Capitol Federal Financial Inc
Form 10-Q
February 09, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2010

or

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

Commission file number: 001-34814

Capitol Federal Financial, Inc.
(Exact name of registrant as specified in its charter)

Maryland	27-2631712
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 Kansas Avenue, Topeka, Kansas	66603
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(785) 235-1341

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 requirements for the past 90 days. Yes þ No ¨

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

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

Large accelerated filer	¨	Accelerated filer	¨	Non-accelerated filer (do not check if a smaller reporting company)	þ	Smaller Reporting Company	¨

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

As of February 4, 2011, there were 167,493,608 shares of Capitol Federal Financial, Inc. Common Stock outstanding.

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PART I -- FINANCIAL INFORMATION
Item 1. Financial Statements
CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollars in thousands)

	December 31, 2010	September 30, 2010
ASSETS:		
Cash and cash equivalents (includes interest-earning deposits of $1,309,961 and $50,771)	$1,329,861	$65,217
Securities:		
Available-for-sale ("AFS") at estimated fair value (amortized cost of $878,159 and $1,009,142)	923,125	1,060,366
Held-to-maturity ("HTM") at amortized cost (estimated fair value of $2,133,260 and $1,913,454)	2,119,826	1,880,154
Loans receivable, net (of allowance for loan losses ("ALLL") of $14,723 and $14,892)	5,121,018	5,168,202
Bank-owned life insurance ("BOLI")	55,042	54,710
Capital stock of Federal Home Loan Bank ("FHLB"), at cost	121,768	120,866
Accrued interest receivable	28,936	30,220
Premises and equipment, net	41,781	41,260
Real estate owned ("REO"), net	10,979	9,920
Income taxes receivable	--	716
Other assets	45,958	55,499
TOTAL ASSETS	$9,798,294	$8,487,130
LIABILITIES:		
Deposits	$4,682,101	$4,386,310
Advances from FHLB	2,350,126	2,348,371
Other borrowings, net	668,609	668,609
Advance payments by borrowers for taxes and insurance	20,962	55,036
Income taxes payable	6,258	--
Deferred income tax liabilities, net	17,493	33,244
Accounts payable and accrued expenses	33,772	33,610
Total liabilities	7,779,321	7,525,180
STOCKHOLDERS' EQUITY:		
Preferred stock ($0.01 par value) 100,000,000 shares authorized; none issued	--	--
Common stock ($0.01 par value) 1,400,000,000 shares authorized, 167,493,608 shares issued; 167,493,608 and 73,992,678 shares outstanding as of December 31, 2010 and September 30, 2010, respectively	1,675	915
Additional paid-in capital	1,389,700	457,795
Unearned compensation, Employee Stock Ownership Plan ("ESOP")	(52,776)	(6,050)
Unearned compensation, Recognition and Retention Plan ("RRP")	(216)	(255)
Retained earnings	652,620	801,044
Accumulated other comprehensive income ("AOCI"), net of tax	27, 970	31,862

Less shares held in treasury (0 and 17,519,609 shares as of December 31, 2010		
and September 30, 2010, respectively, at cost)	--	(323,361)
Total stockholders' equity	2,018,973	961,950
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$9,798,294	$8,487,130

See accompanying notes to consolidated financial statements.

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CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(in thousands, except share and per share data)

	For the Three Months Ended December 31, 2010	2009
INTEREST AND DIVIDEND INCOME:		
Loans receivable	$65,943	$74,526
Mortgage-backed securities ("MBS")	15,440	20,754
Investment securities	4,775	2,559
Capital stock of FHLB	902	1,001
Cash and cash equivalents	187	47
Total interest and dividend income	87,247	98,887
INTEREST EXPENSE:		
FHLB advances	23,131	24,819
Deposits	17,381	22,105
Other borrowings	6,730	7,109
Total interest expense	47,242	54,033
NET INTEREST INCOME	40,005	44,854
PROVISION FOR LOAN LOSSES	650	3,115
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	39,355	41,739
OTHER INCOME:		
Retail fees and charges	3,943	4,723
Insurance commissions	818	582
Loan fees	655	581
Income from BOLI	332	268
Gain on securities, net	--	6,454
Other income, net	569	523
Total other income	6,317	13,131
OTHER EXPENSES:		
Salaries and employee benefits	9,991	10,532
Communications, information technology, and occupancy	3,876	3,942
Federal insurance premium	1,858	1,814
Deposit and loan transaction costs	1,352	1,380
Regulatory and outside services	1,189	1,448
Advertising and promotional	831	1,644
Contribution to Capitol Federal Foundation	40,000	--
Other expenses, net	4,241	1,989
Total other expenses	63,338	22,749
(LOSS) INCOME BEFORE INCOME TAX EXPENSE	(17,666)	32,121

INCOME TAX (BENEFIT) EXPENSE	(6,408)	11,141
NET (LOSS) INCOME	$(11,258)	$20,980
Basic (loss) earnings per common share	$(0.07)	$0.13
Diluted (loss) earnings per common share	$(0.07)	$0.13
Dividends declared per public share	$0.80	$0.79
Basic weighted average common shares	165,540,789	165,853,773
Diluted weighted average common shares	165,540,789	165,879,191

See accompanying notes to consolidated financial statements.

