and the value of the property that will secure the loan. To assess the borrower's ability to repay, the Association reviews the borrower's employment and credit history and information on the historical and projected income and expenses of the borrower.
The Association's policies and loan approval limits are established by its Board of Directors. The Association's Board of Directors has delegated authority to its Executive Committee (consisting of the Association's Chief Executive Officer and two directors) to review and assign lending authorities to certain individuals of the Association to consider and approve loans within their designated authority. Residential real estate mortgage loans and construction loans require the approval of one individual with designated underwriting authority.
The Association requires independent third-party valuations of real property. Appraisals are performed by independent licensed appraisers.

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Delinquent Loans. The following tables set forth the number and recorded investment in loan delinquencies by type, segregated by geographic location and severity of delinquency at the dates indicated. The majority of our construction loan portfolio is secured by properties located in Ohio; therefore, it is not segregated by geography. There were no delinquencies in the construction loan portfolio for the fiscal years ended September 30, 2018, 2017 and 2016.

	Loans Delinquent For					
	30-89 Days		90 Days or Over		Total	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
September 30, 2018						
Real estate loans:						
Residential Core						
Ohio	81	$7,622	88	$7,392	169	$15,014
Florida	7	906	15	2,455	22	3,361
Other	7	1,346	5	960	12	2,306
Total Residential Core	95	9,874	108	10,807	203	20,681
Residential Home Today						
Ohio	118	4,483	129	3,756	247	8,239
Florida	1	69	3	58	4	127
Total Residential Home Today	119	4,552	132	3,814	251	8,366
Home equity loans and lines of credit						
Ohio	89	2,117	122	2,286	211	4,403
Florida	41	2,011	79	2,085	120	4,096
California	3	302	4	255	7	557
Other	37	2,037	54	1,307	91	3,344
Total Home equity loans and lines of credit	170	6,467	259	5,933	429	12,400
Total	384	$20,893	499	$20,554	883	$41,447

	Loans Delinquent For					
	30-89 Days		90 Days or Over		Total	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
September 30, 2017						
Real estate loans:						
Residential Core						
Ohio	82	$6,850	114	$8,756	196	$15,606
Florida	12	1,671	26	2,507	38	4,178
Other	1	149	4	712	5	861
Total Residential Core	95	8,670	144	11,975	239	20,645
Residential Home Today						
Ohio	123	5,244	193	6,678	316	11,922
Florida	4	319	5	173	9	492
Total Residential Home Today	127	5,563	198	6,851	325	12,414
Home equity loans and lines of credit						
Ohio	117	3,037	133	2,134	250	5,171
Florida	48	1,884	99	2,345	147	4,229
California	7	590	9	354	16	944
Other	22	859	44	575	66	1,434

Total Home equity loans and lines of credit	194	6,370	285	5,408	479	11,778
Total	416	$20,603	627	$24,234	1,043	$44,837

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	Loans Delinquent For					
	30-89 Days		90 Days or Over		Total	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
September 30, 2016						
Real estate loans:						
Residential Core						
Ohio	93	$8,901	155	$10,957	248	$19,858
Florida	5	790	39	4,055	44	4,845
Other	1	119	4	581	5	700
Total Residential Core	99	9,810	198	15,593	297	25,403
Residential Home Today						
Ohio	133	7,456	203	6,954	336	14,410
Florida	5	398	10	378	15	776
Kentucky	1	—	1	24	2	24
Total Residential Home Today	139	7,854	214	7,356	353	15,210
Home equity loans and lines of credit						
Ohio	94	2,507	172	2,216	266	4,723
Florida	34	2,134	122	2,257	156	4,391
California	8	562	5	130	13	692
Other	32	1,213	40	329	72	1,542
Total Home equity loans and lines of credit	168	6,416	339	4,932	507	11,348
Total	406	$24,080	751	$27,881	1,157	$51,961

	Loans Delinquent For					
	30-89 Days		90 Days or Over		Total	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
September 30, 2015						
Real estate loans:						
Residential Core						
Ohio	111	$10,622	188	$14,746	299	$25,368
Florida	10	1,634	70	7,509	80	9,143
Other	2	309	8	1,051	10	1,360
Total Residential Core	123	12,565	266	23,306	389	35,871
Residential Home Today						
Ohio	147	8,021	231	8,371	378	16,392
Florida	5	352	11	674	16	1,026
Kentucky	—	—	1	23	1	23
Total Residential Home Today	152	8,373	243	9,068	395	17,441
Home equity loans and lines of credit						
Ohio	128	2,633	189	2,772	317	5,405
Florida	36	1,894	124	1,608	160	3,502
California	9	680	13	49	22	729
Other	30	967	48	1,146	78	2,113
Total Home equity loans and lines of credit	203	6,174	374	5,575	577	11,749
Construction	—	—	1	427	1	427

Total	478	$27,112	884	$38,376	1,362	$65,488

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	Loans Delinquent For					
	30-89 Days		90 Days or Over		Total	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
September 30, 2014						
Real estate loans:						
Residential Core						
Ohio	108	$10,416	263	$22,218	371	$32,634
Florida	14	2,006	141	14,291	155	16,297
Other	3	544	4	942	7	1,486
Total Residential Core	125	12,966	408	37,451	533	50,417
Residential Home Today						
Ohio	168	9,797	328	14,256	496	24,053
Florida	9	643	18	849	27	1,492
Total Residential Home Today	177	10,440	346	15,105	523	25,545
Home equity loans and lines of credit						
Ohio	123	3,753	214	3,637	337	7,390
Florida	36	2,365	184	3,010	220	5,375
California	11	753	16	298	27	1,051
Other	21	958	59	2,092	80	3,050
Total Home equity loans and lines of credit	191	7,829	473	9,037	664	16,866
Construction	1	200	—	—	1	200
Total	494	$31,435	1,227	$61,593	1,721	$93,028

Total loans seriously delinquent (i.e. delinquent 90 days or over) decreased three basis points to 0.16% of total net loans at September 30, 2018, from 0.19% at September 30, 2017. The percentage of seriously delinquent loans to total net loans decreased in the residential Core portfolio from 0.10% to 0.08%. Such loans in the residential Home Today portfolio decreased from 0.05% to 0.03%; and in the home equity loans and lines of credit portfolio increased from 0.04% to 0.05%. Although regional employment levels have improved, we expect some borrowers who are current on their loans at September 30, 2018 to experience payment problems in the future.

Non-performing Assets and Restructured Loans: Collection Procedures. Within 15 days of a borrower's delinquency, the Association attempts personal, direct contact with the borrower to determine the reason for the delinquency, to ensure that the borrower correctly understands the terms of the loan and to emphasize the importance of making payments on or before the due date. If necessary, subsequent late charges and delinquent notices are issued and the borrower's account will be monitored on a regular basis thereafter. The Association also mails system-generated reminder notices on a monthly basis. When a loan is more than 30 days past due, the Association attempts to contact the borrower and develop a plan of repayment. By the 90th day of delinquency, the Association may recommend foreclosure. The loan will be evaluated for impairment prior to the 180th day of delinquency. For further discussion on evaluating loans for impairment, see Note 5. LOANS AND ALLOWANCE FOR LOAN LOSSES of the Notes to Consolidated Financial Statements. A summary report of all loans 30 days or more past due is provided to the Association's Board of Directors.

Loans are placed in non-accrual status when they are contractually 90 days or more past due or if collection of principal or interest in full is in doubt. Loans restructured in TDRs that were in non-accrual status prior to the restructurings remain in non-accrual status for a minimum of six months. Home equity loans and lines of credit which are subordinate to a first mortgage lien where the customer is seriously delinquent, are placed in non-accrual status. Loans in Chapter 7 bankruptcy status where all borrowers have been discharged from their mortgage obligation or where all borrowers had filed, and had not reaffirmed or been dismissed, are placed in non-accrual status. For discussion on interest recognition, see Note 5. LOANS AND ALLOWANCE FOR LOAN LOSSES of the Notes to Consolidated Financial Statements.

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The table below sets forth the recorded investments and categories of our non-performing assets and TDRs at the dates indicated.

	September 30,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Non-accrual loans:					
Real estate loans:					
Residential Core	$41,628	$43,797	$51,304	$62,293	$79,388
Residential Home Today	14,641	18,109	19,451	22,556	29,960
Home equity loans and lines of credit(1)	21,483	17,185	19,206	21,514	26,189
Construction	—	—	—	427	—
Total non-accrual loans(2)(3)	77,752	79,091	89,961	106,790	135,537
Real estate owned	2,794	5,521	6,803	17,492	21,768
Total non-performing assets	$80,546	$84,612	$96,764	$124,282	$157,305
Ratios:					
Total non-accrual loans to total loans	0.60 %	0.63 %	0.76 %	0.95 %	1.27 %
Total non-accrual loans to total assets	0.55 %	0.58 %	0.70 %	0.86 %	1.15 %
Total non-performing assets to total assets	0.57 %	0.62 %	0.75 %	1.00 %	1.33 %
TDRs (not included in non-accrual loans above):					
Real estate loans:					
Residential Core	$50,351	$53,511	$57,942	$60,175	$59,630
Residential Home Today	26,861	28,751	32,401	35,674	39,148
Home equity loans and lines of credit	25,604	20,864	16,528	11,904	8,117
Total	$102,816	$103,126	$106,871	$107,753	$106,895

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(1) The totals at September 30, 2018, 2017, 2016, 2015 and 2014 include $0.5 million, $0.5 million, $1.3 million, $1.8 million and $2.5 million of performing home equity lines of credit, pursuant to regulatory guidance regarding senior lien delinquency issued in January 2012.

(2) At September 30, 2018, 2017, 2016, 2015 and 2014 the totals include $52.1 million, $47.0 million, $51.4 million, $55.5 million and $58.7 million respectively, in TDRs: which are less than 90 days past due but included with non-accrual loans for a minimum period of six months from the restructuring date due to their non-accrual status prior to restructuring; because they have been partially charged off; or because all borrowers have filed Chapter 7 bankruptcy, and had not reaffirmed or been dismissed.

(3) At September 30, 2018, 2017, 2016, 2015 and 2014 the totals include $10.5 million, $11.9 million, $12.4 million, $15.0 million and $20.9 million in TDRs that are 90 days or more past due respectively.

The gross interest income that would have been recorded during the year ended September 30, 2018 on non-accrual loans if they had been accruing during the entire period and TDRs if they had been current and performing in accordance with their original terms during the entire period was $9.4 million. The interest income recognized on those loans included in net income for the year ended September 30, 2018 was $8.4 million.

Impaired Loans. A loan is considered impaired when, based on current information and events, it is probable that the Association will be unable to collect the scheduled payments of principal and interest according to the contractual terms of the loan agreement. For discussion on impairment measurement, see Note 5. LOANS AND ALLOWANCE FOR LOAN LOSSES of the Notes to Consolidated Financial Statements.

The recorded investment of impaired loans includes accruing TDRs and loans that are returned to accrual status when contractual payments are less than 90 days past due. Also, the recorded investment of non-accrual loans includes loans that are not included in the recorded investment of impaired loans because they are included in loans collectively evaluated for impairment. The table below sets forth a reconciliation of the recorded investments and categories between non-accrual loans and impaired loans at the dates indicated.

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	At or For the Years Ended September 30,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Balance of Non-Accrual Loans	$77,752	$79,091	$89,961	$106,790	$135,537
Accruing TDRs	102,816	103,126	106,871	107,753	106,895
Performing Impaired Loans	3,982	3,607	4,022	5,276	5,389
Less Loans Collectively Evaluated	(3,756)	(5,264)	(6,004)	(7,647)	(14,435)
Balance of Total Impaired loans	$180,794	$180,560	$194,850	$212,172	$233,386

The balance of total (accrual and non-accrual) TDRs was $165.4 million at September 30, 2018, a $3.4 million increase from September 30, 2017. Of the $165.4 million of TDRs recorded at September 30, 2018, $84.2 million is in the Residential Core portfolio, $40.4 million is in the Home Today portfolio and $40.8 million is in the Home equity loans and lines of credit portfolio.

Loan restructuring is a method used to help families keep their homes and preserve our neighborhoods. This involves making changes to the borrowers' loan terms through interest rate reductions, either for a specific period or for the remaining term of the loan; term extensions including those beyond that provided in the original agreement; principal forgiveness; capitalization of delinquent payments in special situations; or some combination of the above. Loans discharged through Chapter 7 bankruptcy are also reported as TDRs per OCC interpretive guidance. For discussion on impairment measurement, see Note 5. LOANS AND ALLOWANCE FOR LOAN LOSSES of the Notes to Consolidated Financial Statements.

The following table sets forth the recorded investments of accrual and non-accrual TDRs, by the types of concessions granted as of September 30, 2018.

	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
	(Dollars in thousands)						
Accrual							
Residential Core	$8,392	$ 299	$ 6,090	$ 15,439	$ 12,672	$ 7,459	$50,351
Residential Home Today	3,426	—	3,390	8,625	10,530	890	26,861
Home equity loans and lines of credit	148	5,414	821	17,768	190	1,263	25,604
Total	$11,966	$ 5,713	$ 10,301	$ 41,832	$ 23,392	$ 9,612	$102,816
Non-Accrual, Performing							
Residential Core	$627	$ 119	$ 1,531	$ 3,866	$ 8,853	$ 13,232	$28,228
Residential Home Today	587	47	816	686	5,826	2,152	10,114
Home equity loans and lines of credit	—	431	597	7,551	2,141	3,045	13,765
Total	$1,214	$ 597	$ 2,944	$ 12,103	$ 16,820	$ 18,429	$52,107
Non-Accrual, Non-Performing							
Residential Core	$—	$ —	$ 2,582	$ 320	$ 1,591	$ 1,141	$5,634
Residential Home Today	38	—	465	163	2,127	641	3,434
Home equity loans and lines of credit	—	347	532	159	232	130	1,400
Total	$38	$ 347	$ 3,579	$ 642	$ 3,950	$ 1,912	$10,468
Total TDRs							
Residential Core	$9,019	$ 418	$ 10,203	$ 19,625	$ 23,116	$ 21,832	$84,213
Residential Home Today	4,051	47	4,671	9,474	18,483	3,683	40,409
Home equity loans and lines of credit	148	6,192	1,950	25,478	2,563	4,438	40,769
Total	$13,218	$ 6,657	$ 16,824	$ 54,577	$ 44,162	$ 29,953	$165,391

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TDRs in accrual status are loans accruing interest and performing according to the terms of the restructuring. To be performing, a loan must be less than 90 days past due as of the report date. Non-accrual, performing status indicates that a loan was not accruing interest at the time of restructuring, continues to not accrue interest and is performing according to the terms of the restructuring, but has not been current for at least six consecutive months since its restructuring, has a partial charge-off, or is being classified as non-accrual per the OCC guidance on loans in Chapter 7 bankruptcy status, where all borrowers have filed and have not reaffirmed or been dismissed. Non-accrual, non-performing status includes loans that are not accruing interest because they are greater than 90 days past due and therefore not performing according to the terms of the restructuring.

Real Estate Owned. Real estate acquired as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until sold. When property is acquired, it is recorded at the estimated fair market value at the date of foreclosure less estimated costs to sell, establishing a new cost basis. Estimated fair value generally represents the sale price a buyer would be willing to pay on the basis of current market conditions. Subsequent to acquisition, real estate owned is carried at the lower of the cost basis or estimated fair market value less estimated costs to sell. Increases in the fair market value are recognized through income not exceeding the valuation allowance. Holding costs and declines in estimated fair market value result in charges to expense after acquisition. At September 30, 2018, we had $2.8 million in real estate owned.

Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current payment capacity of the borrower or the collateral pledged has a defined weakness that jeopardizes the liquidation of the debt. Substandard assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable or improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve management's attention and may result in further deterioration in their repayment prospects and/or the Association's credit position, are required to be designated as special mention.

When we classify assets as either substandard or doubtful, we allocate a portion of the related general loss allowances to such assets as we deem prudent. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. When we classify a problem asset as loss, we charge-off that portion of the asset that is uncollectible. Our determinations as to the classification of our assets and the amount of our loss allowances are subject to review by the Association's primary federal regulator, the OCC, which can require that we establish additional loss allowances. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of our review of assets at September 30, 2018, the recorded investment of classified assets consists of substandard assets of $91.7 million, including $2.8 million of real estate owned, and $4.2 million of assets designated special mention. As of September 30, 2018, there were no individual assets with balances exceeding $1 million that were classified as substandard. Substandard assets at September 30, 2018 include $20.5 million of loans 90 or more days past due and $68.4 million of loans less than 90 days past due displaying a weakness sufficient to warrant an adverse classification, the majority of which are TDRs.

Allowance for Loan Losses. We provide for loan losses based on the allowance method. Accordingly, all loan losses are charged to, and all recoveries are credited to, the related allowance. Additions to the allowance for loan losses are provided by charges to income based on various factors which, in our judgment, deserve current recognition in estimating probable losses. We regularly review the loan portfolio and make provisions (or recapture credits) for loan losses in order to maintain the allowance for loan losses in accordance with U.S. GAAP. Our allowance for loan losses consists of two components:

(1) individual valuation allowances (IVAs) established for any impaired loans dependent on cash flows, such as performing TDRs, and IVAs related to a portion of the allowance on loans individually reviewed that represents

further deterioration in the fair value of the collateral not yet identified as uncollectible; and

(2) general valuation allowances (GVAs), which are comprised of quantitative GVAs, which are general allowances for loan losses for each loan type based on historical loan loss experience and qualitative GVAs, which are adjustments to the quantitative GVAs, maintained to cover uncertainties that affect our estimate of incurred probable losses for each loan type.

The qualitative GVAs expand our ability to identify and estimate probable losses and are based on our evaluation of the following factors, some of which are consistent with factors that impact the determination of quantitative GVAs. For example, delinquency statistics (both current and historical) are used in developing the quantitative GVAs while the trending of the delinquency statistics is considered and evaluated in the determination of the qualitative GVAs. Factors impacting the determination of qualitative GVAs include:

- changes in lending policies and procedures including underwriting standards, collection, charge-off or recovery practices;
- changes in national, regional, and local economic and business conditions and trends including housing market factors and trends, such as the status of loans in foreclosure, real estate in judgment and real estate owned, and unemployment statistics and trends;
- changes in the nature and volume of the portfolios including home equity lines of credit nearing the end of the draw period and adjustable-rate mortgage loans nearing a rate reset;
- changes in the experience, ability or depth of lending management;
- changes in the volume or severity of past due loans, volume of nonaccrual loans, or the volume and severity of adversely classified loans including the trending of delinquency statistics (both current and historical), historical loan loss experience and trends, the frequency and magnitude of multiple restructurings of loans previously the subject of TDRs, and uncertainty surrounding borrowers' ability to recover from temporary hardships for which short-term loan restructurings are granted;
- changes in the quality of the loan review system;
- changes in the value of the underlying collateral including asset disposition loss statistics (both current and historical) and the trending of those statistics, and additional charge-offs on individually reviewed loans;
- existence of any concentrations of credit; and
- effect of other external factors such as competition, market interest rate changes or legal and regulatory requirements including market conditions and regulatory directives that impact the entire financial services industry.

When loan restructurings qualify as TDRs and the loans are performing according to the terms of the restructuring, we record an IVA based on the present value of expected future cash flows, which includes a factor for potential subsequent defaults, discounted at the effective interest rate of the original loan contract. Potential defaults are distinguished from multiple restructurings as borrowers who default are generally not eligible for subsequent restructurings. At September 30, 2018, the balance of such individual valuation allowances was $12.0 million. In instances when loans require multiple restructurings, additional valuation allowances may be required. The new valuation allowance on a loan that has multiple restructurings is calculated based on the present value of the expected cash flows, discounted at the effective interest rate of the original loan contract, considering the new terms of the restructured agreement. Due to the immaterial amount of this exposure to date, we continue to capture this exposure as a component of our qualitative GVA evaluation. The significance of this exposure will be monitored and, if warranted, we will enhance our loan loss methodology to include a new default factor (developed to reflect the estimated impact to the balance of the allowance for loan losses that will occur as a result of subsequent future restructurings) that will be assessed against all loans reviewed collectively. If new default factors are implemented, the qualitative GVA methodology will be adjusted to preclude duplicative loss consideration.

Home equity loans and lines of credit generally have higher credit risk than traditional residential mortgage loans. These loans and lines are usually in a second lien position and when combined with the first mortgage, result in generally higher overall loan-to-value ratios. In a stressed housing market with high delinquencies and decreasing housing prices, as arose beginning in 2008, these higher loan-to-value ratios represent a greater risk of loss to the Company. A borrower with more equity in the property has a vested interest in keeping the loan current when compared to a borrower with little or no equity in the property. In light of the past weakness in the housing market and uncertainty with respect to future employment levels and economic prospects, we conduct an expanded loan level evaluation of our home equity loans and lines of credit, including bridge loans, which are delinquent 90 days or more. This expanded evaluation is in addition to our traditional evaluation procedures. Our home equity loans and lines of credit portfolio continues to comprise a significant portion of our gross charge-offs. At September 30, 2018, we had a recorded investment of $1.84 billion in home equity loans and equity lines of credit outstanding, $5.9 million, or 0.3% of which were delinquent 90 days or more.

We evaluate the allowance for loan losses based upon the combined total of the quantitative and qualitative GVAs and IVAs. We periodically evaluate the carrying value of loans and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future additions to the allowance may be necessary based on unforeseen changes in loan quality and economic conditions.

For more information regarding the allowance for loan losses, see Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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The following table sets forth activity in our allowance for loan losses segregated by geographic location for the periods indicated. The majority of our construction loan portfolio is secured by properties located in Ohio and the balances of other consumer loans are immaterial; therefore neither was segregated.

	At or For the Years Ended September 30,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Allowance balance (beginning of the year)	$48,948	$61,795	$71,554	$81,362	$92,537
Charge-offs:					
Real estate loans:					
Residential Core					
Ohio	874	1,728	3,214	4,522	8,406
Florida	58	1,272	981	1,703	7,782
Other	27	29	99	641	32
Total Residential Core	959	3,029	4,294	6,866	16,220
Residential Home Today					
Ohio	1,318	2,172	2,649	3,277	7,336
Florida	45	83	112	175	286
Other	—	21	—	—	—
Total Residential Home Today	1,363	2,276	2,761	3,452	7,622
Home equity loans and lines of credit					
Ohio	2,751	2,707	3,095	5,241	4,879
Florida	2,381	2,560	2,885	4,017	8,004
California	—	199	76	498	1,021
Other	700	707	1,790	1,278	2,039
Total Home equity loans and lines of credit	5,832	6,173	7,846	11,034	15,943
Construction	—	—	—	—	192
Total charge-offs	8,154	11,478	14,901	21,352	39,977
Recoveries:					
Real estate loans:					
Residential Core	2,601	5,458	3,708	5,369	2,742
Residential Home Today	1,957	1,311	1,433	1,533	1,909
Home equity loans and lines of credit	8,066	8,862	7,969	7,468	4,918
Construction	—	—	32	174	233
Total recoveries	12,624	15,631	13,142	14,544	9,802
Net recoveries (charge-offs)	4,470	4,153	(1,759)	(6,808)	(30,175)
Provision (credit) for loan losses	(11,000)	(17,000)	(8,000)	(3,000)	19,000
Allowance balance (end of the year)	$42,418	$48,948	$61,795	$71,554	$81,362
Ratios:					
Net charge-offs (recoveries) to average loans outstanding	(0.04)%	(0.03)%	0.02%	0.06%	0.29%
Allowance for loan losses to non-accrual loans at end of the year	54.56%	61.89%	68.69%	67.00%	60.03%
Allowance for loan losses to the total recorded investment in loans at end of the year	0.33%	0.39%	0.52%	0.64%	0.76%

Charge-offs decreased during the year ended September 30, 2018 in all portfolios when compared to the year ended September 30, 2017, reflecting the improving market conditions. We continue to evaluate loans becoming delinquent for potential losses and record provisions for the estimate of those losses. We expect a moderate level of charge-offs to continue as delinquent loans are resolved in the future and uncollected balances are charged against the allowance.