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Unearned Compensation ESOP	Unearned Compensation RRP	Retained Earnings	AOCI (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at October 1, 2010	$ 915	$ 457,795	$ (6,050)	$ (255)	$ 801,044	$ 31,862	$ (323,361)	$ 961,950
Comprehensive income:								
Net (loss) income					(11,258)			(11,258)
Other comprehensive (loss) income:								
Changes in unrealized gain/losses on securities AFS, net of deferred income taxes of $2,366						(3,892)		(3,892)
Total comprehensive (loss) income								(15,150)
ESOP activity, net		726	534					1,260
RRP activity, net		1						1
Stock based compensation - stock options and RRP		35		39				74
Stock options exercised		1						1
Dividends on common stock to stockholders $0.80 per public share					(16,956)			(16,956)
Corporate reorganization:								
Merger of Capitol Federal Savings Bank	(522)	1,997			(1,223)			252

MHC								
Retirement of treasury stock	(175)	(204,199)			(118,987)		323,361	--
Exchange of common stock	276	(323)						(47)
Proceeds from stock offering, net of offering expenses	1,181	1,133,667						1,134,848
Purchase of common stock by ESOP			(47,260)					(47,260)
Balance at December 31, 2010	$ 1,675	$ 1,389,700	$ (52,776)	$ (216)	$ 652,620	$ 27,970	$ --	$ 2,018,973

See accompanying notes to consolidated financial statements.

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CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	For the Three Months Ended December 31, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(11,258)	$20,980
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
FHLB stock dividends	(902)	(1,000)
Provision for loan losses	650	3,115
Originations of loans receivable held-for-sale ("LHFS")	(5,424)	(1,701)
Proceeds from sales of LHFS	6,895	575
Amortization and accretion of premiums and discounts on securities	1,431	1,453
Depreciation and amortization of premises and equipment	1,108	1,272
Amortization of deferred amounts related to FHLB advances, net	1,755	1,644
Common stock committed to be released for allocation - ESOP	1,260	1,544
Stock based compensation - stock options and RRP	74	131
Gain on the sale of trading securities received in the loan swap transaction	--	(6,454)
Changes in:		
Prepaid federal insurance premium	1,738	(25,735)
Accrued interest receivable	1,284	1,592
Other assets, net	394	(924)
Income taxes payable/receivable	(6,410)	10,457
Accounts payable and accrued expenses	662	(5,257)
Net cash (used in) provided by operating activities	(6,743)	1,692
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of trading securities received in the loan swap transaction	--	199,144
Purchase of HTM securities	(486,425)	(176,421)
Proceeds from calls, maturities, and principal reductions of AFS securities	130,673	79,014
Proceeds from calls, maturities, and principal reductions of HTM securities	245,632	34,399
Loan originations and purchases, net of principal collected and deferred loan fees	42,438	(19,158)
Purchases of premises and equipment	(1,633)	(3,473)
Proceeds from sales of REO	2,665	3,124
Net cash (used in) provided by investing activities	(66,650)	116,629

(Continued)

	For the Three Months Ended December 31,	
	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(16,956)	(16,670)
Deposits, net of withdrawals	313,481	(1,357)
Proceeds from borrowings	300,000	--
Repayments on borrowings	(300,000)	--
Change in advance payments by borrowers for taxes and insurance	(34,074)	(34,028)
Acquisitions of treasury stock	--	(2,292)
Net proceeds from common stock offering	1,075,585	--
Excess tax benefits from stock options	1	--
Net cash provided by (used in) financing activities	1,338,037	(54,347)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,264,644	63,974
CASH AND CASH EQUIVALENTS:		
Beginning of period	65,217	41,154
End of period	$1,329,861	$105,128
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income tax payments	$--	$682
Interest payments	$46,412	$53,729
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Note received from ESOP in exchange for common stock	$47,260	$--
Customer deposit holds related to the common stock offering	$17,690	$--
Loans transferred to REO	$4,096	$2,196
Swap of loans for trading securities	$--	$193,889

(Concluded)