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Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category, the percent of allowance in each category to the total allowance, and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At September 30,								
	2018			2017			2016		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
	(Dollars in thousands)								
Real estate loans:									
Residential Core	$18,288	43.1 %	84.7 %	$14,186	29.0 %	86.2 %	$15,068	24.4 %	85.5 %
Residential Home Today	3,204	7.6	0.7	4,508	9.2	0.9	7,416	12.0	1.0
Home equity loans and lines of credit	20,921	49.3	14.1	30,249	61.8	12.4	39,304	63.6	13.0
Construction	5	—	0.5	5	—	0.5	7	—	0.5
Total allowance	$42,418	100.0 %	100.0 %	$48,948	100.0 %	100.0 %	$61,795	100.0 %	100.0 %

	At September 30,					
	2015			2014		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
	(Dollars in thousands)					
Real estate loans:						
Residential Core	$22,596	31.6 %	83.9 %	$31,080	38.2 %	82.2 %
Residential Home Today	9,997	14.0	1.2	16,424	20.2	1.5
Home equity loans and lines of credit	38,926	54.4	14.4	33,831	41.6	15.8
Construction	35	—	0.5	27	—	0.5
Total allowance	$71,554	100.0 %	100.0 %	$81,362	100.0 %	100.0 %

During the year ended September 30, 2018, the total allowance for loan losses decreased $6.5 million, to $42.4 million from $48.9 million at September 30, 2017, as we recorded an $11.0 million credit for loan losses, while recoveries exceeded loan charge-offs by $4.5 million for the year. The allowance for loan losses related to loans evaluated collectively decreased by $7.6 million during the year ended September 30, 2018, and the allowance for loan losses related to loans evaluated individually increased by $1.0 million. Refer to the "Activity in the Allowance for Loan Losses" and "Analysis of the Allowance for Loan Losses" tables in Note 5 of the Notes to Consolidated Financial Statements for more information. Other than the less significant construction and other consumer loans segments, changes during the year ended September 30, 2018 in the balances of the GVAs, excluding changes in IVAs, related to the significant loan segments are described as follows:

- Residential Core – The recorded investment of this segment of the loan portfolio increased 1.7% or $185.9 million, while the total allowance for loan losses for this segment increased 28.9% or $4.1 million. The portion of this loan segment's allowance for loan losses that was determined by evaluating groups of loans collectively (i.e. those loans that were not individually evaluated), increased $4.5 million, or 65.8%, from $6.9 million at September 30, 2017 to

$11.4 million at September 30, 2018. The ratio of this portion of the allowance for loan losses to the total balance of loans in this loan segment that were evaluated collectively, increased 0.04% to 0.10% at September 30, 2018 from 0.06% at September 30, 2017. The increases in the balance and ratio of the allowance for loan losses reflected the overall increase in the loan portfolio balance as well as the increased potential risk related to market interest rate increases. The portfolio contains adjustable rate loans with fixed interest rates over an initial period of mainly three to five years, followed by annual resets, with various re-lock features that provide options to borrowers. The allowance increased to address the risk prompted by recent increases in the prime rate, the index at which these loans are scheduled to reset. Helping to temper the increase in the allowance were the relatively low levels of loan delinquencies and the reduction in the amount of gross charge-offs during the current year when compared to prior periods. Total

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delinquencies increased 0.2% to $20.7 million at September 30, 2018 from $20.6 million at September 30, 2017. Loans 90 or more days delinquent decreased 9.8% to $10.8 million at September 30, 2018 from $12.0 million at September 30, 2017. Net recoveries during the current year were less at $1.6 million as compared to $2.4 million during the year ended September 30, 2017. The credit profile of this portfolio segment remained strong during the fiscal year due to the addition of high credit quality, residential first mortgage loans.

- Residential Home Today – The recorded investment of this segment of the loan portfolio decreased 12.0% or $12.9 million, as we are no longer originating loans under the Home Today program. The total allowance for loan losses for this segment decreased by $1.3 million or 28.9%. The portion of this loan segment's allowance for loan losses that was determined by evaluating groups of loans collectively (i.e. those loans that were not individually evaluated), decreased by 52.8% from $2.3 million at September 30, 2017 to $1.1 million at September 30, 2018. Similarly, the ratio of this portion of the allowance to the total balance of loans in this loan segment that were evaluated collectively, decreased 1.7% to 2.0% at September 30, 2018 from 3.7% at September 30, 2017. Total delinquencies decreased from $12.4 million at September 30, 2017 to $8.4 million at September 30, 2018. Delinquencies greater than 90 days decreased from $6.9 million to $3.8 million during the same period. There were net recoveries of $0.6 million during the current year as compared to $1.0 million of net charge-offs during the year ended September 30, 2017. The allowance for this portfolio fluctuates based on not only the generally declining portfolio balance, but also on the credit profile trends in this portfolio. This portfolio's allowance decreased this year based on the decrease in the Home Today balance, yet risk remains based on the generally less stringent credit requirements that were in place at the time that these borrowers qualified for their loans and the continued depressed home values that remain in this portfolio.
- Home Equity Loans and Lines of Credit – The recorded investment of this segment of the loan portfolio increased 17.3% or $271.8 million from $1.57 billion at September 30, 2017 to $1.84 billion at September 30, 2018. The total allowance for loan losses for this segment decreased 30.8% to $20.9 million from $30.2 million at September 30, 2017. The portion of this loan segment's allowance for loan losses that was determined by evaluating groups of loans collectively (i.e. those loans that were not individually evaluated) decreased by $10.9 million, or 37.8%, from $28.8 million to $17.9 million during the year ended September 30, 2018. The ratio of this portion of the allowance to the total balance of loans in this loan segment that were evaluated collectively also decreased to 1.0% at September 30, 2018 from 1.9% at September 30, 2017. Net recoveries for this loan segment during the current year were less at $2.2 million for the current year as compared to $2.7 million for the year ended September 30, 2017. Total delinquencies for this portfolio segment increased 5.3% to $12.4 million at September 30, 2018 as compared to $11.8 million at September 30, 2017. Delinquencies greater than 90 days increased 9.7% to $5.9 million at September 30, 2018 from $5.4 million at September 30, 2017. The credit metrics of this loan segment were mixed as recoveries exceeded charge-offs, while total delinquencies slightly increased during the current year, but the overall downward shift of risk level in the portfolio led to the reduction of the total allowance. The reduction in the allowance is mainly supported by a reduction of the principal balance of home equity lines of credit coming to the end of the draw period. In recent years, a large portion of the overall allowance has been allocated to the home equity loans and lines of credit portfolio to address exposure from customers whose lines of credit were originated without amortizing payments during the draw period and who could face potential increased payment shock at the end of the draw period. In general, home equity lines of credit originated prior to June 2010 were characterized by a ten-year draw period, with interest only payments, followed by a ten-year repayment period. However, a large number of those lines of credit approaching the end of draw period have been paid off or refinanced without significant loss. The principal balance of home equity lines of credit originated prior to 2010 without amortizing payments during the draw period that are coming to the end of the draw period through fiscal 2020 is $116.9 million at September 30, 2018, compared to $482.4 million at September 30, 2017. As this exposure decreases without incurring significant loss, the portion of the overall allowance allocated to the home equity loans and lines of credit category can be decreased. Generally, there were minimal home equity lines of credit originated between June 2010 and February 2013 and those originated after February 2013 require an amortizing payment during the draw period and do not face the same end-of-draw increased payment shock risk.

While the portfolio performance has improved, loan losses on home equity loans and lines of credit continued to comprise a large component of our gross charge-offs for 2018 and are expected to continue to represent a large portion of our charge-offs for the foreseeable future until non-performing loan balances begin to decrease by more than the charge-offs.

Our analysis for evaluating the adequacy of and the appropriateness of our loan loss provision and allowance for loan losses is continually refined as new information becomes available and actual loss experience is acquired. During the years ended September 30, 2018, 2017, 2016, 2015 and 2014 no material changes were made to the allowance methodology.

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Investments

The Association's Board of Directors is responsible for establishing and overseeing the Association's investment policy. The investment policy is reviewed at least annually by management and any changes to the policy are recommended to the Board of Directors, or a committee thereof, and are subject to its approval. This policy dictates that investment decisions be made based on the safety of the investment, liquidity requirements, potential returns, the ability to provide collateral for pledging requirements, and consistency with our interest rate risk management strategy. The Association's Investment Committee, which consists of its chief operating officer, chief financial officer and other members of management, oversees its investing activities and strategies. The portfolio manager is responsible for making securities portfolio decisions in accordance with established policies. The portfolio manager has the authority to purchase and sell securities within specific guidelines established in the investment policy, but historically the portfolio manager has executed purchases only after extensive discussions with other Investment Committee members. All transactions are formally reviewed by the Investment Committee at least quarterly. Any investment which, subsequent to its purchase, fails to meet the guidelines of the policy is reported to the Investment Committee, which decides whether to hold or sell the investment.

The Association's investment policy requires that it invest primarily in debt securities issued by the U.S. Government, agencies of the U.S. Government, and government-sponsored entities, which include Fannie Mae and Freddie Mac. The policy also permits investments in mortgage-backed securities, including pass-through securities issued and guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae as well as collateralized mortgage obligations and real estate mortgage investment conduits issued or backed by securities issued by these governmental agencies and government-sponsored entities. The investment policy also permits investments in asset-backed securities, banker's acceptances, money market funds, term federal funds, repurchase agreements and reverse repurchase agreements.

The Association's investment policy does not permit investment in municipal bonds, corporate debt obligations, preferred or common stock of government agencies or equity securities other than its required investment in the common stock of the FHLB of Cincinnati. As of September 30, 2018, we held no asset-backed securities or securities with sub-prime credit risk exposure, nor did we hold any banker's acceptances, term federal funds, repurchase agreements or reverse repurchase agreements. As a federal savings association, the Association is not permitted to invest in equity securities. This general restriction does not apply to the Company. The Association's investment policy permits the use of interest rate agreements (caps, floors and collars) and interest rate exchange contracts (swaps) in managing our interest rate risk exposure. The use of financial futures, however, is prohibited without specific approval from its Board of Directors.

FASB ASC 320, "Investments-Debt and Equity Securities," requires that, at the time of purchase, we designate a security as held to maturity, available-for-sale, or trading, depending on our ability and intent. Securities designated as available-for-sale are reported at fair value, while securities designated as held to maturity are reported at amortized cost. As a result of previous guidance from the Company's primary regulator that indicated that the Company's reported balance of liquid assets could not include any investment security not classified as available for sale, all investment securities held by the Company are classified as available for sale. We do not have a trading portfolio.

The fair value of our investment portfolio at September 30, 2018 consisted of $8.0 million in primarily fixed-rate securities guaranteed by Fannie Mae, $520.0 million of REMICs collateralized only by securities guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, and $4.0 million of U.S. Government and agency obligations.

U.S. Government and Federal Agency Obligations. While U.S. Government and federal agency securities generally provide lower yields than other investment options authorized in the Association's and Company's investment policies, we maintain these investments, to the extent appropriate, for liquidity purposes, as collateral for borrowings and as an interest rate risk hedge in the event of significant mortgage loan prepayments.

Mortgage-Backed Securities. We purchase mortgage-backed securities insured or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. We invest in mortgage-backed securities to achieve positive interest rate spreads with minimal administrative expense, and to lower our credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae or Ginnie Mae. The U.S. Treasury Department has established financing agreements to ensure that Fannie Mae and Freddie Mac meet their obligations to holders of mortgage-backed securities that they have issued or guaranteed.

Mortgage-backed securities are created by the pooling of mortgages and the issuance of a security with an interest rate that is less than the interest rate on the underlying mortgages. Mortgage-backed securities typically represent a participation interest in a pool of single-family or multi-family mortgages, although we invest primarily in mortgage-backed securities backed by one- to four-family mortgages. The issuers of such securities (generally Ginnie Mae, Fannie Mae and Freddie Mac) pool and resell the participation interests in the form of securities to investors such as the Association, and guarantee the payment of principal and interest to investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are more

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liquid than individual mortgage loans since there is an active trading market for such securities. While there has been significant disruption in the demand for private issuer mortgage-backed securities, the U.S. Treasury support for Fannie Mae and Freddie Mac guarantees has maintained an orderly market for the mortgage-backed securities the Company typically purchases. In addition, mortgage-backed securities may be used to collateralize our specific liabilities and obligations. Investments in mortgage-backed securities involve a risk that the timing of actual payments will be earlier or later than the timing estimated when the mortgage-backed security was purchased, which may require adjustments to the amortization of any premium or accretion of any discount relating to such interests, thereby affecting the net yield on our securities. We periodically review current prepayment speeds to determine whether prepayment estimates require modifications that could cause amortization or accretion adjustments.

REMICs are types of debt securities issued by a special-purpose entity that aggregates pools of mortgages and mortgage-backed securities and creates different classes of securities with varying maturities and amortization schedules, as well as a residual interest, with each class possessing different risk characteristics. The cash flows from the underlying collateral are generally divided into "tranches" or classes that have descending priorities with respect to the distribution of principal and interest cash flows, while cash flows on pass-through mortgage-backed securities are distributed pro rata to all security holders.

The following table sets forth the amortized cost and fair value of our securities portfolio (excluding FHLB of Cincinnati common stock) at the dates indicated.

	At September 30,					
	2018		2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Investments available for sale:						
U.S. Government and agency obligations	3,975	3,968	$—	$—	$—	$—
REMICs	537,330	519,999	533,427	528,536	508,044	507,997
Fannie Mae certificates	7,906	7,998	8,537	8,943	9,184	9,869
Total investment securities available for sale	$549,211	$531,965	$541,964	$537,479	$517,228	$517,866

Portfolio Maturities and Yields. The composition and maturities of our securities portfolio at September 30, 2018 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. All of our securities at September 30, 2018 were taxable securities.

	One Year or Less		More than One Year Through Five years		More than Five Years Through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
			(Dollars in thousands)								
Investments available-for-sale:											
U.S. Government and agency obligations	$3,975	2.38 %	$—	— %	$—	— %	$—	— %	$3,975	$3,968	2.38 %
REMICs	—	— %	1,381	1.62 %	87,510	1.91 %	448,439	2.15 %	537,330	519,999	2.11 %
Fannie Mae certificates	—	— %	5,183	2.28 %	1,601	6.99 %	1,122	5.67 %	7,906	7,998	3.72 %
	$3,975	2.38 %	$6,564	2.14 %	$89,111	2.00 %	$449,561	2.16 %	$549,211	$531,965	2.14 %

Total investment
securities
available-for-sale

Sources of Funds

General. Deposits traditionally have been the primary source of funds for the Association's lending and investment activities. The Association also borrows, primarily from the FHLB of Cincinnati and the FRB-Cleveland Discount Window, to supplement cash flow, to lengthen the maturities of liabilities for interest rate risk management purposes and to manage its cost of funds. Additional sources of funds are scheduled loan payments, maturing investments, loan prepayments, collateralized wholesale borrowings, income on other earning assets, the proceeds from loan sales, and brokered CDs.

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Deposits. The Association obtains deposits primarily from the areas in which its branch offices are located, as well as from its customer service call center, its internet website, and from brokered CDs. It relies on its competitive pricing, convenient locations, and customer service to attract and retain its non-brokered deposits. It offers a variety of retail deposit accounts with a range of interest rates and terms. Its retail deposit accounts consist of savings accounts (primarily high-yield savings), a money market account, checking accounts, CDs, individual retirement accounts, and other qualified plan accounts.

Interest rates paid, maturity terms, service fees, and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market interest rates, liquidity requirements, interest rates paid by competitors, and our deposit growth goals.

At September 30, 2018, deposits totaled $8.49 billion. Checking accounts totaled $913.5 million (including $842.2 million of high-yield checking accounts) and savings accounts totaled $1.26 billion (including $1.13 billion of high-yield savings accounts). At September 30, 2018, the Association had a total of $6.32 billion in CDs (including $670.1 million of brokered CDs), of which $2.51 billion had remaining maturities of one year or less. Based on historical experience and its current pricing strategy, management believes the Association will retain a large portion of these accounts upon maturity.

The following table sets forth the distribution of the Association’s average total deposit accounts, by account type, for the fiscal years indicated.

	For the Years Ended September 30,								
	2018			2017			2016		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)								
Deposit type:									
Checking	947,728	11.4 %	0.15 %	$992,042	12.1 %	0.09 %	$990,592	11.9 %	0.13 %
Savings	1,364,410	16.5 %	0.25 %	1,514,275	18.5 %	0.14 %	1,563,448	18.8 %	0.18 %
Certificates of deposit	5,989,453	72.1 %	1.63 %	5,672,212	69.4 %	1.49 %	5,756,861	69.3 %	1.49 %
Total deposits	$8,301,591	100.0%	1.23 %	$8,178,529	100.0%	1.07 %	$8,310,901	100.0%	1.08 %

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The following table sets forth the distribution of the Association’s total deposit accounts, by account type, at September 30, 2018.

	At September 30, 2018		
	Balance	Percent	Weighted Average Cost of Funds
	(Dollars in thousands)		
Deposit type			
Interest Bearing:			
Checking	913,525	10.8 %	0.22 %
Savings	1,256,054	14.8 %	0.44 %
Certificates of deposit	6,322,004	74.4 %	1.83 %
Total Deposits	$8,491,583	100.0%	1.45 %

As of September 30, 2018, the aggregate amount of the Association’s outstanding CDs in amounts greater than or equal to $100,000 was approximately $3.16 billion. The following table sets forth the maturity of those CDs as of September 30, 2018.

	At September 30, 2018
	(In thousands)
Three months or less	$ 704,719
Over three months through six months	129,955
Over six months through one year	399,988
Over one year to three years	1,378,102
Over three years	542,900
Total	$ 3,155,664

Borrowings. At September 30, 2018, the Association had $3.72 billion of borrowings from the FHLB of Cincinnati. During the fiscal year ended September 30, 2018, the Association’s only third-party borrowings consisted of loans, commonly referred to as “advances,” from the FHLB of Cincinnati. Borrowings from the FHLB of Cincinnati are secured by the Association’s investment in the common stock of the FHLB of Cincinnati as well as by a blanket pledge of its mortgage portfolio not otherwise pledged. Our current, immediate additional borrowing capacity with the FHLB of Cincinnati is $129.0 million as limited by the amount of FHLB of Cincinnati common stock that we own. Based on the amount of collateral that is subject to the blanket pledge that secures advances, in addition to the existing available capacity, our capacity limit for additional borrowings from the FHLB of Cincinnati at September 30, 2018 was $4.78 billion, subject to satisfaction of the FHLB of Cincinnati common stock ownership requirement. To satisfy the common stock ownership requirement, we would have to increase our ownership of FHLB of Cincinnati common stock by an additional $95.5 million. The ability to borrow from the FRB-Cleveland Discount Window is also available to the Association and is secured by a pledge of specific loans in the Association’s mortgage portfolio. At

September 30, 2018, the Association had the capacity to borrow up to $55.6 million from the FRB-Cleveland and had no amount outstanding as of that date.

The following table sets forth information concerning balances and interest rates on the Association's borrowings at and for the periods shown:

	At or For The Fiscal Years Ended September 30,		
	2018	2017	2016
	(Dollars in thousands)		
Balance at end of year	$3,721,699	$3,671,377	$2,718,795
Average balance during year	$3,632,255	$3,231,709	$2,284,881
Maximum outstanding at any month end	$3,818,490	$3,679,225	$2,720,903
Weighted average interest rate at end of year	2.12 %	1.36 %	1.01 %
Average interest rate during year	1.65 %	1.32 %	1.23 %

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The Association has utilized borrowings from the FHLB of Cincinnati to manage its on-balance sheet liquidity, to replace maturing, high rate CDs at a lower cost and to lengthen the maturity of our funding through the use of interest rate swaps discussed in Note 17. Derivative Instruments of the Notes to Consolidated Financial Statements.
The following tables sets forth information relating to a category of short-term borrowings for which the average balance outstanding during the period was at least 30% of shareholders' equity at the end of each period shown.

	At or For the Fiscal Years Ended September 30,		
	2018	2017	2016
	(Dollars in thousands)		
FHLB borrowings (30 days and under):			
Balance at end of year	$1,206,000	$1,110,000	$851,000
Maximum outstanding at any month-end	$1,268,000	$1,234,000	$851,000
Average balance during year	$1,069,826	$970,733	$678,883
Average interest rate during the fiscal year	1.64 %	0.81 %	0.36 %
Weighted average interest rate at end of year	2.10 %	1.17 %	0.40 %

	At or For the Fiscal Years Ended September 30,	
	2018	2017
	(Dollars in thousands)	
FHLB borrowings (90 days):		
Balance at end of year	$1,725,000	$1,500,000
Maximum outstanding at any month-end	$1,750,000	$1,500,000
Average balance during year	$1,637,740	$1,005,548
Average interest rate during the fiscal year	1.76 %	0.96 %
Weighted average interest rate at end of year	2.15 %	1.25 %

The average balance of outstanding 90 day borrowings in fiscal year 2016 was less than 30% of shareholders equity, therefore none of the 2016 information was disclosed in the table above.
A maturity schedule, according to GAAP, for FHLB borrowings is shown in Note 10. Borrowed Funds of the Notes to Consolidated Financial Statements. The following table sets forth the effective maturity of FHLB borrowings, ignoring the impact of deferred penalties and reflecting the impact of interest rate swaps discussed in Note 17. Derivative Instruments of the Notes to Consolidated Financial Statements. When taking into consideration the blended balance of both the FHLB borrowings and the associated swap transactions hedging those borrowings, the weighted average cost of funds as of September 30, 2018 was 1.91%.

	At September 30, 2018		
	Balance	Percent	Weighted Average Cost of Funds
	(Dollars in thousands)		
Borrowings Maturing in:			
12 months or less	1,615,000	43.4 %	2.10 %
13 to 36 months	906,298	24.4 %	1.42 %
37 months or more	1,195,657	32.2 %	2.03 %
Total Borrowings	$3,716,955	100.0%	1.91 %

Federal Taxation

General. The Company and the Association are subject to federal income taxation in the same general manner as other corporations, with certain exceptions. Prior to the completion of our initial public stock offering on April 20, 2007, the

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Company and the Association were included as part of Third Federal Savings, MHC's consolidated tax group. However, upon completion of the offering, the Company and the Association were no longer a part of Third Federal Savings, MHC's consolidated tax group because Third Federal Savings, MHC no longer owned at least 80% of the common stock of the Company. As a result of the Company's stock repurchase program over the past few years, which reduced the number of outstanding shares of the Company, at September 30, 2018, Third Federal Savings, MHC, owned 81.02% of the common stock of the Company and the Company and the Association can, again, be a part of Third Federal Savings, MHC's consolidated tax group. Beginning on September 30, 2007 and for each subsequent fiscal year thereafter, the Company has filed consolidated tax returns with the Association and Third Capital Inc., its wholly-owned subsidiaries.

The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to the Company or its subsidiaries.

Bad Debt Reserves. Historically, the Third Federal Savings, MHC consolidated group used the specific charge-off method to account for bad debt deductions for income tax purposes, and the Company has used and intends to use the specific charge off method to account for tax bad debt deductions in the future.