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation - In December 2010, Capitol Federal Financial completed its conversion from a mutual holding company form of organization to a stock form of organization ("corporate reorganization"). Capitol Federal Financial, which owned 100% of Capitol Federal Savings Bank (the "Bank"), was succeeded by Capitol Federal Financial, Inc. ("the Company"), a new Maryland corporation. As part of the corporate reorganization, Capitol Federal Savings Bank MHC's ("MHC") ownership interest in Capitol Federal Financial was sold in a public offering. Gross proceeds from the offering were $1.18 billion and related offering expenses were $46.7 million, of which $6.0 million were incurred and deferred in fiscal year 2010. The publicly held shares of Capitol Federal Financial were exchanged for new shares of common stock of the Company. The exchange ratio was 2.2637 and ensured that immediately after the corporate reorganization the public stockholders of Capitol Federal Financial owned the same aggregate percentage of Capitol Federal Financial, Inc. common stock that they owned of Capitol Federal Financial common stock immediately prior to the reorganization. All share information used to calculate earnings per share in the consolidated financial statements prior to the corporate reorganization has been revised to reflect the 2.2637 exchange ratio. In conjunction with the corporate reorganization, the Company contributed $40.0 million of cash to the Bank's charitable foundation, Capitol Federal Foundation. Additionally, a "liquidation account" will be established for the benefit of certain depositors of the Bank in an amount equal to MHC's ownership interest in the retained earnings of Capitol Federal Financial as of June 30, 2010. Under Office of Thrift Supervision ("OTS") regulations, neither the Company nor the Bank is permitted to pay dividends on its capital stock to its stockholders if stockholders' equity would be reduced below the total of the liquidation account.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. The Bank has a wholly-owned subsidiary, Capitol Funds, Inc. Capitol Funds, Inc. has a wholly-owned subsidiary, Capitol Federal Mortgage Reinsurance Company. All intercompany accounts and transactions have been eliminated. The financial information presented is derived from the consolidated financial statements of the Company after the corporate reorganization in December 2010 and from the consolidated financial statements of Capitol Federal Financial prior to the corporate reorganization.

Capitol Federal Financial's treasury shares were retired in connection with the corporate reorganization. As noted above, the Company is a Maryland corporation. Under Maryland law, there is no concept of "treasury shares." Instead, shares purchased by the Company constitute authorized but unissued shares under Maryland law. There were no treasury shares at December 31, 2010.

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010, filed with the Securities and Exchange Commission ("SEC"). Interim results are not necessarily indicative of results for a full year. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting periods. Significant estimates include the ALLL and fair value measurements. Actual results could differ from those estimates.

Loans Receivable - Loans receivable that management has the intent and ability to hold for the foreseeable future are carried at the amount of unpaid principal, net of ALLL, undisbursed loan funds, unamortized premiums and discounts, and deferred loan origination fees and costs. Net loan origination fees and costs and premiums and discounts are amortized as yield adjustments to interest income using the level-yield method, adjusted for the estimated prepayment speeds of the related loans when applicable. Interest on loans is credited to income as earned and accrued only if deemed collectible.

Existing loan customers, whose loans have not been sold to third parties and who have been current on their contractual loan payments for the previous 12 months, have the opportunity, for a fee, to modify their original loan terms to terms currently offered for fixed-rate products with an equal or reduced period to maturity than the current remaining period of their existing loan. The modified terms of these loans are similar to the terms offered to new customers. The fee assessed for modifying the mortgage loan is deferred and amortized over the life of the modified loan using the level-yield method and is reflected as an adjustment to interest income. Each modification is examined on a loan-by-loan basis and if the modification of terms represents more than a minor change to the loan, then the unamortized balance of the pre-modification deferred fees or costs associated with the mortgage loan are recognized in interest income at the time of the modification. If the modification of terms does not represent more than a minor change to the loan, then the unamortized balance of the pre-modification deferred fees or costs continue to be deferred.

A loan is considered delinquent when payment has not been received within 30 days of its contractual due date. The accrual of income on loans is discontinued when interest or principal payments are 90 days in arrears. Loans on which the accrual of income has been discontinued are designated as non-accrual loans and outstanding interest previously credited beyond 90 days delinquent is reversed. A non-accrual loan is returned to accrual status once the contractual payments have been made to bring the loan less than 90 days past due.

A condition in which the Bank grants a concession to a borrower due to financial difficulties that it would not otherwise consider is a troubled debt restructuring ("TDR"). The majority of the Bank's TDRs involve a modification in loan terms such as a temporary reduction in the payment amount requiring only interest and escrow (if required) and extending the maturity date of the loan.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Interest income on impaired loans is recognized in the period collected unless the ultimate collection of principal is considered doubtful. Management considers the following loans to be impaired loans: all non-accrual loans, loans classified as substandard, loans with specific valuation allowances ("SVA"), and TDRs that have not been performing under the new terms for 12 consecutive months or are required by the accounting literature to be classified as a TDR for the life of the loan.

Allowance for Loan Losses - The ALLL represents management's best estimate of the amount of known and inherent losses in the loan portfolio as of the balance sheet date. Management's methodology for assessing the appropriateness of the ALLL consists of a formula analysis for general valuation allowances and SVAs for identified problem loans. Management maintains the ALLL through provisions for loan losses that are charged to income.

The Company charges off losses on loans when the loans are transferred to REO or when there are losses on short sales. The Company recognizes recoveries for amounts recovered after a loan has been charged-off. Once a loan enters REO, any future write downs or recoveries are reported in REO operations; therefore, recoveries of charged-off amounts are rare.

The Bank's primary lending emphasis is the origination and purchase of one- to four-family first mortgage loans on residential properties and, to a lesser extent, second mortgage loans on one- to four-family residential properties, resulting in a loan concentration in residential mortgage loans. The Bank has a concentration of loans secured by residential property located in Kansas and Missouri. Based on the composition of the Bank's loan portfolio, the primary risks inherent in the one- to four-family and consumer loan portfolios are the continued weakened economic conditions, continued high levels of unemployment or underemployment, and a continuing decline in residential real estate values. Any one or a combination of these events may adversely affect borrowers' ability to repay their loans, resulting in increased delinquencies, non-performing assets, loan losses, and future loan loss provisions. Although the multi-family and commercial loan portfolio also shares the risk of continued weakened economic conditions, the primary risks for the portfolio include the ability of the borrower to sustain sufficient cash flows from leases and to control expenses to satisfy their contractual debt payments, or the ability to utilize personal and/or business resources to pay their contractual debt payments if the cash flows are not sufficient. Additionally, if the Bank were to repossess the secured collateral of a multi-family or commercial loan, the pool of potential buyers, is limited more than that for a residential property; therefore, the Bank could hold the property for an extended period of time and potentially be forced to sell at a discounted price, resulting in additional losses.

Management considers several quantitative and qualitative factors quarterly while monitoring the credit quality of the loan portfolio and evaluating the adequacy of the ALLL. Such factors include the trend and composition of delinquent and non-performing loans, results of foreclosed property and short-sale transactions (historical losses and net charge-offs), the current status and trends of local and national economies, particularly levels of unemployment, trends and current conditions in the residential real estate markets, and loan portfolio growth and concentrations. Since the Bank's loan portfolio is primarily concentrated in one- to four-family real estate, management monitors residential real estate market value trends in the Bank's local market areas and geographic sections of the U.S. by reference to various industry and market reports, economic releases and surveys, and management's general and specific knowledge of the real estate markets in which the Bank lends, in order to determine what impact, if any, such trends may have on the level of ALLL. Reviewing these quantitative and qualitative factors assists management in evaluating the overall credit quality of the loan portfolio on an ongoing basis and the reasonableness of the ALLL and whether changes need to be made to the Bank's allowance for loan loss methodology. Management seeks to apply the allowance for loan loss methodology in a consistent manner; however, the methodology can be modified in response to changing conditions. There were no significant modifications to the formula analysis methodology during the current quarter.

The formula analysis for general valuation allowances is updated each quarter. Within the formula analysis, the loan portfolio is segregated into the following categories: one- to four-family loans, multi-family and commercial loans, consumer home equity loans, and other consumer loans. Home equity loans with the same underlying collateral as a one- to four-family loan are combined with the one- to four-family loan in the formula analysis to calculate a combined loan-to-value ("LTV") ratio. Impaired loans are excluded from the formula analysis as they are individually evaluated for SVAs. The one- to four-family loan portfolio and related home equity loans are segregated into additional categories based on the following risk characteristics: originated or purchased from nationwide lender, interest payments (fixed-rate, adjustable-rate, and interest-only), LTV ratios, borrower's credit scores, and certain states where the Bank has experienced measurable losses on REO and short-sales. The additional categories were derived by management based on reviewing the historical performance of the one- to four-family loan portfolio and taking into consideration current economic conditions, such as trends in the residential real estate values in certain areas of the U.S. and unemployment rates.

Quantitative loss factors are applied to each loan category in the formula analysis based on the historical loss experience and current SVAs, adjusted for loan delinquency trends, for each respective loan category. Each quarter, management evaluates several historical loss time periods and utilizes the historical loss time period believed to be the most reflective of the current economic conditions and environment.

Qualitative loss factors are applied to each loan category in the formula analysis. The qualitative factors for the one- to four-family and consumer loan portfolios are: unemployment rate trends, collateral value trends, credit score trends, and delinquent loan trends. The qualitative factors for the multi-family and commercial loan portfolio are: unemployment rate trends, collateral value trends, and delinquent loan trends. As loans are classified as special mention or become 30 to 89 days delinquent, the qualitative loss factors increase based upon delinquent loan trends. As with the additional categories in the formula analysis for one- to four-family loans, the qualitative factors were derived by management based on a review of the historical performance of the respective loan portfolios and consideration of current economic conditions and their likely impact to the loan portfolio.

SVAs are established in connection with individual loan reviews of impaired loans. Since the majority of the Bank's loan portfolio is composed of residential real estate, determining the estimated fair value of the underlying collateral is important in evaluating the amount of SVAs required for problem and impaired loans. Once a purchased loan is 90 days delinquent, new collateral values are obtained through automated valuation models ("AVMs") or broker price opinions ("BPOs"). An updated AVM or BPO is then requested every 6 months while the loan is greater than 90 days delinquent. Due to the relatively stable home values in Kansas and Missouri, new collateral values on originated loans are not obtained until they enter foreclosure. If the estimated fair value of the collateral, less estimated costs to sell, is less than the current loan balance, a specific valuation allowance is established for the difference.