Taxable Distributions and Recapture. Prior to 1996, bad debt reserves created prior to 1988 were subject to recapture into taxable income if the Association failed to meet certain thrift asset and definitional tests or made certain distributions. Tax law changes in 1996 eliminated thrift-related recapture rules. However, under current law, pre-1988 tax bad debt reserves remain subject to recapture if the Association makes certain non-dividend distributions, repurchases any of its common stock, pays dividends in excess of earnings and profits, or fails to qualify as a bank for tax purposes.

At September 30, 2018, the total federal pre-base year bad debt reserve of the Association was approximately $105.0 million.

State Taxation

Following its initial public stock offering in 2007, the Company converted from a qualified passive investment company domiciled in the State of Delaware to a qualified holding company in Ohio. Through 2013, the Company was subject to Ohio tax levied on income and a significant majority of state taxes paid by the remaining entities in our corporate structure were also paid to the State of Ohio. The Association was subject to Ohio franchise tax based on equity capital reduced by certain exempted assets taxed at a rate of 1.3%. The other Ohio subsidiaries of the Company were taxed on the greater of a tax based on net income or net worth.

Effective January 1, 2014 for Ohio tax filings based on 2013 financial results, the Third Federal Savings, MHC consolidated group is subject to the Ohio Financial Institutions Tax. The Financial Institutions Tax is based on total equity capital apportioned to Ohio using a single gross receipts factor. Ohio equity capital is taxed at a three-tiered rate of 0.8% on the first $200 million, 0.4% on amounts greater than $200 million and less than or equal to $1.3 billion, and 0.25% on amounts greater than $1.3 billion.

The State of Ohio Department of Taxation initiated and completed an audit during the second quarter of 2018 of the Association's Ohio Financial Institutions Tax Returns based on calendar year filings for 2014, 2015, and 2016, which resulted in no adjustments.

SUPERVISION AND REGULATION

General

The Company is a savings and loan holding company, and is required to file certain reports with, is subject to examination by, and otherwise must comply with the rules and regulations of, the FRS. The Company is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

The Association is a federal savings association that is currently examined and supervised by the OCC and the CFPB, and is subject to examination by the FDIC. This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the FDIC's deposit insurance fund and depositors. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market risk. Following completion of its examination, the federal agency critiques the institution's operations and assigns its rating (known as an institution's CAMELS rating). Under federal law, an institution may not disclose its CAMELS rating to the public. The Association also is a member of and owns stock in the FHLB of Cincinnati, which is one of the eleven regional banks in the FHLB System. The Association is also regulated to a lesser extent by the FRS, governing reserves to be maintained against deposits and other matters. The OCC will examine the Association and prepare reports for the consideration of the Association's Board of Directors on any operating deficiencies. The CFPB, which is discussed further in the Dodd-Frank

Act section that follows, has examination and enforcement authority over the Association. The Association's relationship with its depositors and borrowers also is regulated to a great extent by federal law and, to a much lesser extent, state law, especially in matters concerning the ownership of deposit accounts and the form and content of the Association's mortgage documents.

Any change in these laws or regulations, whether by the FDIC, OCC, FRS, CFPB or Congress, could have a material impact on the Company, the Association, and their operations.

Certain statutes and regulations of the regulatory requirements that are applicable to the Association and the Company are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on the Association and the Company, and is qualified in its entirety by reference to the actual statutes and regulations.

Federal Banking Regulation

Business Activities. A federal savings association derives its lending and investment powers from the Home Owners' Loan Act, as amended, and federal regulations. Under these laws and regulations, the Association may invest in mortgage loans secured by residential real estate without limitations as a percentage of assets, and may invest in non-residential real estate loans up to 400% of capital in the aggregate. The Association may also invest in commercial business loans up to 20% of assets in the aggregate and consumer loans up to 35% of assets in the aggregate, and in certain types of debt securities and certain other assets. An association may also establish subsidiaries that may engage in certain activities not otherwise permissible for an association, including real estate investment and securities and insurance brokerage.

Capital Requirements. Federal regulations require FDIC insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio, a Tier 1 capital to risk-based assets ratio, a total capital to risk-based assets ratio, and a Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the DFA.

The capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively, and a leverage ratio of at least 4% Tier 1 capital. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale-securities). The Association exercised its opt-out election during the first quarter of calendar 2015. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one to four- family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

Federal savings associations must also meet a statutory “tangible capital” standard of 1.5% of total adjusted assets. Tangible capital is generally defined as Tier 1 capital less intangible assets other than certain mortgage servicing rights.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a “capital conservation buffer” consisting of 2.5% in addition to the minimum capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019. At September 30, 2018, the Association exceeded the fully phased in regulatory requirement for the "capital conservation buffer". In assessing an institution's capital adequacy, the OCC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary. As presented in Note 3. Regulatory Matters, at September 30, 2018, the Association exceeded all regulatory capital requirements to be considered "Well Capitalized".

Loans-to-One Borrower. Generally, a federal savings association may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of September 30, 2018, the Association was in compliance with the loans-to-one borrower limitations.

Qualified Thrift Lender Test. As a federal savings association, the Association must satisfy the qualified thrift lender test. Under the QTL test, the Association must maintain at least 65% of its "portfolio assets" in "qualified thrift investments" (primarily residential mortgages and related investments, including mortgage-backed securities) in at least nine months of the most recent 12-month period. "Portfolio assets" generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings association's business.

The Association also may satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code.

A savings association that fails the qualified thrift lender test must operate under specified restrictions. Under the DFA, non-compliance with the QTL test may subject the Association to agency enforcement action for a violation of law. At September 30, 2018, the Association satisfied the QTL test.

Capital Distributions. Federal regulations govern capital distributions by a federal savings association, which include cash dividends, stock repurchases and other transactions charged to the capital account. A federal savings association must file an application with the OCC and the FRS for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings association's net income for that year to date plus the savings association's retained net income for the preceding two years;
- the savings association would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or condition imposed by a regulator; or
- the savings association is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings association that is a subsidiary of a holding company must still file a notice with the FRS at least 30 days before the board of directors declares a dividend or approves a capital distribution.

The OCC and the FRS have established similar criteria for approving an application or notice, and may disapprove an application or notice if:

- the savings association would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution may not make any capital distribution, if the institution would be undercapitalized after the distribution.

The Association, in compliance with the preceding requirements, paid an $85 million, an $81 million and a $60 million cash dividend to the Company during the fiscal years ending September 30, 2018, 2017 and 2016, respectively. There were no dividends paid to the Company by Third Capital during the fiscal years ended September 30, 2018, 2017 or 2016. Additionally, the Association paid a special dividend of $150 million to the Company in the fiscal year ended September 30, 2016. This amount was equal to the voluntary contribution of capital that the Company made to the Association in October 2010.

The Company's sixth stock repurchase program, for the repurchase of 10,000,000 shares of its equity stock, was announced on September 9, 2014 and completed August 3, 2015. The seventh stock repurchase program, for 10,000,000 shares, was announced on July 30, 2015 and completed January 6, 2017. The eighth stock repurchase program, also for 10,000,000 shares, was announced on October 27, 2016 and began on January 6, 2017.

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Under current FRS regulations, Third Federal Savings, MHC is required to obtain the approval of its members (depositors and certain loan customers of the Association) every 12 months to enable Third Federal Savings, MHC to waive its right to receive dividends on the Company's common stock that Third Federal Savings, MHC owns. Third Federal Savings, MHC has received this approval of its members at meetings held July 11, 2018, July 19, 2017, July 26, 2016, August 5, 2015 and July 31, 2014. Third Federal Savings, MHC has the approval to waive the receipt of up to a total of $1.00 per share of dividends from the Company over the four quarterly periods ending June 30, 2019. Third Federal Savings, MHC waived its right to receive a $0.25 per share dividend payment on September 25, 2017. As a result of the 2017, 2016, 2015 and 2014 approvals, Third Federal Savings, MHC previously waived its right to receive four separate $0.17 per share dividend payments during the four quarterly periods ending June 30, 2018, four separate $0.125 per share dividend payments during the four quarterly periods ending June 30, 2017, four separate $0.10 per share dividend payments during the four quarterly periods ending June 30, 2016 and four separate $0.07 per share dividend payments during the four quarterly periods ending June 30, 2015.

Liquidity. A federal savings association is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation.

Community Reinvestment Act and Fair Lending Laws. All savings associations have a responsibility under the Community Reinvestment Act and federal regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a federal savings association, the OCC is required to assess the savings association's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings association's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches, mergers, minority stock offerings or second-step conversion, or in restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice.

The Association received a "Needs to Improve" Community Reinvestment Act rating in its most recent federal examination that covered home mortgage lending data for the period January 1, 2012 through December 31, 2014.

Transactions with Related Parties. A federal savings association's authority to engage in transactions with its affiliates is limited by FRS regulations and by Sections 23A and 23B of the FRS Act and its implementing Regulation W. An affiliate is a company that controls, is controlled by, or is under common control with an insured depository institution such as the Association. Third Federal Savings, MHC and the Company are affiliates of the Association. In general, loan transactions between an insured depository institution and its affiliates are subject to certain quantitative and collateral requirements. In this regard, transactions between an insured depository institution and its affiliates are limited to 10% of the institution's unimpaired capital and unimpaired surplus for transactions with any one affiliate and 20% of unimpaired capital and unimpaired surplus for transactions in the aggregate with all affiliates. Collateral in specified amounts ranging from 100% to 130% of the amount of the transaction must be provided by affiliates in order to receive loans from the savings association. In addition, federal regulations prohibit a savings association from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates. Savings associations are required to maintain detailed records of all transactions with affiliates.

The Association's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the FRS Act and Regulation O of the FRS. Among other things, these provisions require that extensions of credit to insiders:

(i) subject to certain exceptions for loan programs made available to all employees, be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and

(ii)

do not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Association's capital.

In addition, extensions of credit in excess of certain limits must be approved by the Association's Board of Directors.

Enforcement. The OCC has primary enforcement responsibility over federal savings institutions and has the authority to bring enforcement action against all "institution-affiliated parties," including shareholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured

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institution. Formal enforcement action by the OCC may range from the issuance of a capital directive or cease and desist order, to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1 million per day. The FDIC also has the authority to terminate deposit insurance or to recommend to the OCC that enforcement action be taken with respect to a particular savings institution. If action is not taken by the OCC, the FDIC has authority to take action under specified circumstances.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems, audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under federal law. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan.

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the OCC is required and authorized to take supervisory actions against undercapitalized savings associations. For this purpose, a savings association is placed in one of the following five categories based on the savings association’s capital:

- well-capitalized (at least 5% leverage capital, 8% Tier 1 risk-based capital, 10% total risk-based capital, and 6.5% common equity Tier 1 ratios, and is not subject to any written agreement, order, capital directive or prompt corrective action directive issued under certain statutes and regulations, to maintain a specific capital level for any capital measure);
- adequately capitalized (at least 4% leverage capital, 6% Tier 1 risk-based capital, 8% total risk-based capital and 4.5% common equity Tier 1 ratios);
- undercapitalized (less than 4% leverage capital, 6% Tier 1 risk-based capital, 8% total risk-based capital, or 4.5% common equity Tier 1 ratios);
- significantly undercapitalized (less than 3% leverage capital, 4% Tier 1 risk-based capital, 6% total risk-based capital or 3% common equity Tier 1 ratios); and
- critically undercapitalized (less than 2% tangible capital to total assets).

The final rule that strengthened regulatory capital requirements adjusted the prompt corrective actions categories to incorporate the new standards, as reflected above.

Generally, the banking regulator is required to appoint a receiver or conservator for a savings association that is “critically undercapitalized” within specific time frames. The regulations also provide that a capital restoration plan must be filed with the OCC within 45 days of the date a savings association receives notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” The criteria for an acceptable capital restoration plan include, among other things, the establishment of the methodology and assumptions for attaining adequately capitalized status on an annual basis, procedures for ensuring compliance with restrictions imposed by applicable federal regulations, the identification of the types and levels of activities the savings association will engage in while the capital restoration plan is in effect, and assurances that the capital restoration plan will not appreciably increase the current risk profile of the savings association. Any holding company for a savings association required to submit a capital restoration plan must guarantee the lesser of an amount equal to 5% of the savings association’s assets at the time it was notified or deemed to be undercapitalized by the OCC, or the amount necessary to restore the savings association to adequately capitalized status. This guarantee remains in place until the OCC notifies the savings association that it has maintained adequately capitalized status for each of four consecutive calendar quarters, and the OCC has the authority to require payment and collect payment under the guarantee. Failure by a holding company to provide the required guarantee will result in certain operating restrictions on the savings association, such as restrictions on the ability to declare and pay dividends, pay executive compensation and management fees, and increase assets or expand operations. The OCC may also take any one of a number of discretionary supervisory actions against undercapitalized associations, including the issuance of a capital directive and the replacement of senior executive officers and directors.

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As of September 30, 2018, the Association exceeded all regulatory requirements to be considered “Well Capitalized” as presented in the table below (dollar amounts in thousands).

	Actual		Required (Well Capitalized)	
	Amount	Ratio	Amount	Ratio
Total Capital to Risk Weighted Assets	$1,559,180	20.47%	$761,767	10.00%
Tier 1 (Leverage) Capital to Net Average Assets	1,516,758	10.87%	697,453	5.00 %
Tier I Capital to Risk-Weighted Assets	1,516,758	19.91%	609,414	8.00 %
Common Equity Tier I to Risk-Weighted Assets	1,516,744	19.91%	495,149	6.50 %

Insurance of Deposit Accounts. The DFA permanently increased the maximum amount of deposit insurance for banks, savings institutions, and credit unions to $250,000 per depositor, retroactive to January 1, 2008.

Effective April 1, 2011, the FDIC implemented a requirement of the DFA to revise its assessment system to base the assessments on each institution’s total assets less Tier 1 capital, instead of deposits. The FDIC also revised its assessment schedule so that it ranged from 2.5 basis points for the least risky institutions to 45 basis points for the riskiest. Institutions with over $10 billion of total assets, such as the Association, are classified for assessment purposes as "Large Institutions", and unless otherwise classified, are subjected to a large institution pricing system that includes a separate “scorecard” methodology, also adopted in 2011. In conjunction with the FDIC Deposit Insurance Fund’s reserve ratio reaching 1.15%, the assessment range was lowered to 1.5 to 40 basis points, effective July 1, 2016. In addition, “Large Institutions” (those with assets of $10 billion or more) are assessed a surcharge required by the DFA until the earlier of the Deposit Insurance Fund reaching 1.35% or December 31, 2018. The surcharge is 4.5 basis points of the Large Institution’s “surcharge base,” which is generally its regular assessment base reduced by $10 billion. The FDIC has indicated that it expects that the surcharges will be sufficient to achieve the 1.35% ratio by December 31, 2018. However, in the event that ratio is not achieved by that date, Large Institutions will be required to pay a short-fall assessment during the first half of 2019.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The Association does not believe that it is taking, or is subject to, any action, condition or violation that could lead to termination of its deposit insurance.

All FDIC-insured institutions are required to pay a pro rata portion of the interest due on obligations issued by the FICO for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the Federal Savings and Loan Insurance Corporation. All bonds issued by the FICO are due to mature by the end of the third quarter of 2019. For the quarter ended September 30, 2018, the annualized FICO assessment was equal to 0.32 basis points of total assets less Tier 1 capital.

For the fiscal year ended September 30, 2018, the Association paid $470 thousand related to the FICO bonds and $8.3 million, applicable to deposit insurance assessments. The deposit insurance payments are assessed on an arrears basis. At September 30, 2018, the balance of the Association's accrued deposit insurance assessment was $2.1 million.

Prohibitions Against Tying Arrangements. Federal savings associations are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Federal Home Loan Bank System. The Association is a member of the FHLB System, which consists of 11 regional FHLBs. The FHLB System provides a central credit facility primarily for member institutions. As a member of the FHLB of Cincinnati, the Association is required to acquire and hold shares of capital stock in the FHLB.

As of September 30, 2018, outstanding borrowings (including accrued interest) from the FHLB of Cincinnati were $3.72 billion and the Association was in compliance with the stock investment requirement.

Proposed Federal Regulation

On September 10, 2018, the OCC issued a proposed rule implementing a section of the Economic Growth, Relief and Consumer Protection Act that permits an eligible federal savings association with total consolidated assets of $20 billion or less as of December 31, 2017, to elect to operate with national bank powers without converting to a national bank charter. An eligible savings association is a federal savings association that: (1) is well capitalized; (2) has a CAMELs composite rating of

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1 or 2; (3) has a consumer compliance rating of 1 or 2; (4) has a Community Reinvestment Act rating of “outstanding” or “satisfactory,” if applicable; and (5) is not subject to an enforcement action. The proposed rule is subject to change, and the OCC will issue a final rule after reviewing all comments on the proposal.

Other Regulations

Interest and other charges collected or contracted for by the Association are subject to state usury laws and federal laws concerning interest rates. The Association’s operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of the Association also are subject to:

- The Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- The Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers’ rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- The Check Clearing for the 21st Century Act (also known as “Check 21”), which gives “substitute checks,” such as digital check images and copies made from those images, the same legal standing as the original paper check;
- Title III of The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (referred to as the “USA PATRIOT Act”), which significantly expanded the responsibilities of financial institutions, including savings associations, in preventing the use of the U.S. financial system to fund terrorist activities. Among other provisions, the USA PATRIOT Act and the related regulations of the OCC require savings associations operating in the United States to develop new anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations; and
- The Gramm-Leach-Bliley Act, which placed limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution’s privacy policy and provide such customers the opportunity to “opt out” of the sharing of certain personal financial information with unaffiliated third parties.

Holding Company Regulation

General. Third Federal Savings, MHC, and the Company are non-diversified savings and loan holding companies within the meaning of the Home Owners’ Loan Act. As such, Third Federal Savings, MHC and the Company are registered with the FRS and subject to FRS regulations, examinations, supervision and reporting requirements. In addition, the FRS has enforcement authority over Third Federal Savings, MHC, the Company and the Association. Among other things, this authority permits the FRS to restrict or prohibit activities that are determined to be a serious risk to the Association. As federal corporations, Third Federal Savings, MHC and the Company are generally not subject to state business organization laws.

Permitted Activities. Pursuant to Section 10(o) of the Home Owners’ Loan Act and FRS regulations, a mutual holding company, such as Third Federal Savings, MHC and its mid-tier companies, such as the Company, may, with appropriate regulatory approval, engage in the following activities:

(i) investing in the stock of a savings association;

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(ii) acquiring a mutual association through the merger of such association into a savings association subsidiary of such holding company or an interim savings association subsidiary of such holding company;
(iii) merging with or acquiring another holding company, one of whose subsidiaries is a savings association;
(iv) investing in a corporation, the capital stock of which is available for purchase by a savings association under federal law or under the law of any state where the subsidiary savings association has its home offices;
(v) furnishing or performing management services for a savings association subsidiary of such company;
(vi) holding, managing or liquidating assets owned or acquired from a savings association subsidiary of such company;
(vii) holding or managing properties used or occupied by a savings association subsidiary of such company;
(viii) acting as trustee under deeds of trust;
(ix) any other activity:
(A) that the FRS, by regulation, has determined to be permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act of 1956, unless the FRS, by regulation, prohibits or limits any such activity for savings and loan holding companies; or
(B) in which multiple savings and loan holding companies were authorized (by regulation) to directly engage on March 5, 1987;
(x) if the savings and loan holding company meets the criteria to qualify as a financial holding company, any activity permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act, including securities and insurance underwriting; and
(xi) purchasing, holding, or disposing of stock acquired in connection with a qualified stock issuance if the purchase of such stock by such savings and loan holding company is approved by the FRS. If a mutual holding company acquires or merges with another holding company, the holding company acquired or the holding company resulting from such merger or acquisition may only invest in assets and engage in activities listed in (i) through (x) above, and has a period of two years to cease any nonconforming activities and divest any nonconforming investments.

The Home Owners' Loan Act prohibits a savings and loan holding company, including the Company, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or holding company thereof, without prior written approval of the FRS. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a non-subsidiary company engaged in activities other than those permitted by the Home Owners' Loan Act or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the FRS must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

The FRS is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions:
(i) the approval of interstate supervisory acquisitions by savings and loan holding companies; and
(ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisition.

The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Capital. Savings and loan holding companies were historically not subject to specific regulatory capital requirements. The DFA, however, required the FRS to promulgate consolidated capital requirements for all depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to depository institutions themselves. Instruments such as cumulative preferred stock and trust preferred securities could no longer be included as Tier 1 capital, as was previously permitted for bank holding companies.

The previously discussed final rule regarding regulatory capital requirements implemented the DFA's directive as to savings and loan holding companies. Consolidated regulatory capital requirements identical to those applicable to the subsidiary depository institutions generally applied to savings and loan holding companies as of January 1, 2015. As is the case with institutions themselves, the capital conservation buffer is being phased in between 2016 and 2019.

Dividends and Repurchases. The FRS has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies that it has made applicable to savings and loan holding

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companies as well. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. The policy statement also provides for regulatory review prior to a holding company redeeming or repurchasing regulatory capital instruments when the holding company is experiencing financial weaknesses or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction as of the end of a quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies could affect the ability of the Company to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Source of Strength. The DFA extended the “source of strength” doctrine, which has traditionally been applicable to bank holding companies, to savings and loan holding companies as well. The FRS has issued regulations requiring that all savings and loan holding companies serve as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Waivers of Dividends by Third Federal Savings, MHC. Federal regulations require Third Federal Savings, MHC to notify the FRS of any proposed waiver of its receipt of dividends from the Company. The OTS, the previous regulator for Third Federal Savings, MHC, allowed dividend waivers provided the mutual holding company’s Board of Directors determined that the waiver was consistent with its fiduciary duties and the waiver would not be detrimental to the safety and soundness of its subsidiary institution. In February 2008, the Company declared its first quarterly dividend and continued to declare and pay quarterly dividends through May 2010, when the Company suspended future dividend payments until concerns expressed by the OTS regarding the Association’s home equity line of credit portfolio were satisfactorily resolved. Prior to the suspension of the dividends, Third Federal Savings, MHC waived its right to receive each dividend paid by the Company. Section 625(a) of DFA preserved, for mutual holding companies, including Third Federal Savings, MHC, that had reorganized into mutual holding company form, issued minority stock and waived dividends prior to December 1, 2009, the right to waive dividends if the waiver was not detrimental to the safe and sound operation of the savings association and the board of directors expressly determines that the waiver is consistent with the fiduciary duties of the board to the mutual members of the mutual holding company. However, on August 12, 2011, the FRS issued an interim final rule that added a requirement that a majority of the mutual holding company’s members eligible to vote must approve a dividend waiver by a mutual holding company within 12 months prior to the declaration of the dividend being waived. The FRS is reviewing comments on the interim final rule, which were required to be submitted by November 1, 2011, as part of its rulemaking process, and there can be no assurance that the final rule will not require such a member vote. On July 11, 2018, Third Federal Savings, MHC received the approval of its members (depositors and certain loan customers of the Association) with respect to the waiver of dividends, and subsequently received the non-objection of the FRB-Cleveland, to waive receipt of dividends on the Company’s common stock the MHC owns up to a total of $1.00 per share during the four quarterly periods ending June 30, 2019. Third Federal Savings, MHC previously received the approval of its members at: (1) a July 19, 2017 meeting to waive receipt of dividends up to a total of $0.68 per share during the four quarterly periods ending June 30, 2018, (2) a July 26, 2016 meeting to waive receipt of dividends up to a total of $0.50 per share during the four quarterly periods ending June 30, 2017; (3) an August 5, 2015 meeting to waive receipt of dividends up to $0.40 per share during the four quarterly periods ending June 30, 2016; and (4) a July 31, 2014 meeting to waive receipt of dividends up to $0.28 per share during the four quarterly periods ending June 30, 2015.