Loans with an outstanding balance of $1.5 million or more are reviewed annually if secured by property in one of the following categories: multi-family (five or more units) property, unimproved land, other improved commercial property, acquisition and development of land projects, developed building lots, office building, single-use building, or retail building. SVAs are established if the individual loan review determines a quantifiable impairment.

Assessing the adequacy of the ALLL is inherently subjective. Actual results could differ from estimates as a result of changes in economic or market conditions. Changes in estimates could result in a material change in the ALLL. In the opinion of management, the ALLL, when taken as a whole, is adequate to absorb estimated losses inherent in the loan portfolio. However, future adjustments may be necessary if loan portfolio performance or economic or market conditions differ substantially from the conditions that existed at the time of the initial determinations.

Recent Accounting Pronouncements - Effective October 1, 2010, the Company adopted new authoritative accounting guidance under Accounting Standards Codification ("ASC") 860, Transfers of Servicing Assets. The objective of this standard is to improve the relevance, representational faithfulness, and comparability of the information provided in the financial statements related to the transfer of financial assets; the effects of a transfer on the company's financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. Since the provisions of the standard are disclosure-related, the adoption of this standard did not have a material impact on its financial condition or results of operations.

Effective October 1, 2010, the Company also adopted new authoritative accounting guidance under ASC 810, Consolidation (ASC 810). The new guidance did not change many of the key principles for determining whether an entity is a variable interest entity consistent with the ASC on "Consolidation", but does amend many important provisions of the existing guidance on "Consolidation." The adoption of this standard did not have a material impact on its financial condition, results of operations, or financial statement disclosures.

In July 2010, the Financial Accounting Standards Board ("FASB") issued ASU 2010-20, Disclosures about Credit Quality of Financing Receivables and the Allowance for Credit Losses, which amends ASC 310, Receivables, by requiring more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users' understanding of (1) the nature of an entity's credit risk associated with its financing receivables and (2) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The new and amended disclosures that relate to information as of the end of a reporting period were effective for the Company beginning December 31, 2010. However, the disclosures that include information for activity that occurs during a reporting period will be effective beginning January 1, 2011 for the Company. Those disclosures include (1) the activity in the allowance for credit losses for each period and (2) disclosures about modifications of financing receivables. In January 2011, the FASB issued ASU 2011-01, Deferral of the Effective Date of Disclosures About Troubled Debt Restructurings in Update No. 2010-20, which temporarily defers the effective date in ASU 2010-20 for disclosures about TDRs by creditors until the FASB finalizes its project on determining what constitutes a TDR for a creditor. Since the provisions of ASU 2010-20 are disclosure-related the Company's adoption of this guidance did not have an impact to its financial condition or results of operations.

2. Earnings Per Share

The Company accounts for the shares acquired by its ESOP and the shares awarded pursuant to its RRP in accordance with ASC 260, which requires that unvested RRP awards that contain nonforfeitable rights to dividends be treated as participating securities in the computation of earnings per share pursuant to the two-class method. The two-class method is an earnings allocation that determines earnings per share for each class of common stock and participating security. Shares acquired by the ESOP are not considered in the basic average shares outstanding until the shares are committed for allocation or vested to an employee's individual account. All share information prior to the corporate reorganization in December 2010 has been revised to reflect the 2.2637 exchange ratio.

	For the Three Months Ended December 31,	
	2010	2009
	(in thousands, except share and per share data)	
Net (loss) income (1)	$ (11,258)	$ 20,980
Average common shares outstanding	165,539,517	165,852,533
Average committed ESOP shares outstanding	1,272	1,240
Total basic average common shares outstanding	165,540,789	165,853,773
Effect of dilutive RRP shares (2)	--	12,214
Effect of dilutive stock options (2)	--	13,204
Total diluted average common shares outstanding	165,540,789	165,879,191
Net (loss) earnings per share:		
Basic	$ (0.07)	$ 0.13
Diluted	$ (0.07)	$ 0.13
Antidilutive stock options and RRP, excluded from the diluted average common shares outstanding calculation (2)	--	546,343

(1) Net income available to participating securities (unvested RRP shares) was inconsequential for the three months ended December 31, 2010 and December 31, 2009.

(2) RRP shares totaling 4,753 and options totaling 4,743 which were outstanding at December 31, 2010 were not included in the computation of diluted earnings per share as the effect on earnings per share would be antidilutive, due to the net loss for the three months ended December 31, 2010.

3. Securities

The following tables reflect the amortized cost, estimated fair value, and gross unrealized gains and losses of AFS and HTM securities at December 31, 2010 and September 30, 2010. The majority of the MBS and investment portfolios are composed of securities issued by U.S. government-sponsored enterprises ("GSEs").