Conversion of Third Federal Savings, MHC to Stock Form. Federal regulations permit Third Federal Savings, MHC to convert from the mutual form of organization to the capital stock form of organization (a “Conversion Transaction”). There can be no assurance when, if ever, a Conversion Transaction will occur, and the Board of Directors has no current intention or plan to undertake a Conversion Transaction. In a Conversion Transaction, a new stock holding company would be formed as the successor to the Company, Third Federal Savings, MHC’s corporate existence would end, and certain depositors of the Association would receive the right to subscribe for additional shares of common stock of the new holding company. In a Conversion Transaction, each share of common stock held by stockholders other than Third Federal Savings, MHC ("Minority Stockholders") would be automatically converted into a number of shares of common stock of the new holding company determined pursuant to an exchange ratio that ensures that Minority Stockholders own the same percentage of common stock in the new holding company as they owned in the Company immediately prior to the Conversion Transaction. Under a provision of the DFA applicable to Third Federal Savings, MHC, Minority Stockholders should not be diluted because of any dividends waived by Third Federal Savings, MHC (and waived dividends should not be considered in determining an appropriate exchange ratio), in the event Third Federal Savings, MHC converts to stock form. Any such Conversion Transaction would require various member and stockholder approvals, as well as regulatory approval.

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Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 and related regulations address, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. We have prepared policies, procedures and systems designed to ensure compliance with these regulations.

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Item 1A. Risk Factors

Future changes in interest rates could reduce our net income.

Our net income largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings.

The vast majority of our assets and liabilities are financial in nature, and as a result, changes in market and competitive interest rates can impact our customers' actions as well as the types and amount of business opportunities that are available to us. In general, when changes occur in interest rates that prompt our existing customers to pursue strategies that are beneficial to them, the results are generally unfavorable for us.

Generally, in a period of rising interest rates, the interest income earned on our assets may not increase as rapidly as the interest paid on our liabilities because, like many savings institutions, our liabilities generally have shorter contractual maturities than our assets. An example of this occurs when, interest rates paid on certificates of deposit experience a significant increase. In this circumstance, a CD customer may determine that it is in his/her best interest to incur the existing penalty for early withdrawal, tender the certificate for cash and either reinvest the proceeds in a new CD with us, or withdraw the funds and leave us. As a result, we either establish a new, higher rate certificate (if the customer stays with us) or we must fund the customer's withdrawal by: (1) reducing our cash reserves; (2) selling assets to generate cash to fund the withdrawal; (3) attracting deposits from another customer at the then-higher interest rate; or (4) borrowing from a wholesale lender like the FHLB of Cincinnati, again at the then-higher interest rate. Each of these alternatives can have an unfavorable impact on us.

As another example of changes in interest rates that can have an unfavorable impact on our net interest income, if mortgage interest rates decline, our customers may seek to refinance, without penalty, their mortgage loans with us or repay their mortgage loans with us and borrow from another lender. When that happens, either the yield that we earn on the customer's loan is reduced (if the customer refinances with us) or the mortgage is paid off and we are faced with the challenge of reinvesting the cash received to repay the mortgage in a lower interest rate environment. This is frequently referred to as reinvestment risk, which is the risk that we may not be able to reinvest the proceeds of loan prepayments at rates that are comparable to the rates we earned on the loans prior to receipt of the repayment. Reinvestment risk also exists with the securities in our investment portfolio that are backed by mortgage loans.

Our net interest income can also be negatively impacted when assets and funding sources with seemingly similar, but not identical re-pricing characteristics react differently to changing interest rates. An example is our home equity lines of credit loan portfolio and our high yield checking and high yield savings deposit products. Interest rates charged on our home equity lines of credit loans are linked to the prime rate of interest, which generally adjusts in a direct relationship to changes in the FRS's Federal Funds target rate. Similarly, our High Yield Checking and High Yield Savings deposit products are generally expected to adjust when changes are made to the Federal Funds target rate. However, to the extent that increases or decreases are made to the Federal Funds target rate, and those increases or decreases translate into increases or decreases of the prime rate and the rate charged on our home equity lines of credit loans, but do not extend to equivalent adjustments to our High Yield Checking and High Yield Savings deposit products, we can experience a reduction in our net interest income. At September 30, 2018, we held $1.68 billion of home equity lines of credit loans and $1.97 billion of High Yield Checking and High Yield Savings deposits.

Our net income can also be reduced by the impact that changes in interest rates can have on the value of our capitalized mortgage servicing rights. As of September 30, 2018, we serviced $1.93 billion of loans sold to third parties, and the mortgage servicing rights associated with such loans had an amortized cost of $8.8 million and an estimated fair value, at that date, of $15.6 million. Because the estimated life and estimated income to be derived from servicing the underlying mortgage loans generally increase with rising interest rates and decrease with falling interest rates, the value of mortgage servicing rights generally increases as interest rates rise and decreases as interest rates fall. If interest rates fall and the value of our capitalized servicing rights decrease, we may be required to recognize an additional impairment charge against income for the amount by which amortized cost exceeds estimated fair market value.

Our securities portfolio may be impacted by fluctuations in market value, potentially reducing accumulated other comprehensive income and/or earnings. Fluctuations in market value may be caused by changes in market interest rates, lower market prices for securities and limited investor demand. Changes in interest rates can also have an adverse effect on our financial condition, as our available-for-sale securities are reported at their estimated fair value, and therefore are impacted by fluctuations in interest rates. We increase or decrease our stockholders’ equity by the amount of change in the estimated fair value of the available-for-sale securities, net of taxes. The declines in market value could result in other-than-temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

In general, changes in market and competitive interest rates result from events that we do not control and over which we generally have little or no influence. As a result, mitigation of the adverse affects of changing interest rates is generally limited to controlling the composition of the assets and liabilities that we hold. To monitor our positions, we maintain an interest rate risk modeling system which is designed to measure our interest rate risk sensitivity. Using customized modeling software, the Association prepares periodic estimates of the amounts by which the net present value of its cash flows from assets, liabilities and off balance sheet items (the institution’s economic value of equity) would change in the event of a range of assumed changes in market interest rates. The simulation model uses a discounted cash flow analysis and an option-based pricing approach in measuring the interest rate sensitivity of EVE. At September 30, 2018, in the event of an immediate 200 basis point increase in all interest rates, our model projects that we would experience a $432.1 million, or 19.65%, decrease in EVE. Our calculations further project that, at September 30, 2018, in the event that market interest rates used in the simulation were adjusted in equal monthly amounts (termed a "ramped" format) during the 12 month measurement period to an aggregate increase in 200 basis points, we would expect our projected net interest income for the twelve months ended September 30, 2019 to decrease by 2.32%. See “Item 7A. Quantitative and Qualitative Disclosures about Market Risk.”

Difficult market conditions, geographic concentration and heightened regulatory scrutiny have adversely affected us and our industry and may continue to do so.

Our performance is significantly impacted by the general economic conditions in our primary markets in the states of Ohio and Florida, and surrounding areas, which were severely affected during the 2008 financial crisis and its aftermath. A recurrence of those or similar difficult market conditions is likely to again result in high levels of unemployment, which would weaken local economies and could result in additional defaults of mortgage loans. Most of the loans in our loan portfolio are secured by real estate located in our primary market areas. Negative conditions, such as layoffs, in the markets where collateral for a mortgage loan is located could adversely affect a borrower’s ability to repay the loan and the value of the collateral securing the loan. Declines in the U.S. housing market during and in the aftermath of the 2008 financial crisis, as manifested by falling home prices and increasing foreclosures, as well as unemployment and under-employment, all negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions.

In response to the financial crisis of 2008, many lenders and institutional investors reduced or ceased providing funding to borrowers, including other financial institutions. This market turmoil and tightening of credit led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets adversely affected our business, financial condition and results of operations. While the economy has progressed on a tenuous road to recovery and we have experienced significant improvements in the credit metrics in our mortgage portfolio, a relapse or worsening of the conditions associated with the 2008 financial crisis would likely exacerbate the adverse effects that those difficult market conditions had on us and others in the financial industry. In particular, we already face and would expect to continue to face the following risks in connection with these events:

- Increased regulation of our industry, heightened supervisory scrutiny related to the USA Patriot Act, Bank Secrecy Act, Fair Lending and other laws and regulations, including those still contemplated by the DFA, along with enhanced monitoring of compliance with such regulation, including, as an institution with assets in excess of $10 billion, direct supervision by the CFPB. Each aspect of amplified supervision and regulation will in all likelihood increase our costs, may be accompanied by the risk of unexpected fines, sanctions, penalties, litigation and corresponding management diversion and may limit our ability to pursue business opportunities and return capital to our shareholders.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future behaviors.
- The processes we use to estimate losses inherent in our credit exposure require difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of our borrowers to repay their loans, which may no longer be capable of viable estimation and which may, in turn,

impact the reliability of our evaluation processes, the comfort of our regulators with respect to the adequacy of our allowance for loan losses and who may require adjustments thereto, and ultimately could result in increased provisions for loan losses and reduced levels of earnings and capital.

- Our ability to engage in sales of mortgage loans to third parties (including mortgage loan securitization transactions with governmental entities) on favorable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including deteriorating investor expectations.
- Competition in our industry could intensify as a result of increasing consolidation of financial services companies in connection with current market conditions.

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Changes in laws and regulations and the cost of compliance with new laws and regulations may adversely affect our operations and our income.

We are subject to extensive regulation, supervision and examination by the FRS, the OCC, the CFPB and the FDIC. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank's operations, reclassify assets, determine the adequacy of a bank's allowance for loan losses and determine the level of deposit insurance premiums assessed. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change. Any change in these regulations and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material impact on our operations.

The potential exists for additional federal or state laws and regulations, or changes in policy, affecting lending and funding practices and liquidity standards. Moreover, bank regulatory agencies have been active in responding to concerns and trends identified in examinations, and have issued many formal enforcement orders requiring capital ratios in excess of regulatory requirements. Bank regulatory agencies, such as the FRS, the OCC, the CFPB and the FDIC, govern the activities in which we may engage, primarily for the protection of depositors, and not for the protection or benefit of potential investors. In addition, new laws and regulations may increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. New laws and regulations may significantly affect the markets in which we do business, the markets for and value of our loans and investments, the fees we can charge and our ongoing operations, costs and profitability.

We received a "Needs to Improve" Community Reinvestment Act rating in our most recent federal examination. This could, at a minimum, result in denial of certain corporate applications such as those related to branches, mergers, minority stock offerings or a second-step conversion.

All savings associations have a responsibility under the Community Reinvestment Act and federal regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a federal savings association, the OCC is required to assess the savings association's record of compliance with the Community Reinvestment Act. The Association received a "Needs to Improve" Community Reinvestment Act rating in its most recent federal examination that covered home mortgage lending data for the period January 1, 2012 through December 31, 2014. A savings association's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as those related to branches, mergers, minority stock offerings or a second-step conversion, or in restrictions on its activities.

Strong competition within our market areas may limit our growth and profitability.

Competition in the banking and financial services industry is intense. In our market areas, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, money market funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do. Troubled financial institutions may significantly increase the interest rates paid to depositors in pursuit of retail deposits when wholesale funding sources are not available to them. Furthermore, the wide acceptance of Internet-based commerce has resulted in a number of alternative payment processing systems and lending platforms in which banks play only minor roles. Customers can now maintain funds in prepaid debit cards or digital currencies, and pay bills and transfer funds directly without the direct assistance of banks. Our profitability depends upon our continued ability to successfully compete in our market areas. For additional information see PART 1 Item 1. Business-THIRD FEDERAL SAVINGS AND LOAN ASSOCIATION OF CLEVELAND-Competition.

We continually encounter technological change, and may have fewer resources than many of our larger competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We also may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

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Certain aspects of our corporate structure related to dividend payment ability and governance could adversely affect the value of our common stock.

The value of the Company’s common stock is significantly affected by our ability to pay dividends to our public stockholders. The Company’s ability to pay dividends to our stockholders is subject to the availability of cash at the holding company and, in the event earnings are not sufficient to fund the dividends, eventually, the ability of the Association to make capital distributions to the Company. Moreover, our ability to pay dividends and the amount of such dividends is affected by the ability of Third Federal Savings, MHC, our mutual holding company, to waive the receipt of dividends declared by the Company.

Federal regulations require Third Federal Savings, MHC to notify the FRS of any proposed waiver of its receipt of dividends from the Company. In August 2011, the FRS issued an interim final rule pursuant to the DFA, providing that the FRS “may not” object to dividend waivers by grandfathered mutual holding companies, such as Third Federal Savings, MHC, under standards substantially similar to those previously required by the OTS. However, the interim final rule added a requirement that a majority of the mutual holding company’s members eligible to vote must approve a dividend waiver by a mutual holding company within 12 months prior to the declaration of the dividend being waived. As part of its rulemaking process, the FRS is reviewing comments on the interim final rule and there can be no assurance that the final rule will not require such a member vote. Third Federal Savings, MHC has received the approval of its members in five separate meetings (in July 2014, August 2015, July 2016, July 2017 and July 2018) to waive the receipt of dividends for a twelve-month period, and the FRS has “non-objected” to Third Federal Savings, MHC’s waiver each time However, future approvals of members and non-objections from the FRS are not assured and if not obtained, the discontinuance of dividend payments would adversely affect the value of our common stock.

Third Federal Savings, MHC, as our majority shareholder, is able to control the outcome of virtually all matters presented to our shareholders for their approval, including any proposal to acquire us. The same directors and officers who manage the Association also manage the Company and Third Federal Savings, MHC. The board of directors of Third Federal Savings, MHC must ensure that the interests of depositors of the Association (as members of Third Federal Savings, MHC) are represented and considered in matters put to a vote of stockholders of the Company. Therefore, Third Federal Savings, MHC may take action that the public stockholders believe to be contrary to their interests. For example, Third Federal Savings, MHC may exercise its voting control to defeat a stockholder nominee for election to the board of directors of the Company. Additionally, Third Federal Savings, MHC may prevent the sale of control or merger of the Company or its subsidiaries, or a second-step conversion of Third Federal Savings, MHC, even if such a transaction were favored by a majority of the public shareholders of the Company.

Cyber-attacks, other security breaches or failure or interruption of information systems could adversely affect our operations, net income or reputation.

We rely heavily on communications and information systems to conduct our business. We regularly collect, process, transmit and store significant amounts of data and confidential information regarding our customers, employees and others and concerning our own business, operations, plans and strategies. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf.

Information security risks have generally increased in recent years because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial and other transactions and the increased sophistication and activities of perpetrators of cyber-attacks and mobile phishing. Mobile phishing, a means for identity thieves to obtain sensitive personal information through fraudulent e-mail, text or voice mail, is an on-going threat targeting the customers of popular financial entities. A failure in or breach of our operational or information security systems, or those of our third-party service providers, as a result of cyber-attacks or information security breaches or due to employee error, malfeasance or other disruptions could adversely affect our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and/or cause losses.

If this confidential or proprietary information were to be mishandled, misused or lost, we could be exposed to significant regulatory consequences, reputational damage, civil litigation and financial loss.

Although we employ a variety of physical, procedural and technological safeguards to protect this confidential and proprietary information from mishandling, misuse or loss, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur. If mishandling, misuse or loss of the information did occur, those events will be promptly detected and addressed. Similarly, when confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf, our policies and procedures require that the third party agree to maintain the confidentiality of the information, establish and maintain policies and procedures designed to preserve the confidentiality of the

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information, and permit us to confirm the third party's compliance with the terms of the agreement. As information security risks and cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities.

We have experienced no known material breaches.

Our operations rely on numerous external vendors.

We rely on numerous external vendors to provide us with products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements because of changes in the vendor's organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which in turn could have a material negative impact on our financial condition and results of operations. We also could be adversely affected to the extent such an agreement is not renewed by the third-party vendor or is renewed on terms less favorable to us. Our Vendor Management program helps mitigate risks and is structured to minimize the cost and time required to replace a vendor in the event of a failure or the vendor's inability to meet service level agreements.

Hurricanes or other adverse weather events could negatively affect the economy in our Florida market area or cause disruptions to our branch office locations, which could have an adverse effect on our business or results of operations.

A significant portion of our branch operations are conducted in Florida, a geographic region with coastal areas that are susceptible to hurricanes and tropical storms. Such weather events can disrupt our operations, result in damage to our branch office locations and negatively affect the local economy in which we operate. We cannot predict whether or to what extent damage caused by future hurricanes or tropical storms will affect our operations or the economy in our market area, but such weather events could result in fewer loan originations and greater delinquencies, foreclosures or loan losses. These and other negative effects of future hurricanes or tropical storms may adversely affect our business or results of operations.

A new accounting standard may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board has adopted a new accounting standard that will be effective for the Company for our fiscal year beginning October 1, 2020. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which may require us to increase our allowance for loan losses, and to greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations.

Secondary mortgage market conditions could have a material impact on our financial condition and results of operations.

Loan sales provide a significant portion of our non-interest income. In addition to being affected by interest rates, the secondary mortgage markets are also subject to investor demand for residential real estate loans and increased investor yield requirements for these loans. These conditions may fluctuate or worsen in the future. A prolonged period of secondary market illiquidity could have a material adverse effect on our financial condition and results of operations.

If we are required to repurchase mortgage loans that we have previously sold, it would negatively affect our earnings.

We sell mortgage loans in the secondary market under agreements that contain representations and warranties related to, among other things, the origination, characteristics of the mortgage loans and subsequent servicing. We may be required to repurchase mortgage loans that we have sold in cases of borrower default or breaches of these representations and warranties, and we would be subject to increased risk of disputes and repurchase demands as our volume of loan sales increases. If we are required to repurchase mortgage loans or provide indemnification or other recourse, this could significantly increase our costs and thereby affect our future earnings.

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Final regulations could restrict our ability to originate and sell loans.

The Consumer Financial Protection Bureau has issued a rule designed to clarify for lenders how they can avoid legal liability under the Dodd-Frank Act, which holds lenders accountable for ensuring a borrower's ability to repay a mortgage. Loans that meet this "qualified mortgage" definition will be presumed to have complied with the new ability-to-repay standard. Under the rule, a "qualified mortgage" loan must not contain certain specified features, including:

- excessive upfront points and fees (those exceeding 3% of the total loan amount, less "bona fide discount points" for prime loans);
- interest-only payments;
- negative amortization; and
- terms of longer than 30 years.

Also, to qualify as a "qualified mortgage," a loan must be made to a borrower whose total monthly debt-to-income ratio does not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower on the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments.

In addition, the Dodd-Frank Act requires the regulatory agencies to issue regulations that require securitizers of loans to retain "not less than 5% of the credit risk for any asset that is not a qualified residential mortgage." The regulatory agencies have issued a final rule to implement this requirement. The final rule provides that the definition of "qualified residential mortgage" includes loans that meet the definition of qualified mortgage issued by the Consumer Financial Protection Bureau.

The final rule could have a significant effect on the secondary market for loans and the types of loans we originate, and restrict our ability to make loans. Similarly, the Consumer Financial Protection Bureau's rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, which could limit our growth or profitability.

We may be adversely affected by recent changes in U.S. tax laws.

Changes in tax laws contained in the Tax Cuts and Jobs Act, which was enacted in December 2017, include a number of provisions that will have an impact on the banking industry, borrowers and the market for single-family residential real estate. Changes include (i) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (ii) the elimination of interest deductions for home equity loans, (iii) a limitation on the deductibility of business interest expense and (iv) a limitation on the deductibility of property taxes and state and local income taxes.

The recent changes in the tax laws may have an adverse effect on the market for, and valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. In addition, these recent changes may also have a disproportionate effect on taxpayers in states with high residential home prices and high state and local taxes. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in our loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations.

Our sources of funds are limited because of our holding company structure.

The Company is a separate legal entity from its subsidiaries and does not have significant operations of its own. Dividends from the Association provide a significant source of cash for the Company. The availability of dividends from the Association is limited by various statutes and regulations. Under these statutes and regulations, the Association is not permitted to pay dividends on its capital stock to the Company, its sole stockholder, if the dividend would reduce the stockholders' equity of the Association below the amount of the liquidation account established in connection with the mutual-to-stock conversion. Federal savings associations may pay dividends without the approval of its primary federal regulator only if they meet applicable regulatory capital requirements before and after the payment of the dividends and total dividends do not exceed net income to date over the calendar year plus its retained net income over the preceding two years. If in the future, the Company utilizes its available cash and the Bank is unable to pay dividends to the Company, the Company may not have sufficient funds to pay dividends or fund stock repurchases.

The FRS may require the Company to commit capital resources to support the Association, and we may not have sufficient access to such capital resources.

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Federal law requires that a holding company act as a source of financial and managerial strength to its subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the FRS may require a holding company to make capital injections into a troubled subsidiary bank and may charge the holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to attempt to borrow the funds or raise capital. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the Company to make a required capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations. Moreover, it is possible that we will be unable to borrow funds when we need to do so.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We operate from our main office in Cleveland, Ohio, our 38 full-service branch offices located in Ohio and Florida and our eight loan production offices located in Ohio. Our branch offices are located in the Ohio counties of Cuyahoga, Lake, Lorain, Medina and Summit and in the Florida counties of Broward, Collier, Hillsborough, Lee, Palm Beach, Pasco, Pinellas and Sarasota. Our loan production offices are located in the Ohio counties of Franklin, Butler, Delaware and Hamilton. The Company owns the building in which its home office and executive offices are located, and six other office locations. The net book value of our land, premises, equipment and software was $63.4 million at September 30, 2018. Included in the net book value are two commercial buildings located in Canton, Massachusetts, valued at $17.9 million, which are owned by our Hazelmere entity and leased to third parties in net lease transactions.

Item 3. Legal Proceedings

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's consolidated financial condition, results of operation, or statements of cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed and traded on the NASDAQ Global Select Market under the symbol “TFSL”. As of November 23, 2018, we had 6,942 shareholders of record, which number does not include persons or entities holding shares in “nominee” or “street” name through brokerage firms. Shares of our common stock began trading on April 23, 2007 following the completion of our initial public offering. Quarterly trading information for the periods indicated is provided by NASDAQ and included in the following table.

	Traded Market Prices		
	High	Low	Dividends
Quarter ended December 31, 2016	$ 19.83	$ 18.61	$ 0.125
Quarter ended March 31, 2017	17.38	16.40	0.125
Quarter ended June 30, 2017	16.07	15.30	0.125
Quarter ended September 30, 2017	16.13	14.84	0.17
Quarter ended December 31, 2017	16.04	14.79	0.17
Quarter ended March 31, 2018	15.53	14.41	0.17
Quarter ended June 30, 2018	16.48	14.62	0.17
Quarter ended September 30, 2018	16.37	14.90	0.25

Payment of dividends is subject to declaration by our Board of Directors and is dependent on a number of factors, including:

- our capital requirements and, to the extent that funds for any such dividend are provided by the Association, the regulatory capital requirements imposed on the Association by the OCC;
- our financial position and results of operations;
- tax considerations;
- our alternative uses of funds;
- statutory and regulatory limitations; and
- general economic conditions.

Pursuant to IRS regulations, any payment of dividends by the Association to the Company that would be deemed to be drawn from the Association’s bad debt reserves would require a payment of taxes at the then-current tax rate by the Association on the amount of earnings deemed to be removed from the reserves for such distribution. The Association does not intend to make any distribution to the Company that would create such a federal tax liability.