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
Municipal bonds	$2,644	$ 122	$ --	$ 2,766
Trust preferred securities	3,715	--	934	2,781
MBS	871,800	45,783	5	917,578
	878,159	45,905	939	923,125
HTM:				
GSE debentures	1,279,130	1,602	6,708	1,274,024
Municipal bonds	62,980	1,613	52	64,541
MBS	777,716	23,511	6,532	794,695
	2,119,826	26,726	13,292	2,133,260
	$2,997,985	$ 72,631	$ 14,231	$ 3,056,385

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$50,151	$ 104	$ --	$ 50,255
Municipal bonds	2,649	170	--	2,819
Trust preferred securities	3,721	--	925	2,796
MBS	952,621	51,881	6	1,004,496
	1,009,142	52,155	931	1,060,366
HTM:				
GSE debentures	1,208,829	4,441	--	1,213,270
Municipal bonds	67,957	2,654	1	70,610
MBS	603,368	26,209	3	629,574
	1,880,154	33,304	4	1,913,454
	$2,889,296	$ 85,459	$ 935	$ 2,973,820

At December 31, 2010 and September 30, 2010, the MBS held within our portfolio were issued by Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC"), or Government National Mortgage Association ("GNMA"), with the exception of $2.7 million and $2.9 million at those respective dates, which were issued by a private issuer. The following table presents the carrying value of the MBS in our portfolio by issuer:

	At December 31, 2010	At September 30, 2010
	(Dollars in thousands)	
FNMA	$967,767	$890,216
FHLMC	722,416	712,253
GNMA	2,379	2,452
Private Issuer	2,732	2,943
	$1,695,294	$1,607,864

The following table presents the taxable and non-taxable components of interest income on investment securities for the three months ended December 31, 2010 and 2009:

	For the Three Months Ended December 31, 2010	2009
	(Dollars in thousands)	
Taxable	$4,271	$2,024
Non-taxable	504	535
	$4,775	$2,559

The following tables summarize the estimated fair value and gross unrealized losses of those securities on which an unrealized loss at December 31, 2010 and September 30, 2010 was reported and the continuous unrealized loss position for the twelve months prior to December 31, 2010 and September 30, 2010 or for a shorter period of time, as applicable.

	December 31, 2010					
	Less Than 12 Months			Equal to or Greater Than 12 Months		
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
AFS:						
Trust preferred securities	--	$--	$--	1	$2,781	$934
MBS	6	1,813	5	--	--	--
	6	$1,813	$5	1	$2,781	$934
HTM:						
GSE debentures	19	$537,002	$6,708	--	$--	$--
Municipal bonds	4	2,805	29	1	855	23
MBS	9	262,019	6,532	--	--	--
	32	$801,826	$13,269	1	$855	$23

	September 30, 2010					
	Less Than 12 Months			Equal to or Greater Than 12 Months		
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
AFS:						
Trust preferred securities	--	$--	$--	1	$2,796	$925
MBS	4	1,678	5	3	359	1
	4	$1,678	$5	4	$3,155	$926
HTM:						
Municipal bonds	--	$--	$--	1	$878	$1
MBS	1	48,392	3	--	--	--
	1	$48,392	$3	1	$878	$1

On a quarterly basis, management conducts a formal review of securities for the presence of an other-than-temporary impairment. Management assesses whether an other-than-temporay impairment is present when the fair value of a security is less than its amortized cost basis at the balance sheet date. For such securities, other-than-temporary impairment is considered to have occurred if the Company intends to sell the security, if it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, or if the present value of expected cash flows is not sufficient to recover the entire amortized cost.

The unrealized losses at December 31, 2010 and September 30, 2010 are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Additionally, the impairment is also considered temporary because scheduled coupon payments have been made, it is anticipated that the entire principal balance will be collected as scheduled, and management neither intends to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the recovery of the remaining amortized cost amount, which could be at maturity.

The amortized cost and estimated fair value of securities by remaining contractual maturity without consideration for call features or pre-refunding dates as of December 31, 2010 are shown below. Actual maturities of MBS may differ from contractual maturities because borrowers have the right to prepay obligations, generally without penalty. Maturities of MBS depend on the repayment characteristics and experience of the underlying financial instruments.

	AFS		HTM	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
One year or less	$176	$179	$3,369	$3,386
One year through five years	402	424	1,301,832	1,297,335
Five years through ten years	171,228	182,852	340,880	352,369
Ten years and thereafter	706,353	739,670	473,745	480,170
	$878,159	$923,125	$2,119,826	$2,133,260

Issuers of certain investment securities have the right to call and prepay obligations with or without prepayment penalties. As of December 31, 2010, the amortized cost of the securities in our portfolio which are callable or have pre-refunding dates within one year totaled $1.21 billion.