Through September 30, 2010, Third Federal Savings, MHC, waived its right to receive dividends. The waivers complied with regulatory authorizations (in the form of non-objection) obtained by Third Federal Savings, MHC. Any requests for future regulatory authorizations to waive receipts of dividends will be submitted to the FRS. Please refer to the preceding discussion of dividend waivers presented in Part I, Item 1. Business, SUPERVISION AND REGULATION, Holding Company Regulation—Dividends and Waivers of Dividends by Third Federal Savings, MHC. Regulatory non-objection is subject to periodic regulatory review and no assurances can be given regarding future regulatory non-objection. In addition, interim final rules issued by the FRS on August 12, 2011 require that a majority of the mutual holding company's members eligible to vote must approve a dividend waiver by a mutual holding company within 12 months prior to the declaration of the dividend being waived. There can be no assurance that a final rule will not require such a member vote.

On July 11, 2018, at a special meeting of members of Third Federal Savings, MHC, the members (depositors and certain loan customers of the Association) of Third Federal Savings, MHC voted to approve Third Federal Savings, MHC's proposed waiver of dividends, aggregating up to $1.00 per share, to be declared on the Company’s common stock during the four quarterly periods ending June 30, 2019. The members approved the waiver by casting 63% of the eligible votes in favor of the waiver. Of the votes cast, 97% were in favor of the proposal. Third Federal Savings, MHC is the 81% majority shareholder of the Company.

Following the receipt of the members’ approval at the July 11, 2018 special meeting, Third Federal Savings, MHC filed a notice with, and subsequently received the non-objection of, the FRB-Cleveland for the proposed dividend waivers.

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In the table and graph that follow, we have provided summary information regarding the performance of the cumulative total return of our common stock from September 30, 2013 through September 30, 2018, relative to the cumulative total return on stocks included in the SNL Bank and Thrift Index, SNL Thrift Index and NASDAQ Composite, in each case for the same period. The cumulative return data is presented in dollars, based on starting investments of $100 and assuming the reinvestment of dividends.

	Measurement Date					
Index (with base price at 9/30/2013)	9/30/2013	9/30/2014	9/30/2015	9/30/2016	9/30/2017	9/30/2018
TFS Financial Corporation	100.00	120.21	147.74	156.17	146.25	142.93
SNL Bank and Thrift Index	100.00	117.86	120.33	124.41	174.98	188.09
SNL Thrift Index	100.00	110.29	131.73	137.75	160.17	157.78
NASDAQ Composite	100.00	120.61	125.43	146.03	180.62	226.08

Source: S&P Global Market Intelligence

We did not sell any securities during the quarter ended September 30, 2018.

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The following table summarizes our stock repurchase activity during the three months ended September 30, 2018 and the stock repurchase plans approved by our Board of Directors.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Maximum Number of Shares that May Yet be Purchased Under the Plans
July 1, 2018 through July 31, 2018	84,000	$ 16.09	84,000	6,552,979
August 1, 2018 through August 31, 2018	48,000	15.42	48,000	6,504,979
September 1, 2018 through September 30, 2018	38,000	15.47	38,000	6,466,979
	170,000	15.76	170,000	

(1) On October 27, 2016, the Company announced that the Board of Directors approved the Company's eighth stock repurchase program, which authorizes the repurchase of up to 10,000,000 shares of the Company's outstanding common stock, which commenced upon the completion of the Company's seventh stock repurchase program on January 7, 2017. Purchases under the program will be on an ongoing basis and subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses of capital, and our financial performance. Repurchased shares will be held as treasury stock and be available for general corporate use. The program has 6,466,979 shares yet to be purchased as of September 30, 2018.

Item 6. Selected Financial Data

	At September 30,				
	2018	2017	2016	2015	2014
	(In thousands)				
Selected Financial Condition Data:					
Total assets	$14,137,331	$13,692,563	$12,906,062	$12,368,886	$11,803,195
Cash and cash equivalents	269,775	268,218	231,239	155,369	181,403
Investment securities - available for sale	531,965	537,479	517,866	585,053	568,868
Loans held for sale	659	351	4,686	116	4,962
Loans, net	12,871,294	12,419,306	11,708,804	11,187,583	10,630,687
Bank owned life insurance	212,021	205,883	200,144	195,861	190,152
Prepaid expenses and other assets	44,344	61,086	63,994	58,277	64,880
Deposits	8,491,583	8,151,625	8,331,368	8,285,858	8,653,878
Borrowed funds	3,721,699	3,671,377	2,718,795	2,168,627	1,138,639
Shareholders’ equity	1,758,404	1,689,959	1,660,458	1,729,370	1,839,457

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	For the Years Ended September 30,				
	2018	2017	2016	2015	2014
	(In thousands, except per share amounts)				
Selected Operating Data:					
Interest income	$443,045	$408,995	$388,441	$383,477	$374,684
Interest expense	162,104	130,099	118,026	113,350	103,251
Net interest income	280,941	278,896	270,415	270,127	271,433
Provision (credit) for loan losses	(11,000)	(17,000)	(8,000)	(3,000)	19,000
Net interest income after provision for loan losses	291,941	295,896	278,415	273,127	252,433
Non-interest income	21,536	19,849	24,952	24,260	21,900
Non-interest expenses	192,313	182,404	181,004	187,992	175,476
Earnings before income tax	121,164	133,341	122,363	109,395	98,857
Income tax expense	35,757	44,464	41,810	36,804	32,966
Net earnings after income tax expense	$85,407	$88,877	$80,553	$72,591	$65,891
Earnings per share—basic and fully diluted	$0.32	$0.28	$0.28	$0.25	$0.22
Cash dividends declared per share	$0.760	$0.545	$0.31	$0.07	$—

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	At or For The Years Ended September 30,				
	2018	2017	2016	2015	2014
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on average assets	0.62 %	0.67 %	0.65 %	0.57 %	0.57 %
Return on average equity	4.91 %	5.28 %	4.73 %	4.04 %	3.52 %
Interest rate spread(1)	1.93 %	2.02 %	2.09 %	2.03 %	2.26 %
Net interest margin(2)	2.08 %	2.16 %	2.23 %	2.17 %	2.42 %
Efficiency ratio(3)	63.58 %	61.06 %	61.28 %	63.86 %	59.82 %
Non-interest expense to average total assets	1.39 %	1.37 %	1.45 %	1.47 %	1.53 %
Average interest-earning assets to average interest-bearing liabilities	112.96 %	113.29 %	114.67 %	115.43 %	118.51 %
Dividend payout ratio(4)	253.33 %	170.31 %	151.79 %	124.00 %	31.82 %
Asset Quality Ratios:					
Non-performing assets as a percent of total assets	0.57 %	0.62 %	0.75 %	1.00 %	1.33 %
Non-accruing loans as a percent of total loans	0.60 %	0.63 %	0.76 %	0.95 %	1.27 %
Allowance for loan losses as a percent of non-accruing loans	54.56 %	61.89 %	68.69 %	67.00 %	60.03 %
Allowance for loan losses as a percent of total loans	0.33 %	0.39 %	0.52 %	0.64 %	0.76 %
Capital Ratios:					
Association					
Total risk-based capital to risk weighted assets(5)	NA	NA	NA	NA	25.25 %
Total capital to risk-weighted assets(6)	20.47 %	21.37 %	22.24 %	22.92 %	NA
Tier 1 core capital to adjusted tangible assets(5)	NA	NA	NA	NA	13.47 %
Tier 1 (leverage) capital to net average assets(6)(7)	10.87 %	11.16 %	11.73 %	12.78 %	NA
Tier 1 risk-based capital to risk weighted assets(5)	NA	NA	NA	NA	24.02 %
Tier 1 capital to risk-weighted assets(6)	19.91 %	20.69 %	21.36 %	21.95 %	NA
Common equity tier 1 capital to risk-weighted assets(6)	19.91 %	20.69 %	21.36 %	21.95 %	NA
TFS Financial Corporation					
Total risk-based capital to risk weighted assets(5)	NA	NA	NA	NA	29.00 %
Total capital to risk-weighted assets(6)	22.94 %	23.63 %	24.62 %	24.54 %	NA
Tier 1 core capital to adjusted tangible assets(5)	NA	NA	NA	NA	15.60 %
Tier 1 (leverage) capital to net average assets(6)(7)	12.25 %	12.41 %	13.07 %	13.76 %	NA
Tier 1 risk-based capital to risk weighted assets(5)	NA	NA	NA	NA	27.77 %
Tier 1 capital to risk-weighted assets(6)	22.39 %	22.96 %	23.74 %	23.57 %	NA
Common equity tier 1 capital to risk-weighted assets(6)	22.39 %	22.96 %	23.74 %	23.57 %	NA
Average equity to average total assets	12.56 %	12.67 %	13.64 %	14.09 %	16.28 %
Other Data:					
Association:					
Number of full service offices	38	38	38	38	38
Loan production offices	8	8	8	8	8

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(1) Represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the year.

(2) The net interest margin represents net interest income as a percent of average interest-earning assets for the year.

(3) The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.

(4) Represents dividends paid per share divided by diluted earnings per share. Receipt of dividends on shares owned by Third Federal Savings, MHC has been waived and dividends paid on unallocated shares of the ESOP are used to pay down the loan to the ESOP.

(5) Calculated using the regulatory capital methodology applicable to the Association prior to January 1, 2015.

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(6) Calculated using the regulatory capital methodology applicable to the Association beginning January 1, 2015. See Part I, Item 1, Business, Federal Banking Regulation, Capital Requirements for a detailed discussion of the new Basel III rules.

(7) Tier 1 (leverage) capital to net average assets ratio disclosures were based on net average assets beginning quarter end September 30, 2015.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Our business strategy is to operate as a well-capitalized and profitable financial institution dedicated to providing exceptional personal service to our customers.

Since being organized in 1938, we grew to become, at the time of our initial public offering of stock in April 2007, the nation's largest mutually-owned savings and loan association based on total assets. We credit our success to our continued emphasis on our primary values: "Love, Trust, Respect, and a Commitment to Excellence, along with Having Fun." Our values are reflected in the design and pricing of our loan and deposit products, as described below. Our values are further reflected in a long-term revitalization program encompassing the three-mile corridor of the Broadway-Slavic Village neighborhood in Cleveland, Ohio where our main office was established and continues to be located and the educational programs we have established and/or supported. We intend to continue to adhere to our primary values and to support our customers and the communities in which we operate.

Management believes that the following matters are those most critical to our success: (1) controlling our interest rate risk exposure; (2) monitoring and limiting our credit risk; (3) maintaining access to adequate liquidity and diverse funding sources; and (4) monitoring and controlling operating expenses.

Controlling Our Interest Rate Risk Exposure. Although the significant housing and credit quality issues that arose in connection with the 2008 financial crisis had a distinctly negative effect on our operating results and, as described below, that experience made a lasting impression on our risk awareness, historically our greatest risk has been our exposure to changes in interest rates. When we hold long-term, fixed-rate assets, funded by liabilities with shorter re-pricing characteristics, we are exposed to potentially adverse impacts from changing interest rates, and most notably rising interest rates. Generally, and particularly over extended periods of time that encompass full economic cycles, interest rates associated with longer-term assets, like fixed-rate mortgages, have been higher than interest rates associated with shorter-term funding sources, like deposits. This difference has been an important component of our net interest income and is fundamental to our operations. We manage the risk of holding longer-term, fixed-rate mortgage assets primarily by maintaining the levels of regulatory capital required to be well capitalized, by promoting adjustable-rate loans and shorter-term, fixed-rate loans, by marketing home equity lines of credit, which carry an adjustable rate of interest indexed to the prime rate and by opportunistically extending the duration of our funding sources.

Levels of Regulatory Capital

At September 30, 2018, the Company's Tier 1 (leverage) capital totaled $1.71 billion, or 12.25% of net average assets and 22.39% of risk-weighted assets, while the Association's Tier 1 (leverage) capital totaled $1.52 billion, or 10.87% of net average assets and 19.91% of risk-weighted assets. Each of these measures was more than twice the requirements currently in effect for designation as "well capitalized" under regulatory prompt corrective action provisions, which set minimum levels of 5.00% of net average assets and 8.00% of risk-weighted assets. Refer to the Liquidity and Capital Resources section of this Item 7 for additional discussion regarding regulatory capital requirements.

Promotion of Adjustable-Rate Loans and Shorter-Term, Fixed-Rate Loans

We market an adjustable-rate mortgage loan that provides us with improved interest rate risk characteristics when compared to a 30-year, fixed-rate mortgage loan. Our "Smart Rate" adjustable rate mortgage offers borrowers an interest rate lower than that of a 30-year, fixed-rate loan. The interest rate in the Smart Rate mortgage is locked for three or five years then resets annually. The Smart Rate mortgage contains a feature to re-lock the rate an unlimited number of times at our then-current interest rate and fee schedule, for another three or five years (which must be the same as the original lock period) without having to complete a full refinance transaction. Re-lock eligibility is subject to a satisfactory payment performance history by the borrower (current at the time of re-lock, and no foreclosures or bankruptcies since the Smart Rate application was taken). In addition to a satisfactory payment history, re-lock eligibility requires that the property continues to be the borrower's primary residence. The loan term cannot be extended in connection with a re-lock nor can new funds be advanced. All interest rate caps and floors remain as originated.

We also feature a ten-year, fully amortizing fixed-rate first mortgage loan in our product promotions. The ten-year, fixed-rate loan has a less severe interest rate risk profile when compared to loans with fixed-rate terms of 15 to 30 years and helps us to more effectively manage our interest rate risk exposure, yet provides our borrowers with the certainty of a fixed interest rate throughout the life of the obligation.

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The following tables set forth our first mortgage loan production and balances segregated by loan structure at origination.

	For the Years Ended September 30,			
	2018		2017	
	Amount	Percent	Amount	Percent
Residential Mortgage Loan Originations:	(Dollars in thousands)			
ARM (all Smart Rate) production	$1,125,523	48.8 %	$1,342,801	49.7 %
Fixed-rate production:				
Terms less than or equal to 10 years	226,409	9.8	417,182	15.4
Terms greater than 10 years	956,153	41.4	941,634	34.9
Total fixed-rate production	1,182,562	51.2	1,358,816	50.3
Total Residential Mortgage Loan Originations:	$2,308,085	100.0%	$2,701,617	100.0%

	September 30, 2018		September 30, 2017	
	Amount	Percent	Amount	Percent
Balances of Residential Mortgage Loans Held For Investment:	(Dollars in thousands)			
ARM (primarily Smart Rate) Loans	$5,166,282	46.9 %	$4,816,568	44.4 %
Fixed-rate Loans:				
Terms less than or equal to 10 years	1,822,918	16.5	2,060,204	19.0
Terms greater than 10 years	4,036,544	36.6	3,978,396	36.6
Total fixed-rate loans	5,859,462	53.1	6,038,600	55.6
Total Residential Mortgage Loans Held For Investment:	$11,025,744	100.0%	$10,855,168	100.0%

The following table sets forth the balances as of September 30, 2018 for all ARM loans segregated by the next scheduled interest rate reset date.

During the Fiscal Years Ending September 30,	Current Balance of ARM Loans Scheduled for Interest Rate Reset (in thousands)
2019	$316,733
2020	689,375
2021	1,376,760
2022	1,537,074
2023	1,133,078
2024	113,262
Total	$5,166,282

At September 30, 2018 and September 30, 2017, mortgage loans held for sale, all of which were long-term, fixed-rate first mortgage loans and all of which were held for sale to Fannie Mae, totaled $0.7 million and $0.4 million, respectively.

Marketing Home Equity Lines of Credit

Since 2016, we have actively marketed home equity lines of credit, which carry an adjustable rate of interest indexed to the prime rate which provides interest rate sensitivity to that portion of our assets. Prior to 2010, home equity lending also represented a meaningful strategy to manage our interest rate risk profile. Between 2010 and 2015, the Association, in various steps, restricted and modified its home equity lending products and the markets they were offered in response to the 2008 financial crisis and the resulting regulatory environments that existed during that time.

Through redesigned home equity products, we believe we have re-established home equity line of credit lending as a meaningful strategy to manage our interest rate risk profile. At September 30, 2018, the principal balance of home equity lines of credit totaled $1.38 billion. Our home equity lending is discussed in the preceding Lending Activities section of Item 1. Business in Part I.—THIRD FEDERAL SAVINGS AND LOAN ASSOCIATION OF CLEVELAND.

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Extending the Duration of Funding Sources
As a complement to our strategies to shorten the duration of our interest earning assets, as described above, we also seek to lengthen the duration of our interest bearing funding sources. These efforts include monitoring the relative costs of alternative funding sources such as retail deposits, brokered certificates of deposit, longer-term (e.g. four to six years) fixed rate advances from the FHLB of Cincinnati, and shorter-term (e.g. three months) advances from the FHLB of Cincinnati, the durations of which are extended by correlated interest rate exchange contracts. Each funding alternative is monitored and evaluated based on its effective interest payment rate, options exercisable by the creditor (early withdrawal, right to call, etc.), and collateral requirements. The interest payment rate is a function of market influences that are specific to the nuances and market competitiveness/breadth of each funding source. Generally, early withdrawal options are available to our retail CD customers but not to holders of brokered CDs; issuer call options are not provided on our advances from the FHLB of Cincinnati; and we are not subject to early termination options with respect to our interest rate exchange contracts. Additionally, collateral pledges are not provided with respect to our retail CDs or our brokered CDs; but are required for our advances from the FHLB of Cincinnati as well as for our interest rate exchange contracts. During the year ended September 30, 2018, these funding source modifications facilitated asset growth of $444.8 million and funded stock repurchases of $19.7 million and stock dividends of $37.6 million.
Other Interest Rate Risk Management Tools
We also manage interest rate risk by selectively selling a small portion of our long-term, fixed-rate mortgage loans in the secondary market. Prior to fiscal 2010, this strategy was used to a greater extent to manage our interest rate risk. At September 30, 2018, we serviced $1.93 billion of loans for others, of which $1.01 billion were sold in the secondary market prior to fiscal 2010. While the sales of first mortgage loans remain strategically important for us, since fiscal 2010, they have played only a minor role in our management of interest rate risk. Loan sales are discussed later in this Part I1, Item 7. under the heading Liquidity and Capital Resources, and in Part I1, Item 7A. Quantitative and Qualitative Disclosures About Market Risk.
Monitoring and Limiting Our Credit Risk. While, historically, we had been successful in limiting our credit risk exposure by generally imposing high credit standards with respect to lending, the confluence of unfavorable regional and macro-economic events that culminated in the 2008 housing market collapse and financial crisis, coupled with our pre-2010 expanded participation in the second lien mortgage lending markets, significantly refocused our attention with respect to credit risk. In response to the evolving economic landscape, we continuously revise and update our quarterly analysis and evaluation procedures, as needed, for each category of our lending with the objective of identifying and recognizing all appropriate credit impairments. At September 30, 2018, 91% of our assets consisted of residential real estate loans (both "held for sale" and "held for investment") and home equity loans and lines of credit, which were originated predominantly to borrowers in Ohio and Florida. Our analytic procedures and evaluations include specific reviews of all home equity loans and lines of credit that become 90 or more days past due, as well as specific reviews of all first mortgage loans that become 180 or more days past due. We transfer performing home equity lines of credit subordinate to first mortgages delinquent greater than 90 days to non-accrual status. We also charge-off performing loans to collateral value and classify those loans as non-accrual within 60 days of notification of all borrowers filing Chapter 7 bankruptcy, that have not reaffirmed or been dismissed, regardless of how long the loans have been performing. Loans where at least one borrower has been discharged of their obligation in Chapter 7 bankruptcy, are classified as TDRs. At September 30, 2018, $26.4 million of loans in Chapter 7 bankruptcy status were included in total TDRs. At September 30, 2018, the recorded investment in non-accrual status loans included $29.4 million of performing loans in Chapter 7 bankruptcy status, of which $28.1 million were also reported as TDRs. In response to the unfavorable regional and macro-economic environment that arose beginning in 2008, and in an effort to limit our credit risk exposure and improve the credit performance of new customers, we tightened our credit eligibility criteria in evaluating a borrower's ability to successfully fulfill his or her repayment obligation and we revised the design of many of our loan products to require higher borrower down-payments, limited the products available for condominiums, eliminated certain product features (such as interest-only adjustable-rate loans and loans above certain LTV ratios), and we suspended home equity lending products with the exception of bridge loans between 2010 and 2012. The delinquency level related to loan originations prior to 2009, compared to originations in

2009 and after, reflect the higher credit standards to which we have subjected all new originations. As of September 30, 2018, loans originated prior to 2009 had a balance of $1.06 billion, of which $33.1 million, or 3.1%, were delinquent, while loans originated in 2009 and after had a balance of $11.85 billion, of which $8.4 million, or 0.1%, were delinquent.

One aspect of our credit risk concern relates to high concentrations of our loans that are secured by residential real estate in specific states, particularly Ohio and Florida, in light of the difficulties that arose in connection with the 2008 housing crisis with respect to the real estate markets in those two states. At September 30, 2018, approximately 55.6% and 16.0% of the combined total of our residential Core and construction loans held for investment and approximately 35.9% and 20.3% of our home equity loans and lines of credit were secured by properties in Ohio and Florida, respectively. In an effort to moderate the concentration of our credit risk exposure in individual states, particularly Ohio and Florida, we have utilized direct mail marketing, our internet site and our customer service call center to extend our lending activities to other attractive geographic locations. Currently, in addition to Ohio and Florida, we are actively lending in 19 other states and the District of Columbia, and as a result of that activity, the concentration ratios of the combined total of our residential, Core and construction loans held for investment in Ohio and Florida have trended downward from their September 30, 2010 levels when the concentrations were 79.1% in Ohio and 19.0% in Florida. Of the total first mortgage originations for the years ended September 30, 2018 and 2017, 28.4% and 34.7%, respectively, are secured by properties in states other than Ohio or Florida.

Our residential Home Today loans are another area of credit risk concern. Although we no longer originate loans under this program and the principal balance in these loans had declined to $94.9 million at September 30, 2018 and constituted only 0.7% of our total “held for investment” loan portfolio balance, they comprised 18.6% and 20.2% of our 90 days or greater delinquencies and our total delinquencies, respectively, at that date. At September 30, 2018, approximately 95.4% and 4.4% of our residential Home Today loans were secured by properties in Ohio and Florida, respectively. At September 30, 2018, the percentages of those loans delinquent 30 days or more in Ohio and Florida were 9.1% and 3.1%, respectively. The disparity between the portfolio composition ratio and delinquency composition ratio reflects the nature of the Home Today loans. We do not offer, and have not offered, loan products frequently considered to be designed to target sub-prime borrowers containing features such as higher fees or higher rates, negative amortization, or low initial payment features with adjustable interest rates. Our Home Today loans, the majority of which were entered into with borrowers that had credit profiles that would not have otherwise qualified for our loan products due to deficient credit scores, generally contained the same features as loans offered to our Core borrowers. The overriding objective of our Home Today lending, just as it is with our Core lending, was the creation of successful homeowners. We have attempted to manage our Home Today credit risk by requiring that borrowers attend pre- and post-borrowing financial management education and counseling and that the borrowers be referred to us by a sponsoring organization with which we have partnered. Further, to manage the credit aspect of these loans, inasmuch as the majority of these buyers did not have sufficient funds for required down payments, many loans included private mortgage insurance. At September 30, 2018, 17.8% of Home Today loans included private mortgage insurance coverage. From a peak recorded investment of $306.6 million at December 31, 2007, the total recorded investment of the Home Today portfolio has declined to $94.7 million at September 30, 2018. Since the vast majority of Home Today loans were originated prior to March 2009 and we are no longer originating loans under our Home Today program, the Home Today portfolio will continue to decline in balance due to contractual amortization. To supplant the Home Today product and to continue to meet the credit needs of our customers and the communities that we serve, we have offered Fannie Mae eligible, HomeReady loans since fiscal 2016. These loans are originated in accordance with Fannie Mae's underwriting standards. While we retain the servicing rights related to these loans, the loans, along with the credit risk associated therewith, are securitized/sold to Fannie Mae.

Maintaining Access to Adequate Liquidity and Diverse Funding Sources. For most insured depositories, customer and community confidence are critical to their ability to maintain access to adequate liquidity and to conduct business in an orderly manner. We believe that a well capitalized institution is one of the most important factors in nurturing customer and community confidence. Accordingly, we have managed the pace of our growth in a manner that reflects our emphasis on high capital levels. At September 30, 2018, the Association’s ratio of Tier 1 (leverage) capital to net average assets (a basic industry measure that deems 5.00% or above to represent a “well capitalized” status) was 10.87%. The Association's current Tier 1 (leverage) capital ratio is lower than its ratio at September 30, 2017, which was 11.16%, due primarily to an $85 million cash dividend payment that the Association made to the Company, its sole shareholder, in December 2017 that reduced the Association's Tier 1 (leverage) capital ratio. Because of its intercompany nature, this dividend payment did not impact the Company's consolidated capital ratios which are reported in the Liquidity and Capital Resources section of this Item 7. We expect to continue to remain a well capitalized institution.

In managing its level of liquidity, the Company monitors available funding sources, which include attracting new deposits (including brokered CDs), borrowing from others, the conversion of assets to cash and the generation of funds through profitable operations. The Company has traditionally relied on retail deposits as its primary means in meeting its funding needs. At September 30, 2018, deposits totaled $8.49 billion (including $670.1 million of brokered CDs), while borrowings totaled $3.72 billion and borrowers' advances and servicing escrows totaled $134.5 million, combined. In evaluating funding sources, we consider many factors, including cost, collateral, duration and optionality, current availability, expected sustainability, impact on operations and capital levels.

To attract deposits, we offer our customers attractive rates of return on our deposit products. Our deposit products typically offer rates that are highly competitive with the rates on similar products offered by other financial institutions. We intend to continue this practice, subject to market conditions.

We preserve the availability of alternative funding sources through various mechanisms. First, by maintaining high capital levels, we retain the flexibility to increase our balance sheet size without jeopardizing our capital adequacy. Effectively, this permits us to increase the rates that we offer on our deposit products thereby attracting more potential customers. Second, we pledge available real estate mortgage loans and investment securities with the FHLB of Cincinnati and the FRB-Cleveland. At September 30, 2018, these collateral pledge support arrangements provide the Association with the ability to immediately borrow an additional $129.0 million from the FHLB of Cincinnati and $55.6 million from the FRB-Cleveland Discount Window. From the perspective of collateral value securing FHLB of Cincinnati advances, our capacity limit for additional borrowings beyond the outstanding balance at September 30, 2018 was $4.78 billion, subject to satisfaction of the FHLB of Cincinnati common stock ownership requirement. To satisfy the common stock ownership requirement for the maximum limit of borrowing we would need to increase our ownership of FHLB of Cincinnati common stock by an additional $95.5 million. Third, we invest in high quality marketable securities that exhibit limited market price variability, and to the extent that they are not needed as collateral for borrowings, can be sold in the institutional market and converted to cash. At September 30, 2018, our investment securities portfolio totaled $532.0 million. Finally, cash flows from operating activities have been a regular source of funds. During the fiscal years ended September 30, 2018 and 2017, cash flows from operations totaled $147.0 million and $108.7 million, respectively.

Fannie Mae, historically the Association's primary loan investor, implemented, effective July 2010, certain loan origination requirement changes affecting loan eligibility that we chose not to adopt until fiscal 2013. Since then, first mortgage loans (primarily fixed-rate, mortgage refinances with terms of 15 years or more and HARP II, and more recently HomeReady, loans) that are originated under the revised procedures are eligible for sale to Fannie Mae either as whole loans or within mortgage-backed securities. We expect that certain loan types (i.e. our Smart Rate adjustable-rate loans, purchase fixed-rate loans and 10-year fixed-rate loans) will continue to be originated under our legacy procedures. For loans that are not originated under the revised (Fannie Mae) procedures, the Association's ability to sell these loan sales is limited to those loans that have established payment histories, strong borrower credit profiles and are supported by adequate collateral values that meet the requirements of the FHLB's Mortgage Purchase Program or of private third-party investors. We have completed non-agency eligible, whole loan sales, all on a servicing retained basis, of both fixed-rate and Smart Rate loans, demonstrating that with adequate lead time, the majority of our residential first mortgage loan portfolio could be available for liquidity management purposes. At September 30, 2018, $0.7 million of agency eligible, long-term, fixed-rate first mortgage loans were classified as "held for sale". During the fiscal year ended September 30, 2018, $1.5 million of agency-compliant HARP II loans and $121.2 million of long-term, fixed-rate, agency-compliant, non-HARP II first mortgage loans were sold to Fannie Mae. In addition to the loan sales to Fannie Mae, during the fiscal year ended September 30, 2018, $277.4 million of long-term, fixed-rate residential real estate mortgage loans were sold to a private investor.

Overall, while customer and community confidence can never be assured, the Company believes that our liquidity is adequate and that we have adequate access to alternative funding sources.

Monitoring and Controlling Operating Expenses. We continue to focus on managing operating expenses. Our ratio of non-interest expense to average assets was 1.39% for the fiscal year ended September 30, 2018 and 1.37% for the fiscal year ended September 30, 2017. As of September 30, 2018, our average assets per full-time employee and our average deposits per full-time employee were $13.8 million and $8.3 million, respectively. We believe that each of these measures compares favorably with industry averages. Our relatively high average deposits (exclusive of brokered CDs) held at our branch offices ($205.8 million per branch office as of September 30, 2018) contributes to our expense management efforts by limiting the overhead costs of serving our deposit customers. We will continue our efforts to control operating expenses as we grow our business.

Critical Accounting Policies

Critical accounting policies are defined as those that involve significant judgments and uncertainties, and could potentially give rise to materially different results under different assumptions and conditions. We believe that the most critical accounting policies upon which our financial condition and results of operations depend, and which involve the most complex subjective decisions or assessments, are our policies with respect to our allowance for loan losses, income taxes and pension benefits.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. The amount of the allowance is based on significant estimates and the ultimate losses may vary from such estimates as more information becomes available or conditions change. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions used and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses. At September 30, 2018, the allowance for loan losses was $42.4 million or 0.33% of total loans. An increase or decrease of 10% in the allowance at September 30, 2018 would result in a $4.2 million charge or credit, respectively, to income before income taxes.

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As a substantial percentage of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the charge-offs for specific loans. Assumptions are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance determined. Management carefully reviews the assumptions supporting such appraisals to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. We consider a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates by management that may be susceptible to significant change based on changes in economic and real estate market conditions.

The evaluation is comprised of a specific component and a general component. The specific component relates to loans that are delinquent or otherwise identified as a problem loan through the application of our loan review process and our loan grading system. All such loans are evaluated individually, with principal consideration given to the value of the collateral securing the loan. The general component of the evaluation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic concentrations. Quantitative loss factors used in determining an appropriate allowance level are supplemented by more qualitative factors that impact potential losses. Qualitative factors include various market conditions, such as collateral values and unemployment rates. This analysis establishes factors that are applied to the loan groups to determine the amount of the general component of the allowance for loan losses.

Actual loan losses may be significantly more than the allowances we have established, which would have a material adverse effect on our financial results.

Income Taxes. We consider accounting for income taxes a critical accounting policy due to the subjective nature of certain estimates that are involved in the calculation. We use the asset/liability method of accounting for income taxes in which deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. We must assess the realization of the deferred tax asset and, to the extent that we believe that recovery is not likely, a valuation allowance is established. Adjustments to increase or decrease existing valuation allowances, if any, are charged or credited, respectively, to income tax expense. At September 30, 2018, no valuation allowances were outstanding. Even though we have determined a valuation allowance is not required for deferred tax assets at September 30, 2018, there is no guarantee that those assets will be recognizable in the future.

Pension Benefits. The determination of our obligations and expense for pension benefits is dependent upon certain assumptions used in calculating such amounts. Key assumptions used in the actuarial valuations include the discount rate and expected long-term rate of return on plan assets. Actual results could differ from the assumptions and market driven rates may fluctuate. Significant differences in actual experience or significant changes in the assumptions could materially affect future pension obligations and expense.

Comparison of Financial Condition at September 30, 2018 and 2017

Total assets increased $444.8 million, or 3%, to $14.14 billion at September 30, 2018 from $13.69 billion at September 30, 2017. This increase was primarily the result of increases in the balances of loans held for investment and, to a lesser extent, bank owned life insurance contracts and FHLB stock, partially offset by a decrease in other assets.

Cash and cash equivalents increased $1.6 million, or 1%, to $269.8 million at September 30, 2018 from $268.2 million at September 30, 2017, as we held cash to maintain the level of liquidity described in the Liquidity and Capital Resources section of the Overview.

Investment securities decreased $5.5 million, or 1%, to $532.0 million at September 30, 2018 from $537.5 million at September 30, 2017. Investment securities decreased as the combination of $139.8 million in principal paydowns, $4.5 million of net acquisition premium amortization and $12.8 million in net unrealized losses that occurred in the mortgage-backed securities portfolio exceeded purchases of $151.6 million during the fiscal year ended September 30, 2018. There were no sales of investment securities during the fiscal year ended September 30, 2018.

Loans held for investment, net, increased $452.0 million, or 4%, to $12.87 billion at September 30, 2018 from $12.42 billion at September 30, 2017. Residential mortgage loans increased $170.6 million, or 2%, to $11.03 billion at September 30, 2018 from $10.86 billion at September 30, 2017 as new originations exceeded the combination of principal repayments, loan sales and gross charge-offs. The increase in residential mortgage loans reflected the negative impact of $2.3 million in gross

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charge-offs during the year ended September 30, 2018. During the year ended September 30, 2018, $1.13 billion of three- and five-year “SmartRate” loans were originated while $1.18 billion of 10-, 15-, and 30-year fixed-rate first mortgage loans were originated. During the year ended September 30, 2018, the total fixed-rate portion of our first mortgage loan portfolio decreased $179.1 million and was comprised of a decrease of $237.3 million in the balance of fixed-rate loans with original terms of 10 years or less, and an increase of $58.1 million in the balance of fixed-rate loans with original terms greater than 10 years. During the fiscal year ended September 30, 2018, we completed $400.1 million in loan sales, which included $1.5 million of agency-compliant HARP II loans and $121.2 million of long-term, fixed-rate, agency-compliant, non-HARP II first mortgage loans to Fannie Mae, and $277.4 million of long-term, fixed-rate residential real estate mortgage loans sold to a private investor. In addition, during the fiscal year ended September 30, 2018, $45.6 million of adjustable-rate mortgage loans, originated and serviced by the Association and sold in a prior year, were repurchased from an investor exiting the mortgage banking business.
Augmenting the increase in residential mortgage loans was a $266.6 million, or 17%, increase in the balance of home equity loans and lines of credit during the current year as new originations and additional draws on existing accounts exceeded repayments and charge-offs. This increase continues the trend of focus on the origination of home equity loans and lines of credit. Originations for home equity loans, lines of credit and bridge loans were $1.51 billion for the year ended September 30, 2018 and $1.00 billion for the year ended September 30, 2017. At September 30, 2018, the recorded investment related to home equity lines of credit originated subsequent to March 2012, totaled $1.3 billion. At September 30, 2018, pending commitments to extend new home equity lines of credit totaled $93.8 million. Refer to the Controlling Our Interest Rate Risk Exposure section of the Overview for additional information.

The allowance for loan losses decreased $6.5 million, or 13%, to $42.4 million at September 30, 2018 from $48.9 million at September 30, 2017, primarily reflecting improved credit metrics, including reduced exposure to the amount of home equity lines of credit coming to the end of draw period, lower gross charge-offs and continued low levels of loan delinquencies. Refer to Note 4. Loans and Allowance for Loan Losses for additional discussion.

Deposits increased $340.0 million, or 4%, to $8.49 billion at September 30, 2018 from $8.15 billion at September 30, 2017. The increase in deposits was the result of a $629.0 million increase in our CDs, partially offset by a $231.1 million decrease in our high-yield savings accounts (a subcategory of our savings accounts) and a $69.4 million decrease in our high-yield checking accounts (a subcategory of our checking accounts) during the fiscal year ended September 30, 2018. Included in deposits is our new Money Market Account, introduced in July 2018 and currently only offered in Florida, with a balance of $22.0 million at September 30, 2018. The change in CDs is attributed to a $579.8 million net increase in the balance of CDs generated through our retail operations, and a $49.3 million increase (net of premium and maturities) in brokered CDs acquired during the current fiscal year which had original terms of 36 to 51 months. The balance of CDs at September 30, 2018 included $670.1 million in brokered CDs.

Borrowed funds, all from the FHLB of Cincinnati, increased $50.3 million, or 1%, to $3.72 billion at September 30, 2018 from $3.67 billion at September 30, 2017. This increase reflects an additional $225.0 million of new, short-term advances hedged by interest rate swaps with original terms of five years, combined with a $90.0 million increase in the balance of other short-term advances and partially offset by other principal repayments, as a combination of loan growth, share repurchases and dividend payments led to increased cash demands. Total borrowed funds at September 30, 2018 consisted of short-term advances of $1.20 billion, long-term advances of $792.0 million with a remaining weighted average maturity of approximately 1.1 years and short-term advances of $1.73 billion aligned with interest rate swap contracts with a remaining weighted average effective maturity of approximately 3.3 years. Interest rate swaps were used during the current fiscal year to extend the duration of short-term borrowings to approximately five years at inception by paying a fixed rate of interest and receiving the variable rate. Refer to the Extending the Duration of Funding Sources section of the Overview for additional discussion regarding short-term borrowings and interest-rate exchange contracts.

Shareholders’ equity increased $68.4 million, or 4%, to $1.76 billion at September 30, 2018 from $1.69 billion at September 30, 2017. This net increase primarily reflected $85.4 million of net income, the positive impact related to awards under the stock-based compensation plan, the allocation of shares held by the ESOP and the increase in other comprehensive income, partially offset by $19.7 million of repurchases of outstanding common stock and $37.6 million of dividend payments. Refer to Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities for additional details regarding the repurchase of shares of common stock and the payment of dividends. As a result of July 11, 2018 and July 19, 2017 mutual member votes, Third Federal Savings, MHC, the mutual holding company that owns 81% of the outstanding stock of the Company, waived the receipt of its share of the dividends paid.

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Analysis of Net Interest Income

Net interest income represents the difference between the income we earn on our interest-earning assets and the expense we pay on our interest-bearing liabilities. Net interest income depends on the volume of interest-earning assets and interest-bearing liabilities and the rates earned on such assets and the rates paid on such liabilities.

Average balances and yields. The following table sets forth average balances, average yields and costs, and certain other information at and for the fiscal years indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. Average balances are derived from daily average balances. Non-accrual loans are included in the computation of average balances, but are reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or interest expense.

	For the Fiscal Years Ended September 30,								
	2018			2017			2016		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yie Cos
	(Dollars in thousands)								
Interest-earning assets:									
Interest-earning cash equivalents	$228,041	$3,704	1.62%	$214,465	$1,961	0.91%	$143,079	$641	0.4
Investment securities	1,125	27	2.40%	—	—	— %	162	2	1.2
Mortgage-backed securities	539,564	11,107	2.06%	526,610	9,041	1.72%	555,996	9,388	1.6
Loans(1)	12,619,496	422,953	3.35%	12,104,277	394,447	3.26%	11,380,798	375,624	3.3
Federal Home Loan Bank stock	92,533	5,254	5.68%	81,105	3,546	4.37%	69,658	2,786	4.0
Total interest-earning assets	13,480,759	443,045	3.29%	12,926,457	408,995	3.16%	12,149,693	388,441	3.2
Non-interest-earning assets	370,570			358,213			337,083		
Total assets	$13,851,329			$13,284,670			$12,486,776		
Interest-bearing liabilities:									
Checking accounts	$947,728	1,406	0.15%	$992,042	918	0.09%	$990,592	1,289	0.1
Savings accounts	1,364,410	3,466	0.25%	1,514,275	2,093	0.14%	1,563,448	2,811	0.1
Certificates of deposit	5,989,453	97,383	1.63%	5,672,212	84,410	1.49%	5,756,861	85,900	1.4
Borrowed funds	3,632,255	59,849	1.65%	3,231,709	42,678	1.32%	2,284,881	28,026	1.2
Total interest-bearing liabilities	11,933,846	162,104	1.36%	11,410,238	130,099	1.14%	10,595,782	118,026	1.1
Non-interest-bearing liabilities	178,373			190,873			187,417		
Total liabilities	12,112,219			11,601,111			10,783,199		
Shareholders' equity	1,739,110			1,683,559			1,703,577		
Total liabilities and	$13,851,329			$13,284,670			$12,486,776		

shareholders' equity									
Net interest income		$280,941			$278,896			$270,415	
Interest rate spread(2)			1.93%			2.02%			2.0
Net interest-earning assets(3)	$1,546,913			$1,516,219			$1,553,911		
Net interest margin(4)		2.08%			2.16%			2.23%	
Average interest-earning assets to average interest-bearing liabilities	112.96%			113.29%			114.67%		

(1) Loans include both mortgage loans held for sale and loans held for investment.
(2) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(4) Net interest margin represents net interest income divided by total interest-earning assets.

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Rate/Volume Analysis. The following table presents the effects of changing rates (yields) and volumes (average balances) on our net interest income for the fiscal years indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	For the Fiscal Years Ended September 30, 2018 vs. 2017 Increase (Decrease) Due to			For the Fiscal Years Ended September 30, 2017 vs. 2016 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Interest-earning assets:						
Interest-earning cash equivalents	$132	$1,611	$1,743	$428	$892	$1,320
Investment securities	27	—	27	(1)	(1)	(2)
Mortgage-backed securities	227	1,839	2,066	(503)	156	(347)
Loans	17,076	11,430	28,506	23,627	(4,804)	18,823
Federal Home Loan Bank stock	548	1,160	1,708	486	274	760
Total interest-earning assets	18,010	16,040	34,050	24,037	(3,483)	20,554
Interest-bearing liabilities:						
Checking accounts	(43)	531	488	2	(373)	(371)
Passbook savings	(225)	1,598	1,373	(86)	(632)	(718)
Certificates of deposit	4,885	8,088	12,973	(1,260)	(230)	(1,490)
Borrowed funds	5,727	11,444	17,171	12,365	2,287	14,652
Total interest-bearing liabilities	10,344	21,661	32,005	11,021	1,052	12,073
Net change in net interest income	$7,666	$(5,621)	$2,045	$13,016	$(4,535)	$8,481

Comparison of Operating Results for the Fiscal Years Ended September 30, 2018 and 2017

General. Net income decreased $3.5 million, or 4%, to $85.4 million for the fiscal year ended September 30, 2018 compared to $88.9 million for the fiscal year ended September 30, 2017. This change was attributed to a $6.0 million decrease in the credit for loan losses and an increase of $9.9 million in non-interest expenses, partially offset by a lower effective tax rate, a $2.0 million increase in net interest income, and a $1.7 million increase in non-interest income.

Interest and Dividend Income. Total interest and dividend income increased $34.0 million, or 8%, to $443.0 million for the fiscal year ended September 30, 2018 compared to $409.0 million for the prior fiscal year. The increase in interest and dividend income resulted primarily from an increase in interest income from loans combined with increases in interest income from investment securities available for sale, other interest-earning cash equivalents and FHLB stock.

Interest income on loans increased $28.6 million, or 7%, to $423.0 million compared to $394.4 million for the prior fiscal year. This increase was attributed to a combination of a $515.2 million increase in the average balance of loans to $12.62 billion in the current fiscal year compared to $12.10 billion during the prior fiscal year, as new loan production exceeded repayments and loan sales, and a nine basis point increase in the average yield on loans to 3.35% from 3.26%. Recent market interest rate increases have positively impacted our loan yields, particularly home equity lending products that feature interest rates that reset based on the prime rate. During the fiscal year ended September 30, 2018, loan sales totaled $400.1 million while during the fiscal year ended September 30, 2017, loan sales totaled $249.4 million.

Interest income on other interest-earning assets also benefited from market interest rate increases. Interest income on interest-earning cash equivalents increased $1.7 million, or 85%, to $3.7 million compared to $2.0 million for the prior fiscal year. Interest income on investment securities increased $2.1 million, or 23%, to $11.1 million compared to $9.0 million for the prior fiscal year. As a result of the additional required investment in FHLB stock and an increase in the dividend yield, dividend income on FHLB stock increased $1.8 million, or 51%, to $5.3 million compared to $3.5 million during the prior fiscal year.

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Interest Expense. Interest expense increased $32.0 million, or 25%, to $162.1 million for the fiscal year ended September 30, 2018 from $130.1 million for the 2017 fiscal year. The change was attributed to a $17.1 million increase in interest expense on borrowed funds as well as a $14.9 million increase in interest expense on deposits.
Interest expense on borrowed funds increased $17.1 million, or 40%, to $59.8 million compared to $42.7 million for fiscal 2017. The increase was attributed to a 33 basis point increase in the average rate paid for these funds, to 1.65% from 1.32% during fiscal 2017, combined with the impact of a $400.5 million, or 12%, increase in the average balance of borrowed funds to $3.63 billion during the current fiscal year from $3.23 billion during fiscal 2017. The increase in the average balance of borrowed funds was used, along with an increase in deposits, to fund our balance sheet growth and our capital management activities, including share repurchases and dividend payments. The increases in borrowed funds were in overnight and short-term advances with initial effective durations of approximately five years as a result of interest rate swaps. Refer to the Extending the Duration of Funding Sources section of the Overview and Comparison of Financial Condition for further discussion.
Interest expense on CDs increased $13.0 million, or 15%, to $97.4 million compared to $84.4 million for fiscal 2017. The change was attributed to a $317.2 million, or 6%, increase in the average balance of CDs to $5.99 billion from $5.67 billion, as well as an increase in the average rate paid for CDs to 1.63% during fiscal 2018 from 1.49% during the prior year. Rates were adjusted on deposits in response to changes in general market rates as well as to changes in the rates paid by our competition.
Net Interest Income. Net interest income increased $2.0 million, or 1%, to $280.9 million for the fiscal year ended September 30, 2018 compared to $278.9 million for the prior fiscal year. Average interest-earning assets increased during the current fiscal year by $554.3 million, or 4%, when compared to the prior fiscal year. The increase in average assets was attributed primarily to the growth of our loan portfolio and, to a lesser extent, an increase in other interest-earning cash equivalents, FHLB stock and mortgage-backed securities. There was a 13 basis point increase in the yield on interest-earning assets to 3.29% from 3.16%. There was a 22 basis point increase in the cost of interest-bearing liabilities to 1.36% from 1.14%. Our interest rate spread decreased nine basis points to 1.93% compared to 2.02% for the prior fiscal year. Our net interest margin was 2.08% for the current fiscal year and 2.16% for the prior fiscal year. Our interest rate spread and net interest margin narrowed as our asset yields did not increase at the same pace as our overall funding costs, as we extended the effective duration of funding sources.
Provision for Loan Losses. We establish provisions for loan losses, which are charged to operations, in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for loan losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower’s ability to repay a loan and the levels of non-performing and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the adequacy of the allowance for loan losses on a quarterly basis and make provisions for loan losses in order to maintain the adequacy of the allowance as described in the next paragraph. Recently, improving regional employment levels, stabilization in residential real estate values in many markets, recovering capital and credit markets, and upturns in consumer confidence have resulted in better credit metrics for us. Refer to Critical Accounting Policies - Allowance for Loan Losses section of the Overview for further discussion.
Based on our evaluation, we recorded a credit for loan losses of $11.0 million for the fiscal year ended September 30, 2018 and a credit of $17.0 million for the fiscal year ended September 30, 2017. The current credit for loan losses reflects reduced levels of loan delinquencies and charge-offs, but we continue to assess the relative values of residential properties in comparison to their cyclical peaks as well as the uncertainty that persists in the current economic environment, which continues to challenge many of our loan customers. As delinquencies in the portfolio have been resolved through pay-off, short sale or foreclosure, or management determines the collateral is not sufficient to satisfy the loan, uncollected balances have been charged against the allowance for loan losses previously provided. We recorded net recoveries of $4.5 million during fiscal year 2018 as compared to net recoveries of $4.2 million during the fiscal year ended September 30, 2017. Net recoveries combined with the $11.0 million credit for loan losses recorded for the current fiscal year was the basis for the decrease in the balance of the allowance for loan

losses. The allowance for loan losses was $42.4 million, or 0.33% of the total recorded investment in loans receivable, at September 30, 2018, compared to $48.9 million, or 0.39% of the total recorded investment in loans receivable, at September 30, 2017. Balances of recorded investments are net of deferred fees/expenses and any applicable loans-in-process.