As of December 31, 2010 and September 30, 2010, the Bank had pledged AFS and HTM MBS with an amortized cost of $679.2 million and $671.9 million, respectively, and an estimated fair value of $716.3 million and $709.9 million, respectively, as collateral for repurchase agreements. The securities pledged as collateral for the repurchase agreements can be repledged by the counterparties. Additionally, as of December 31, 2010, the Bank had pledged AFS and HTM MBS with an amortized cost of $218.4 million and an estimated fair value of $217.2 million for certain retail deposits. The Bank did not have any securities pledged for retail deposits as of September 30, 2010. As of December 31, 2010 and September 30, 2010, the Bank had pledged AFS and HTM MBS with an amortized cost of $152.9 million and $155.0 million, respectively, and an estimated fair value of $161.6 million and $165.0 million, respectively, as collateral for public unit depositors and the Federal Reserve Bank.

During fiscal year 2010, the Bank swapped originated fixed-rate mortgage loans with FHLMC for MBS ("loan swap transaction"). The $192.7 million of MBS received, at amortized cost, in the loan swap transaction were classified as trading securities prior to their subsequent sale by the Bank. Proceeds from the sale of these securities were $199.1 million, resulting in a gross realized gain of $6.5 million. The gain is included in gain on securities, net in the consolidated statements of income for the year ended September 30, 2010. All other dispositions of securities during fiscal year 2010 were the result of principal repayments or maturities.

4. Loans Receivable and Allowance for Loan Losses

Loans receivable, net at December 31, 2010 and September 30, 2010 is summarized as follows:

	December 31, 2010	September 30, 2010
	(Dollars in thousands)	
Mortgage loans:		
One- to four-family	$4,876,547	$4,915,651
Multi-family and commercial	64,280	66,476
Construction	37,487	33,168
Total real estate loans	4,978,314	5,015,295
Consumer loans:		
Home equity	177,577	186,347
Other	7,428	7,671
Total consumer loans	185,005	194,018
Total loans receivable	5,163,319	5,209,313
Less:		
Undisbursed loan funds	17,258	15,489
Unearned loan fees and deferred costs	10,320	10,730
ALLL	14,723	14,892
	$5,121,018	$5,168,202

Lending Practices and Underwriting Standards - Originating and purchasing loans secured by one- to four-family residential properties is the Bank's primary business, resulting in a loan concentration in residential first mortgage loans. One-to four-family loans are purchased from a select group of correspondent lenders in the Bank's primary market areas and selected market areas in Missouri. As a result, the Bank has a concentration of loans secured by real property located in Kansas and Missouri. At December 31, 2010, approximately 75% of the Bank's loans were secured by properties located in Kansas and 15% of the Bank's loans were secured by properties located in Missouri. Additionally, the Bank purchases whole one- to four-family loans from nationwide lenders. The servicing rights for these loans are generally retained by the lender. The Bank also makes consumer loans, construction loans secured by residential or commercial properties, and real estate loans secured by multi-family dwellings.

One- to four-family loans - One- to four-family loans are underwritten manually or by an automated underwriting system developed by a third party. The system's components closely resemble the Bank's manual underwriting standards which are generally in accordance with FHLMC and FNMA manual underwriting guidelines. The automated underwriting system analyzes the applicant's data, with emphasis on credit history, employment and income history, qualifying ratios reflecting the applicant's ability to repay, asset reserves, and LTV ratio. Full documentation to support the applicant's credit, income, and sufficient funds to cover all applicable fees and reserves at closing are required on all loans. Loans that do not meet the automated underwriting standards are referred to a staff underwriter for manual underwriting. Properties securing one- to four-family loans are appraised by either staff appraisers or fee appraisers, both of which are independent of the loan origination function and have been approved by the Board of Directors.

The Bank also originates construction-to-permanent loans secured by one- to four-family residential real estate. The interest rate and loan products offered on the one- to four-family construction-to-permanent loan program are the same as what is offered for non-construction-to-permanent one- to four-family loans. The majority of the one- to four-family construction loans are secured by property located within the Bank's Kansas City market areas. Construction loans are obtained primarily by homeowners who will occupy the property when construction is complete. Construction loans to builders for speculative purposes are not permitted. The application process includes submission of complete plans, specifications, and costs of the project to be constructed. All construction loans are manually underwritten using the Bank's internal underwriting standards. Construction draw requests and the supporting documentation are reviewed and approved by management. The Bank also performs regular documented inspections of the construction project to ensure the funds are being used for the intended purpose and the project is being completed according to the plans and specifications provided.

For a conventional mortgage with an LTV ratio in excess of 80% at the time of origination, private mortgage insurance (“PMI”) is required in order to reduce the Bank’s loss exposure to less than 80% of either the appraised value or the purchase price of the property, whichever is less. The Bank will lend up to 97% of the lesser of the appraised value or purchase price for conventional one- to four-family loans, provided PMI is obtained.