The total recorded investment in non-accrual loans decreased $1.3 million during the fiscal year ended September 30, 2018 compared to a $10.9 million decrease during the fiscal year ended September 30, 2017.

The recorded investment in non-accrual loans in our residential Core portfolio decreased $2.2 million, or 5%, during the current fiscal year, to $41.6 million at September 30, 2018, compared to a $7.5 million decrease during the fiscal year ended September 30, 2017. At September 30, 2018, the recorded investment in our Core portfolio was $10.95 billion, compared to $10.76 billion at September 30, 2017. During the current fiscal year, Core portfolio net recoveries were $1.6 million, as compared to net recoveries of $2.4 million during the fiscal year ended September 30, 2017. The $41.6 million balance in Core portfolio non-accrual loans at September 30, 2018 includes $28.2 million in TDRs which are current but included with non-accrual loans for a minimum period of six months from their restructuring date.

The recorded investment in non-accrual loans in our residential Home Today portfolio decreased $3.5 million, or 19% during the current fiscal year, to $14.6 million at September 30, 2018 compared to a $1.3 million decrease during the fiscal year ended September 30, 2017. At September 30, 2018, the recorded investment in our Home Today portfolio was $94.7 million, compared to $107.7 million at September 30, 2017. During the current fiscal year, Home Today net recoveries were $0.6 million as compared to net charge-offs of $1.0 million during the fiscal year ended September 30, 2017. The $14.6 million balance in Home Today non-accrual loans at September 30, 2018 includes $10.1 million in TDRs which are current but included with non-accrual loans for a minimum period of six months from their restructuring date.

The recorded investment in non-accrual home equity loans and lines of credit increased $4.3 million, or 25%, during the current fiscal year, to $21.5 million at September 30, 2018 compared to a $2.0 million decrease during the fiscal year ended September 30, 2017. The recorded investment in our home equity loans and lines of credit portfolio at September 30, 2018 was $1.84 billion, compared to $1.57 billion at September 30, 2017. During the current fiscal year, home equity loans and lines of credit net recoveries were $2.2 million as compared to net recoveries of $2.7 million during the fiscal year ended September 30, 2017. We believe that non-performing home equity loans and lines of credit, on a relative basis, represent a higher level of credit risk than Core loans as these home equity loans and lines of credit generally hold subordinated lien positions. The seriously delinquent balances of home equity loans and lines of credit were $5.9 million, or less than 1%, of the home equity loans and lines of credit portfolio at September 30, 2018 compared to $5.4 million, or less than 1%, at September 30, 2017.

At September 30, 2018 and 2017, we believe we had recorded an allowance for loan losses that provides for all losses that are both probable and reasonable to estimate at September 30, 2018 and 2017, respectively.

Refer to Lending Activities in Item 1. Business for additional discussion and disclosure related to our provisions for loan losses.

Non-Interest Income. Non-interest income increased $1.7 million, or 9%, to $21.5 million during the fiscal year ended September 30, 2018 compared to $19.8 million for the prior fiscal year, mainly as a result of an increase in the gain on sale of loans during the current fiscal year. Gains on the sales of loans in the current fiscal year increased $1.2 million, primarily due to a higher level of loan sales during the current period. Loan sales of $400.1 million were completed during the current fiscal year as compared to $249.4 million during the fiscal year ending September 30, 2017. The current fiscal year included a bulk sale of $277.4 million of fixed-rate loans to a private investor.

Non-Interest Expense. Non-interest expense increased $9.9 million, or 5%, to $192.3 million during the fiscal year ended September 30, 2018 compared to $182.4 million for fiscal 2017. The net increase resulted primarily from a combination of increases in compensation expense, office property and equipment and other operating expenses, partially offset by lower real estate owned expenses. The majority of the $6.7 million increase in compensation expense was a result of the celebration of our 80th anniversary in May, 2018, which included events in Ohio and Florida, as well as an after-tax bonus of $2,080 to all associates. The bonus also included a portion attributable to the sharing of the Company's savings from the December 2017 corporate tax reform. The $2.4 million increase in office property and equipment is mainly due to the continued improvement and investment of technology throughout the Company. Other operating expenses increased $1.4 million, which consisted of expenses related to the 80th anniversary event as well as further investment in community development, partially offset by a decline in legal and professional services. The $0.8 million decrease in real estate owned expenses (which includes associated legal and maintenance expenses as well as gains (losses) on the disposal of properties) was driven in part by the decrease in real estate owned assets since September 30, 2017.

Income Tax Expense. The provision for income taxes was $35.8 million for the fiscal year ended September 30, 2018 compared to $44.5 million for the fiscal year ended September 30, 2017. The provision for fiscal year 2018 included $33.9 million of federal income tax provision and $1.9 million of state income tax provision. The provision for fiscal year ended September 30, 2017 included $43.4 million of federal income tax provision and $1.1 million of state income tax provision. The increase in state income tax between the current and prior fiscal years reflects the growth in our expansion states. Our federal effective tax rate decreased to 28.4% during fiscal 2018 from 32.8% during fiscal year 2017. As a result of the passing of the Tax Cuts and Jobs Act on December 22, 2017, the federal income tax rate and structure changed. The Act includes a number of changes in existing law impacting businesses including a permanent reduction in the maximum corporate income tax rate from

35% to 21%. The rate reduction took effect on January 1, 2018, however, as a September 30 fiscal year end entity, the Company was required to use a blended maximum rate of approximately 24.5% for the entire 2018 fiscal year. In addition, due to the tax rate reduction, net deferred tax assets were revalued, resulting in a reduction in the value of the net deferred tax asset and the recording of approximately $6.6 million of additional income tax expense during the fiscal year September 30, 2018. Our federal effective income tax rate in the current year is higher than the federal statutory rate because of the additional income tax expense from revalued deferred tax assets due to the passage of the Tax Cuts and Jobs Act discussed above, and partially offset by our ownership of bank-owned life insurance contracts. Non-taxable income on bank owned insurance contracts was $6.2 million during fiscal 2018 and $6.4 million during fiscal 2017.

Comparison of Operating Results for the Fiscal Years Ended September 30, 2017 and 2016

General. Net income increased $8.3 million, or 10%, to $88.9 million for the fiscal year ended September 30, 2017 compared to $80.6 million for the fiscal year ended September 30, 2016. This change was attributed to a $9.0 million decrease in the provision for loan losses and an increase of $8.5 million in net interest income, partially offset by an increase of $1.4 million in non-interest expense and a decrease of $5.2 million in non-interest income.

Interest and Dividend Income. Total interest income increased $20.6 million, or 5%, to $409.0 million for the fiscal year ended September 30, 2017 compared to $388.4 million for the 2016 fiscal year. The increase in interest income resulted primarily from an increase in interest income from loans combined with increases in interest income from other interest-earning cash equivalents, and to a lesser extent, FHLB stock, partially offset by a decrease in interest income from investment securities available for sale.

Interest income on loans increased $18.8 million, or 5%, to $394.4 million compared to $375.6 million for the 2016 fiscal year. This increase was attributed to a $723.5 million increase in the average balance of loans to $12.10 billion in the 2017 fiscal year compared to $11.38 billion during the 2016 fiscal year as new loan production exceeded repayments and loan sales. The impact from the increase in the average balance of loans was partially offset by a four basis point decrease in the average yield on loans to 3.26% from 3.30% as historically low interest rates have kept the level of refinance activity relatively high resulting in new originations at lower rates compared to the rest of our portfolio. Additionally, both our “Smart Rate” adjustable-rate first mortgage loan and our 10-year, fixed-rate first mortgage loan originations for the fiscal year ended September 30, 2017, were originated at interest rates below rates offered on our traditional 15- and 30-year fixed-rate products and contributed to the lower average yield. During the fiscal year ended September 30, 2017, loan sales totaled $249.4 million while during the fiscal year ended September 30, 2016, loan sales totaled $200.3 million.

Interest income on interest-earning cash equivalents increased $1.4 million, or 233%, to $2.0 million compared to $0.6 million for the 2016 fiscal year. As a result of the additional required investment in FHLB stock and an increase in the dividend yield, dividend income on FHLB stock increased $0.7 million, or 25%, to $3.5 million compared to $2.8 million during the 2016 fiscal year.

Interest Expense. Interest expense increased $12.1 million, or 10%, to $130.1 million for the fiscal year ended September 30, 2017 from $118.0 million for the 2016 fiscal year. The change resulted primarily from a $14.7 million increase in interest expense on borrowed funds partially offset by modest decreases in interest expense on checking accounts, savings accounts and CDs.

Interest expense on CDs decreased $1.5 million, or 2%, to $84.4 million compared to $85.9 million for fiscal 2016. The change was attributed to an $84.7 million, or 1%, decrease in the average balance of CDs to $5.67 billion from $5.76 billion, as the average rate we paid on CDs was 1.49% for both years. To optimally manage our funding costs during the 2017 fiscal year, many maturing, higher rate CDs that were not renewed were replaced with with longer-term brokered CDs or lower rate borrowed funds.

Interest expense on borrowed funds increased $14.7 million, or 53%, to $42.7 million compared to $28.0 million for fiscal 2016. The increase was attributed to a nine basis point increase in the average rate paid for these funds, to 1.32% from 1.23% during fiscal 2016, combined with the impact of a $946.8 million, or 41%, increase in the average balance of borrowed funds to $3.23 billion during the 2017 fiscal year from $2.28 billion during fiscal 2016. The increase in the average balance of borrowed funds was used to fund our balance sheet growth and our capital management activities, including share repurchases and dividend payments. The increases in borrowed funds were in overnight and short-term advances and longer-term advances with initial effective durations of approximately five years as hedged by interest rate swaps. Refer to the Extending the Duration of Funding Sources section of the Overview and Comparison of Financial Condition for further discussion.

Net Interest Income. Net interest income increased $8.5 million, or 3%, to $278.9 million for the fiscal year ended September 30, 2017 compared to $270.4 million for the 2016 fiscal year. Average interest-earning assets increased during the

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2017 fiscal year by $776.8 million, or 6%, when compared to the 2016 fiscal year. The increase in average assets was attributed primarily to the growth of our loan portfolio and to a lesser extent other interest-earning cash equivalents and FHLB stock, partially offset by a decrease in mortgage-backed securities. Partially offsetting the increase in average interest earning assets was a four basis point decrease in the yield on those assets to 3.16% from 3.20%. Our interest rate spread decreased seven basis points to 2.02% compared to 2.09% for the 2016 fiscal year. Our net interest margin was 2.16% for the 2017 fiscal year and 2.23% for the 2016 fiscal year. Our interest rate spread and net interest margin narrowed as our asset yields decreased while our overall funding costs increased as we extended the effective duration of our borrowed funds through the use of interest rate swaps.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to operations, in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for loan losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower’s ability to repay a loan and the levels of non-performing and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses on a quarterly basis and make provisions for loan losses in order to maintain the adequacy of the allowance as described in the next paragraph. Recently, improving regional employment levels, stabilization in residential real estate values in many markets, recovering capital and credit markets, and upturns in consumer confidence have resulted in better credit metrics for us. Nevertheless, the depth of the decline in housing values that accompanied the 2008 financial crisis still presents significant challenges for many of our borrowers who may attempt to sell their homes or refinance their loans as a means to self-cure a delinquency. Refer to Critical Accounting Policies - Allowance for Loan Losses section of the Overview for further discussion.

Based on our evaluation, we recorded a credit for loan losses of $17.0 million for the fiscal year ended September 30, 2017 and a credit of $8.0 million for the fiscal year ended September 30, 2016. The current credit for loan losses reflects reduced levels of loan delinquencies and net charge-offs, but we continue our awareness of the relative values of residential properties in comparison to their cyclical peaks as well as the uncertainty that persists in the current economic environment, which continues to challenge many of our loan customers. As delinquencies in the portfolio have been resolved through pay-off, short sale or foreclosure, or management determines the collateral is not sufficient to satisfy the loan, uncollected balances have been charged against the allowance for loan losses previously provided. The level of net charge-offs decreased during fiscal year 2017 to $4.2 million of net recoveries as compared to $1.8 million of net charge-offs during the fiscal year ended September 30, 2016. Net recoveries combined with the $17.0 million credit for loan losses recorded for the 2017 fiscal year resulted in a decrease in the balance of the allowance for loan losses. Net charge-offs of $1.8 million and a credit for loan losses of $8.0 million were recorded for the fiscal year ended September 30, 2016. The allowance for loan losses was $48.9 million, or 0.39% of the total recorded investment in loans receivable, at September 30, 2017, compared to $61.8 million, or 0.52% of the total recorded investment in loans receivable, at September 30, 2016. Balances of recorded investments are net of deferred fees/expenses and any applicable loans-in-process.

The total recorded investment in non-accrual loans decreased $10.9 million during the fiscal year ended September 30, 2017 compared to a $16.8 million decrease during the fiscal year ended September 30, 2016.

The recorded investment in non-accrual loans in our residential Core portfolio decreased $7.5 million, or 15%, during the 2017 fiscal year, to $43.8 million at September 30, 2017, compared to an $11.0 million decrease during the fiscal year ended September 30, 2016. At September 30, 2017, the recorded investment in our Core portfolio was $10.76 billion, compared to $10.08 billion at September 30, 2016. During the 2017 fiscal year, Core portfolio net recoveries were $2.4 million, as compared to net charge-offs of $0.6 million during the fiscal year ended September 30, 2016. The $43.8 million balance in Core portfolio non-accrual loans at September 30, 2017 includes $27.4 million in TDRs which are current but included with non-accrual loans for a minimum period of six months from their restructuring date.

The recorded investment in non-accrual loans in our residential Home Today portfolio decreased $1.3 million, or 7% during the 2017 fiscal year, to $18.1 million at September 30, 2017 compared to a $3.1 million decrease during the fiscal year ended September 30, 2016. At September 30, 2017, the recorded investment in our Home Today portfolio was $107.7 million, compared to $120.4 million at September 30, 2016. During the 2017 fiscal year, Home Today net charge-offs were $1.0 million as compared to net charge-offs of $1.3 million during the fiscal year ended September 30, 2016. The $18.1 million balance in Home Today non-accrual loans includes $10.3 million in TDRs which are current but included with non-accrual loans for a minimum period of six months from their restructuring date.

The recorded investment in non-accrual home equity loans and lines of credit decreased $2.0 million, or 11%, during the 2017 fiscal year, to $17.2 million at September 30, 2017 compared to a $2.3 million decrease during the fiscal year ended September 30, 2016. The recorded investment in our home equity loans and lines of credit portfolio at September 30, 2017 was

$1.57 billion, compared to $1.54 billion at September 30, 2016. During the 2017 fiscal year, home equity loans and lines of credit net recoveries were $2.7 million as compared to net recoveries of $0.1 million during the fiscal year ended September 30, 2016. We believe that non-performing home equity loans and lines of credit, on a relative basis, represent a higher level of credit risk than Core loans as these home equity loans and lines of credit generally hold subordinated lien positions. The seriously delinquent balances of home equity loans and lines of credit were $5.4 million, or less than 1%, of the home equity loans and lines of credit portfolio at September 30, 2017 compared to $4.9 million, or less than 1%, at September 30, 2016.

At September 30, 2017 and 2016, we believe we had recorded an allowance for loan losses that provides for all losses that are both probable and reasonable to estimate at September 30, 2017 and 2016, respectively.

Refer to Lending Activities in Item 1. Business for additional discussion and disclosure related to our provisions for loan losses.

Non-Interest Income. Non-interest income decreased $5.2 million, or 21%, to $19.8 million during the fiscal year ended September 30, 2017 compared to $25.0 million for the 2016 fiscal year mainly as a result of lower gains on the sale of loans and a decrease in death benefits from BOLI contracts during the 2017 fiscal year. Gains on the sales of loans in the 2017 fiscal year decreased $4.0 million from the 2016 fiscal year as market interest rate movements contributed to lower percentage gains on $249.4 million in sales during the 2017 fiscal year as compared to the gains realized on $200.3 million in sales during the fiscal year ending September 30, 2016.

Non-Interest Expense. Non-interest expense increased $1.4 million, or 1%, to $182.4 million during the fiscal year ended September 30, 2017 compared to $181.0 million for fiscal 2016. This increase resulted primarily from a combination of higher marketing expenses and other expenses, partially offset by a combination of lower real estate owned expenses and compensation related expenses. The $2.6 million decrease in real estate owned expenses (which includes associated legal and maintenance expenses as well as gains (losses) on the disposal of properties) was driven in part by the decrease in real estate owned assets since September 30, 2016. The $2.8 million increase in marketing expenditures can be attributed to the timing of media campaigns supporting our lending activities. Other operating expenses increased $1.7 million, which consisted primarily of a $1.1 million increase in professional services expenses. Salaries and employee benefits decreased $0.6 million during the 2017 fiscal year compared to the fiscal year ended September 30, 2016. This decrease was primarily due to a combination of a $2.2 million decrease in stock based compensation and a $1.9 million increase in the deferral of salary compensation related to direct loan origination costs, partially offset by a $3.6 million increase in associate compensation costs.

Income Tax Expense. The provision for income taxes was $44.5 million for the fiscal year ended September 30, 2017 compared to $41.8 million for the fiscal year ended September 30, 2016. The provision for fiscal year 2017 included $43.4 million of federal income tax provision and $1.1 million of state income tax provision. The provision for fiscal year ended September 30, 2016 included $40.9 million of federal income tax provision and $0.9 million of state income tax provision. The increase in state income tax between the 2017 and 2016 fiscal years is reflective of the growth in our expansion states. Our federal effective tax rate decreased to 32.8% during fiscal 2017 from 33.7% during fiscal year 2016, mainly as a result of recognizing $1.1 million of excess tax benefits in the current year related to our adoption, effective October 1, 2016, of ASU 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. Under this standard, excess tax benefits and tax deficiencies related to stock-based compensation are recognized in the provision for income taxes. Previously the amounts were recognized as part of paid-in capital in shareholders' equity. Our expected federal effective income tax rate is less than the federal statutory rate of 35.0%, primarily because of our ownership of bank owned life insurance contracts. Non-taxable income on bank owned insurance contracts was $6.4 million during fiscal 2017 and $7.4 million during fiscal 2016.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, advances from the FHLB of Cincinnati, borrowings from the FRB-Cleveland Discount Window, proceeds from brokered CDs transactions, principal repayments and maturities of securities, and sales of loans.

In addition to the primary sources of funds described above, we have the ability to obtain funds through the use of collateralized borrowings in the wholesale markets, and from sales of securities. Also, debt issuance by the Company and access to the equity capital markets via a supplemental minority stock offering or a full conversion (second step) transaction remain as other potential sources of liquidity, although these channels generally require up to nine months of lead time.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The Association's

Asset/Liability Management Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We generally seek to maintain a minimum liquidity ratio of 5% (which we compute as the sum of cash and cash equivalents plus unencumbered investment securities for which ready markets exist, divided by total assets). For the year ended September 30, 2018, our liquidity ratio averaged 5.57%. We believe that we had sufficient sources of liquidity to satisfy our short- and long-term liquidity needs as of September 30, 2018.

We regularly adjust our investments in liquid assets based upon our assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities and the objectives of our asset/liability management program. Excess liquid assets are generally invested in interest-earning deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At September 30, 2018, cash and cash equivalents totaled $269.8 million which represented an increase of 1% from September 30, 2017.

Investment securities classified as available-for-sale, which provide additional sources of liquidity, totaled $532.0 million at September 30, 2018.

During the year ended September 30, 2018, loan sales totaled $400.1 million and included the sale of $277.4 million of 30 year, fixed-rate, first mortgage loans to a private investor. The pool of loans that was sold on a servicing retained basis to the private investor, included both seasoned and recently originated residential loans that did not comply with Fannie Mae's loan eligibility standards. In addition to the sale to a private investor, loan sales to Fannie Mae during the current year totaled $122.7 million, and included $1.5 million of loans that qualified under Fannie Mae's HARP II initiative and $24.2 million of loans that qualified under Fannie Mae's HomeReady initiative. Loans originated under the HARP II and HomeReady initiatives are classified as “held for sale” at origination. Loans originated under Fannie Mae compliant procedures other than HARP II and HomeReady are classified as “held for investment” until they are specifically identified for sale.

At September 30, 2018, $0.7 million of long-term, fixed-rate residential first mortgage loans were classified as “held for sale,” all of which qualified under Fannie Mae's HARP II or HomeReady initiatives. There were no loan sale commitments outstanding at September 30, 2018.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in the Consolidated Financial Statements.

At September 30, 2018, we had $415.8 million in outstanding commitments to originate loans. In addition to commitments to originate loans, we had $1.77 billion in unfunded home equity lines of credit to borrowers. CDs due within one year of September 30, 2018 totaled $2.51 billion, or 29.6% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including loan sales, sales of investment securities, other deposit products, including new CDs, brokered CDs, FHLB advances, borrowings from the FRB-Cleveland Discount Window or other collateralized borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the CDs due on or before September 30, 2019. We believe, however, based on past experience, that a significant portion of such deposits will remain with us. Generally, we have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are originating residential mortgage loans, home equity loans and lines of credit and purchasing investments. During the year ended September 30, 2018, we originated $2.31 billion of residential mortgage loans, and $1.51 billion of home equity loans and lines of credit while during the year ended September 30, 2017, we originated $2.70 billion of residential mortgage loans and $1.0 billion of home equity loans and lines of credit. We purchased $151.6 million of securities during the year ended September 30, 2018, and $183.5 million during the year ended September 30, 2017.

Financing activities consist primarily of changes in deposit accounts, changes in the balances of principal and interest owed on loans serviced for others, FHLB advances and borrowings from the FRB-Cleveland Discount Window. We experienced a net increase in total deposits of $340.0 million during the year ended September 30, 2018, which reflected the active management of the offered rates on maturing CDs, compared to a net decrease of $179.7 million during the year ended September 30, 2017. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors. The net increase in total deposits during the year ended September 30, 2018, included a $49.4 million increase in the balance of brokered CDs, to $670.1 million, from $620.7 million at September 30, 2017. During the year ended September 30, 2017 the balance of brokered CDs increased by $80.9 million. Principal and interest owed on loans serviced for others experienced a net decrease of $4.3 million to $31.5 million during the year ended September 30, 2018 compared to a net decrease of $13.6 million to $35.8 million during the year ended September 30, 2017. During the year ended September 30, 2018, we increased our advances from the FHLB of Cincinnati by $50.3 million, which

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combined with the net increase in total deposits of $340.0 million, provided the funds for new loan originations; our capital initiatives; and actively managed our liquidity ratio. During the year ended September 30, 2017, our advances from the FHLB of Cincinnati increased by $952.6 million.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the FHLB of Cincinnati and the FRB-Cleveland Discount Window, each of which provides an additional source of funds. Also, in evaluating funding alternatives, we may participate in the brokered CDs market. At September 30, 2018, we had $3.72 billion of FHLB of Cincinnati advances and no outstanding borrowings from the FRB-Cleveland Discount Window. Additionally, at September 30, 2018, we had $670.1 million of brokered CDs. During the year ended September 30, 2018, we had average outstanding advances from the FHLB of Cincinnati of $3.63 billion as compared to average outstanding advances of $3.23 billion during the year ended September 30, 2017. The increase in net average balance in the current year reflects an increase in FHLB of Cincinnati borrowings as part of our efforts to lengthen the duration of our interest bearing funding sources as well as increases in the balance of our short-term borrowings used to fund: balance sheet growth; our capital initiatives; and to manage our on-balance sheet liquidity. Refer to the Extending the Duration of Funding Sources section of the Overview and the General section of Item 7A. Quantitative and Qualitative Disclosures About Market Risk for further discussion. At September 30, 2018, we had the ability to immediately borrow an additional $129.0 million from the FHLB of Cincinnati and $55.6 million from the FRB-Cleveland Discount Window. From the perspective of collateral value securing FHLB of Cincinnati advances, our capacity limit for additional borrowings beyond the outstanding balance at September 30, 2018 was $4.78 billion, subject to satisfaction of the FHLB of Cincinnati common stock ownership requirement. To satisfy the common stock ownership requirement for the maximum limit of borrowing, we would have to increase our ownership of FHLB of Cincinnati common stock by an additional $95.5 million.

The Association and the Company are subject to various regulatory capital requirements, including a risk-based capital measure. The Basel III capital framework for U.S. banking organizations ("Basel III Rules") includes both a revised definition of capital and guidelines for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. Effective January 1, 2015, the OCC and the other federal bank regulatory agencies revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the DFA and revised the definition of assets used in the Tier 1 (leverage) capital ratio from adjusted tangible assets (a measurement computed based on quarter-end asset balances) to net average assets (a measurement computed based on the average of daily asset balances during the quarter). Among other things, the rule established a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and increased the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets). The rule also requires unrealized gains and losses on certain "available-for-sale" security holdings and change in defined benefit plan obligations to be included for purposes of calculating regulatory capital requirements unless a one-time opt-in or opt-out is exercised. The Association exercised its one time opt-out election with the filing of its March 31, 2015 regulatory call report. Effective January 1, 2015, the Association implemented the new capital requirements for the standardized approach to the Basel III Rules, subject to transitional provisions extending through the end of 2018. The final rule also implemented consolidated capital requirements for savings and loan holding companies effective January 1, 2015.

On January 1, 2016, the Association became subject to the "capital conservation buffer" requirement, which is being phased in over three years, increasing each year until fully implemented at 2.5% on January 1, 2019. The requirement would limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% in addition to the minimum capital requirements. At September 30, 2018, the Association exceeded the fully phased in regulatory requirement for the "capital conservation buffer".

As of September 30, 2018, the Association exceeded all regulatory capital requirements to be considered "Well Capitalized".

In addition to the operational liquidity considerations described above, which are primarily those of the Association, the Company, as a separate legal entity, also monitors and manages its own, parent company-only liquidity, which provides the source of funds necessary to support all of the parent company's stand-alone operations, including its capital distribution strategies which encompass its share repurchase and dividend payment programs. The Company's primary source of liquidity is dividends received from the Association. The amount of dividends that the Association may declare and pay to the Company in any calendar year, without the receipt of prior approval from the OCC but with prior notice to the FRB-Cleveland, cannot exceed net income for the current calendar year-to-date period plus retained net income (as defined) for the preceding two calendar years, reduced by prior dividend payments made during those periods. In December 2017, the Company received an $85.0 million cash dividend from the Association. Because of its intercompany nature, this dividend payment had no impact on the Company's capital ratios or its consolidated statement of condition but reduced the Association's reported capital ratios. At September 30, 2018, the Company had, in the form of cash and a demand loan from the Association, $125.4 million of funds readily available to support its stand-alone operations.

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On October 27, 2016, the Company announced that the Board of Directors approved the Company's eighth stock repurchase program, which authorized the repurchase of up to 10,000,000 shares of the Company's outstanding common stock. Repurchases under the eighth stock repurchase authorization began on January 6, 2017. There were 3,533,021 shares repurchased under that program between its start date and September 30, 2018. During the year ended September 30, 2018, the Company repurchased $19.7 million of its common stock.

On July 19, 2017, Third Federal Savings, MHC received the approval of its members with respect to the waiver of dividends, and subsequently received the non-objection of the FRB-Cleveland, to waive receipt of dividends on the Company's common stock the MHC owns up to a total of $0.68 per share, to be declared on the Company's common stock during the twelve months subsequent to the members' approval (i.e., through July 19, 2018). The members approved the waiver by casting 64% of the eligible votes in favor of the waiver. Of the votes cast, 97% were in favor of the proposal. Third Federal Savings, MHC waived its right to receive a $0.17 per share dividend payment on September 25, 2017, December 12, 2017, March 19, 2018 and June 25, 2018.

On July 11, 2018, Third Federal Savings, MHC received the approval of its members with respect to the waiver of dividends, and subsequently received the non-objection of the FRB-Cleveland, to waive receipt of dividends on the Company's common stock the MHC owns up to a total of $1.00 per share, to be declared on the Company's common stock during the twelve months subsequent to the members' approval (i.e., through July 11, 2019). The members approved the waiver by casting 63% of the eligible votes in favor of the waiver. Of the votes cast, 97% were in favor of the proposal. Third Federal Savings, MHC waived its right to receive a $0.25 per share dividend payment on September 24, 2018.

The payment of dividends, support of asset growth and stock repurchases are planned to continue in the future as the focus for future capital deployment activities.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. In addition, we routinely enter into commitments to securitize and sell mortgage loans. For additional information, see Note 15 of the Notes to Consolidated Financial Statements.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities and agreements with respect to investments.

The following table summarizes our significant fixed and determinable contractual obligations and other funding needs by payment date at September 30, 2018. The payment amounts represent those amounts due to the recipient and do not include any unamortized premiums or discounts or other similar carrying amount adjustments.

	Payments due by period				
Contractual Obligations	Less than One year	One to Three years	Three to Five years	More than Five years	Total
	(In thousands)				
FHLB advances(1)(2)	$3,345,287	$330,755	$18,285	$27,372	$3,721,699
Operating leases	6,444	9,972	5,105	5,546	27,067
Certificates of deposit(1)	2,513,421	2,764,983	811,439	232,161	6,322,004
Limited partner investments	11,541	—	—	—	11,541
Total	$5,876,693	$3,105,710	$834,829	$265,079	$10,082,311
Commitments to extend credit	$2,249,652(3)	$—	$—	$—	$2,249,652

(1) Includes accrued interest payable, computed on an actual days outstanding basis, at September 30, 2018.
(2) Reflect the net impact of deferred penalties discussed in Note 10. Borrowed Funds.

(3) Includes the unused portion (including commitments for accounts suspended as a result of material default or a decline in equity) of home equity lines of credit of $1.80 billion.

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Impact of Inflation and Changing Prices

Our consolidated financial statements and related notes have been prepared in accordance with GAAP. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

Recent Accounting Pronouncements

Refer to Note 21. Recent Accounting Pronouncements of the Notes to Consolidated Financial Statements for pending and adopted accounting guidance.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk has historically been interest rate risk. In general, our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits and advances from the FHLB of Cincinnati. As a result, a fundamental component of our business strategy is to manage interest rate risk and limit the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has established risk parameter limits deemed appropriate given our business strategy, operating environment, capital, liquidity and performance objectives. Additionally, our Board of Directors has authorized the formation of an Asset/Liability Management Committee comprised of key operating personnel, which is responsible for managing this risk in a matter that is consistent with the guidelines and risk limits approved by the Board of Directors. Further, the Board has established the Directors Risk Committee, which, among other responsibilities, conducts regular oversight and review of the guidelines, policies and deliberations of the Asset/Liability Management Committee. We have sought to manage our interest rate risk in order to control the exposure of our earnings and capital to changes in interest rates.

As part of our ongoing asset-liability management, we use the following strategies to manage our interest rate risk:

(i) marketing adjustable-rate and shorter-maturity (10-year, fixed-rate mortgage) loan products;

(ii) lengthening the weighted average remaining term of major funding sources, primarily by offering attractive interest rates on deposit products, particularly longer-term certificates of deposit, and through the use of longer-term advances from the FHLB of Cincinnati (or shorter-term advances converted to longer-term durations via the use of interest rate exchange contracts that qualify as cash flow hedges) and longer-term brokered certificates of deposit;

(iii) investing in shorter- to medium-term investments and mortgage-backed securities;

(iv) maintaining the levels of capital required for "well capitalized" designation; and

(v) securitizing and/or selling long-term, fixed-rate residential real estate mortgage loans.

During the fiscal year ended September 30, 2018, $122.7 million of agency-compliant, long-term, fixed-rate mortgage loans were sold to Fannie Mae on a servicing retained basis. Additionally, during the fiscal year ended September 30, 2018 $277.4 million of fixed-rate loans were sold, on a servicing retained basis, in a single bulk sale to a private investor. At September 30, 2018, $0.7 million of agency-compliant, long-term, fixed-rate residential first mortgage loans that qualified under Fannie Mae's HARP II or HomeReady programs, were classified as "held for sale". Of the agency compliant loan sales during the fiscal year ended September 30, 2018: $1.5 million was comprised of long-term, (15 to 30 years), fixed-rate first mortgage loans which were sold under Fannie Mae's HARP II; $24.2 million was comprised of long-term, (15 to 30 years), fixed-rate first mortgage loans which were sold under Fannie Mae's HomeReady program; and $97.0 million was comprised of long-term (15 to 30 years), fixed-rate first mortgage loans which had been originated under our revised procedures and were sold to Fannie Mae under our re-instated seller contract, as described in the next paragraph. At September 30, 2018, we had no outstanding loan sales commitments.

Fannie Mae, historically the Association’s primary loan investor, implemented, effective July 2010, certain loan origination requirement changes affecting loan eligibility that we chose not to adopt until fiscal 2013. Since then, first mortgage loans (primarily fixed-rate, mortgage refinances with terms of 15 years or more and HARP II, and more recently HomeReady, loans) that are originated under the revised procedures are eligible for sale to Fannie Mae either as whole loans or within mortgage-backed securities. We expect that certain loan types (i.e. our Smart Rate adjustable-rate loans, purchase fixed-rate loans and 10-year fixed-rate loans) will continue to be originated under our legacy procedures. For loans that are not originated under the revised (Fannie Mae) procedures, the Association’s ability to reduce interest rate risk via loan sales is limited to those

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loans that have established payment histories, strong borrower credit profiles and are supported by adequate collateral values that meet the requirements of the FHLB's Mortgage Purchase Program or of private third-party investors.

In response to the impact that the 2008 financial crisis had on housing and more particularly on the operation of the secondary mortgage market, we have actively marketed an adjustable-rate mortgage loan product since 2010 and a 10-year fixed-rate mortgage loan product since 2012. Each of these products provides us with improved interest rate risk characteristics when compared to longer-term, fixed-rate mortgage loans. Shortening the average maturity of our interest-earning assets by increasing our investments in shorter-term loans and investments, as well as loans and investments with variable rates of interest, helps to better match the maturities and interest rates of our assets and liabilities, thereby reducing the exposure of our net interest income to changes in market interest rates. By following these strategies, we believe that we are better positioned to react to increases in market interest rates.

The Association evaluates funding source alternatives as it seeks to extend its liability duration. Extended duration funding sources that are currently considered include: retail certificates of deposit (which, subject to a fee, generally provide depositors with an early withdrawal option, but do not require pledged collateral); brokered certificates of deposit (which generally do not provide an early withdrawal option and do not require collateral pledges); collateralized borrowings which are not subject to creditor call options (generally advances from the FHLB of Cincinnati); and interest rate exchange contracts ("swaps") which are subject to collateral pledges and which require specific structural features to qualify for hedge accounting treatment (hedge accounting treatment directs that periodic mark-to-market adjustments be recorded in other comprehensive income (loss) in the equity section of the balance sheet rather than being included in operating results of the income statement). The Association's intent is that any swap to which it may be a party will qualify for hedge accounting treatment. The Association attempts to be opportunistic in the timing of its funding duration deliberations and when evaluating alternative funding sources, compares effective interest rates, early withdrawal/call options and collateral requirements.

The Association is a party to interest rate swap agreements. Each of the Association's swap agreements is registered on the Chicago Mercantile Exchange and involves the exchange of interest payment amounts based on a notional principal balance. No exchange of principal amounts occurs and the notional principal amount does not appear on our balance sheet. The Association uses swaps to extend the duration of its funding sources. In each of the Association's agreements, interest paid is based on a fixed rate of interest throughout the term of each agreement while interest received is based on an interest rate that resets at a specified interval (generally three months) throughout the term of each agreement. On the initiation date of the swap, the agreed upon exchange interest rates reflect market conditions at that point in time. Swaps generally require counterparty collateral pledges that ensure the counterparties' ability to comply with the conditions of the agreement. The notional amount of the Association's swap portfolio at September 30, 2018 was $1.73 billion. The swap portfolio's weighted average fixed pay rate was 1.75% and the weighted average remaining term was 3.3 years. Concurrent with the execution of each swap, the Association entered into a short-term borrowing from the FHLB of Cincinnati in an amount equal to the notional amount of the swap and with interest rate resets aligned with the reset interval of the swap. Each individual swap agreement has been designated as a cash flow hedge of interest rate risk associated with the Company's variable rate borrowings from the FHLB of Cincinnati.

Economic Value of Equity. Using customized modeling software, the Association prepares periodic estimates of the amounts by which the net present value of its cash flows from assets, liabilities and off-balance sheet items (the institution’s economic value of equity or EVE) would change in the event of a range of assumed changes in market interest rates. The simulation model uses a discounted cash flow analysis and an option-based pricing approach in measuring the interest rate sensitivity of EVE. The model estimates the economic value of each type of asset, liability and off-balance sheet contract under the assumption that instantaneous changes (measured in basis points) occur at all maturities along the United States Treasury yield curve and other relevant market interest rates. A basis point equals one, one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 2% to 3% would mean, for example, a 100 basis point increase in the “Change in Interest Rates” column below. The model is tailored specifically to our organization, which, we believe, improves its predictive accuracy. The following table presents the estimated changes in the Association’s EVE at September 30, 2018 that would result from the indicated instantaneous changes in the United States Treasury yield curve and other relevant market interest rates. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

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Change in Interest Rates (basis points) (1)	Estimated EVE (2)	Estimated Increase (Decrease) in EVE		EVE as a Percentage of Present Value of Assets (3)	
		Amount	Percent	EVE Ratio (4)	Increase (Decrease) (basis points)
	(Dollars in thousands)				
+300	$1,494,234	$(705,142)	(32.06)%	11.70 %	(384)
+200	1,767,242	(432,134)	(19.65)%	13.35 %	(219)
+100	2,011,596	(187,780)	(8.54)%	14.67 %	(87)
0	2,199,376	—	— %	15.54 %	—
-100	2,294,712	95,336	4.33 %	15.79 %	25
-200	2,346,190	146,814	6.68 %	16.14 %	60

(1) Assumes an instantaneous uniform change in interest rates at all maturities.
(2) EVE is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.
(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
(4) EVE Ratio represents EVE divided by the present value of assets.

The table above indicates that at September 30, 2018, in the event of an increase of 200 basis points in all interest rates, the Association would experience a 19.65% decrease in EVE. In the event of a 100 basis point decrease in interest rates, the Association would experience a 4.33% increase in EVE.

The following table is based on the calculations contained in the previous table, and sets forth the change in the EVE at a +200 basis point rate of shock at September 30, 2018, with comparative information as of September 30, 2017. By regulation, the Association must measure and manage its interest rate risk for interest rate shocks relative to established risk tolerances in EVE.

	At September 30,	
Risk Measure (+200 bp Rate Shock)	2018	2017
Pre-Shock EVE Ratio	15.54 %	15.05 %
Post-Shock EVE Ratio	13.35 %	13.13 %
Sensitivity Measure in basis points	(219)	(192)
Percentage Change in EVE Ratio	(19.65)%	(18.33)%

Certain shortcomings are inherent in the methodologies used in measuring interest rate risk through changes in EVE. Modeling changes in EVE requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the EVE tables presented above assume:

- no new growth or business volumes;
- that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured, except for reductions to reflect mortgage loan principal repayments along with modeled prepayments and defaults; and
- that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities.

Accordingly, although the EVE tables provide an indication of our interest rate risk exposure as of the indicated dates, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our EVE and will differ from actual results. In addition to our core business activities, which primarily sought to originate Smart Rate (adjustable), home equity lines of credit (adjustable) and 10-year fixed-rate loans funded by borrowings from the FHLB and intermediate term CDs (including brokered CDs) and which are intended to have a favorable impact on our IRR profile, the net impact of several other items resulted in the 1.32% deterioration in the Percentage Change in EVE measure at September 30, 2018, when compared to the measure at September 30, 2017. The most significant factor contributing to the overall deterioration was the change in market interest rates, which included an increase of 134 basis points for the two-year term, an increase of 102 basis points for the five-year term and an increase of 73 basis points for the ten-year term, and which resulted in a decrease of 2.34% in the Percentage Change in EVE. Combined with this deterioration was the impact of an $85.0 million cash dividend that the Association paid to the Company. Because of its intercompany nature, this payment had no impact on the Company's capital position, or the Company's overall IRR profile, but reduced the Association's regulatory capital and regulatory capital ratios and negatively impacted the Association's Percentage Change in EVE by approximately 0.75%. Additionally, numerous modifications and enhancements to our modeling assumptions and methodologies, which are continually challenged and evaluated, on a net basis, negatively impacted the Association's Percentage Change in EVE by 0.70%. Partially offsetting the unfavorable impact of the three preceding factors, our core business activities, as described at the beginning of this paragraph, are generally intended to have a positive impact on our IRR profile, the actual impact is determined by a number of factors, including the pace of mortgage asset additions to our balance sheet (including consideration of outstanding commitments to originate those assets), in comparison to the pace of the addition of duration extending funding sources. During the current fiscal year, which included the sale of $277.4 million of 30 year, fixed-rate, first mortgage loans to a private investor, the net affect of mortgage asset accumulation and funding source extension resulted in 2.47% of improvement to our Percentage Change in EVE. The IRR simulation results presented above were in line with management's expectations and were within the risk limits established by our Board of Directors.

Our simulation model possesses random patterning capabilities and accommodates extensive regression analytics applicable to the prepayment and decay profiles of our borrower and depositor portfolios. The model facilitates the generation of alternative modeling scenarios and provides us with timely decision making data that is integral to our IRR management processes. Modeling our IRR profile and measuring our IRR exposure are processes that are subject to continuous revision, refinement, modification, enhancement, back testing and validation. We continually evaluate, challenge and update the methodology and assumptions used in our IRR model, including behavioral equations that have been derived based on third-party studies of our customer historical performance patterns. Changes to the methodology and/or assumptions used in the model will result in reported IRR profiles and reported IRR exposures that will be different, and perhaps significantly, from the results reported above.

Earnings at Risk. In addition to EVE calculations, we use our simulation model to analyze the sensitivity of our net interest income to changes in interest rates (the institution’s EaR). Net interest income is the difference between the interest income that we earn on our interest-earning assets, such as loans and securities, and the interest that we pay on our interest-bearing liabilities, such as deposits and borrowings. In our model, we estimate what our net interest income would be for prospective 12 and 24 month periods using customized (based on our portfolio characteristics) assumptions with respect to loan prepayment rates, default rates and deposit decay rates, and the implied forward yield curve as of the market date for assumptions as to projected interest rates. We then calculate what the estimated net interest income would be for the same period under numerous interest rate scenarios. The simulation process is subject to continual enhancement, modification, refinement and adaptation in order that it might most accurately reflect our current circumstances, factors and expectations. As of September 30, 2018, we estimated that our EaR for the 12 months ending September 30, 2019 would decrease by 2.32% in the event that market interest rates used in the simulation were adjusted in equal monthly amounts (termed a "ramped" format) during the 12 month measurement period to an aggregate increase in 200 basis points. This assumption differs from the assumption used to report our EaR estimates in reporting periods prior to March 31, 2017, when our EaR disclosures were determined under assumed instantaneous changes in market interest rates. During the March 31, 2017 quarter, based on a survey of the predominate practices disclosed by other similarly profiled financial institutions, the Association adopted the "ramped" assumption in preparing the EaR simulation estimates for use in its public disclosures. In addition to conforming to predominate industry practice, the Association also believes that the ramped assumption provides a more probable/plausible scenario for net interest income simulations than instantaneous shocks which provide a theoretical analysis but a much less credible economic scenario. The Association continues to calculate instantaneous scenarios, and as of September 30, 2018, we estimated that our EaR for the 12 months ending September 30, 2019, would decrease by 5.63% in the event of an instantaneous 200 basis point increase in market interest rates.

Certain shortcomings are also inherent in the methodologies used in determining interest rate risk through changes in EaR. Modeling changes in EaR require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the interest rate risk information presented above assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although interest rate risk calculations provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results. In addition to the preparation of computations as described above, we also formulate simulations based on a variety of non-linear changes in interest rates and a variety of non-constant balance sheet composition scenarios.

Other Considerations. The EVE and EaR analyses are similar in that they both start with the same month end balance sheet amounts, weighted average coupon and maturity. The underlying prepayment, decay and default assumptions are also the same and they both start with the same month end "markets" (Treasury and Libor yield curves, etc.). From that similar starting point, the models follow divergent paths. EVE is a stochastic model using 100 different interest rate paths to compute market value at the cohorted transaction level for each of the categories on the balance sheet whereas EaR uses the implied forward curve to compute interest income/expense at the cohorted transaction level for each of the categories on the balance sheet.

EVE is considered as a point in time calculation with a "liquidation" view of the Association where all the cash flows (including interest, principal and prepayments) are modeled and discounted using discount factors derived from the current market yield curves. It provides a long term view and helps to define changes in equity and duration as a result of changes in interest rates. On the other hand, EaR is based on balance sheet projections going one year and two year forward and assumes new business volume and pricing to calculate net interest income under different interest rate environments. EaR is calculated to determine the sensitivity of net interest income under different interest rate scenarios. With each of these models, specific policy limits have been established that are compared with the actual month end results. These limits have been approved by the Association's Board of Directors and are used as benchmarks to evaluate and moderate interest rate risk. In the event that there is a breach of policy limits that extends beyond two consecutive quarter end measurement periods, management is responsible for taking such action, similar to those described under the preceding heading of General, as may be necessary in order to return the Association's interest rate risk profile to a position that is in compliance with the policy. At September 30, 2018 the IRR profile as disclosed above was within our internal limits.

Item 8. Financial Statements and Supplementary Data

The Financial Statements are included in Part IV, Item 15 of this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision of and with the participation of the Company’s management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report Regarding Internal Control Over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting as such terms are defined in Rule 13a-15(f) of the Exchange Act of 1934. Our system of internal controls is designed to provide reasonable assurance that the financial statements that we provide to the public are fairly presented.

Our internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets, (ii) provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on our financial statements.

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All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Accordingly, absolute assurance cannot be provided that the effectiveness of the internal control systems may not become inadequate in future periods because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of September 30, 2018. In making this assessment, the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013) was utilized. Based on this assessment, management believes that, as of September 30, 2018, the Company’s internal control over financial reporting is effective at the reasonable assurance level.

The Company’s independent registered public accounting firm has issued an attestation report on the Company’s internal control over financial reporting.

The Sarbanes-Oxley Act Section 302 Certifications have been filed as Exhibit 31.1 and Exhibit 31.2 to this Annual Report on Form 10-K.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of