The underwriting of loans purchased through correspondent lenders is generally performed by the Bank’s underwriters, using the Bank’s underwriting standards. The Bank requires fully documented loan files. The Bank’s underwriting standards do not permit loans with no documentation, stated income, or stated assets. Lenders are required to fully document all data sources for each application.

The underwriting standards for loans purchased from nationwide lenders are generally similar to the Bank’s internal underwriting standards. The Bank requires fully documented loan files. The Bank does not permit loans that were originated with no documentation, stated income, or stated assets. Lenders are required to fully document all data sources for each application. Before committing to purchase a pool of loans from a lender, the Bank’s Chief Lending Officer or Secondary Marketing Manager reviews specific criteria such as loan amount, credit scores, LTV ratios, geographic location, and debt ratios of each loan in the pool. If the specific criteria do not meet the Bank’s underwriting standards and compensating factors are not sufficient, then a loan will be removed from the pool. Once the review of the specific criteria is complete and loans not meeting the Bank’s standards are removed from the pool, changes are sent back to the lender for acceptance and pricing. Before the pool is funded, an internal Bank underwriter reviews at least 25% of the loan files to confirm loan terms, credit scores, debt service ratios, property appraisals and other underwriting related documentation.

For the tables within this footnote, loans purchased from correspondent lenders are included with originated loans, and loans purchased from nationwide lenders are reported as purchased loans. The underwriting of loans purchased through correspondent lenders is generally performed by our underwriters, using the Bank’s underwriting standards, and the Bank services the loans; therefore, these loans are included with our originated loans.

Multi-family and commercial loans - The Bank’s multi-family and commercial real estate loans are secured primarily by multi-family dwellings and small commercial buildings generally located in the Bank’s market areas. These loans are granted based on the income producing potential of the property and the financial strength of the borrower. LTV ratios on multi-family and commercial real estate loans do not exceed 80% of the appraised value of the property securing the loans. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt at the time of origination. The Bank generally requires personal guarantees of the borrowers covering a portion of the debt in addition to the security property as collateral for these loans. Appraisals on properties securing these loans are performed by independent state certified fee appraisers approved by the Board of Directors.

Our multi-family and commercial real estate loans are generally large dollar loans and involve a greater degree of credit risk than one- to four-family loans. Such loans typically involve large balances to single borrowers or groups of related borrowers. Because payments on multi-family and commercial real estate loans are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced, or if leases are not obtained or renewed, the borrower’s ability to repay the loan may be impaired.

Consumer loans -The Bank offers a variety of secured consumer loans, including home equity loans and lines of credit, home improvement loans, auto loans, and loans secured by savings deposits. The Bank also originates a very limited amount of unsecured loans. The Bank does not originate any consumer loans on an indirect basis, such as contracts purchased from retailers of goods or services which have extended credit to their customers. Consumer loans generally have shorter terms to maturity or reprice more frequently, which reduces the Bank's exposure to changes in interest rates, and usually carry higher rates of interest than do one- to four-family loans. However, consumer loans may entail greater risk than do one- to four-family loans, particularly in the case of consumer loans that are secured by rapidly depreciable assets, such as automobiles.

The underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of their ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the security in relation to the proposed loan amount.

The majority of the consumer loan portfolio is comprised of home equity lines of credit, which have interest rates that can adjust monthly based upon changes in the Prime rate, to a maximum of 18%. Home equity loans originated after June 2010 may be originated in amounts, together with the existing first mortgage, of up to 90% of the value of the property. Home equity loans originated prior to June 2010 may have been originated in amounts, together with the amount of the existing first mortgage, of up to 100% of the value of the property securing the loan. Closed end equity home loans may be originated up to 95% of the value of the property securing the loans, taking into consideration the existing first mortgage. In order to minimize risk of loss, home equity loans that are greater than 80% of the value of the property, when combined with the first mortgage, require PMI.

Delinquent loans, non-accrual loans, and other credit quality indicators - The following table presents the carrying value of the Company's 30 to 89 day delinquent loans, 90 or more day delinquent loans, total delinquent loans, total current loans, and the total loans receivable balance at December 31, 2010 by loan class. In the general valuation allowance model, loans in the 30 to 89 day delinquent category are assigned a higher loss factor than corresponding performing loans. Loans 90 or more days delinquent are considered impaired loans and are individually evaluated for impairment. At December 31, 2010, all loans in the 90 or more days delinquent category were on nonaccrual status and represented the entire balance of nonaccrual loans. At December 31, 2010, there were no loans 90 or more days delinquent that were still accruing interest.

	30 to 89 Days Delinquent	90 or More Days Delinquent	Total Delinquent Loans	Current Loans	Total Loan Portfolio Balance
	(Dollars in thousands)				
One- to four-family loans - originated	$20,009	$13,248	$33,257	$4,343,885	$4,377,142
One- to four-family loans - purchased	7,573	17,176	24,749	511,250	535,999
Multi-family and commercial loans	--	--	--	65,173	65,173
Consumer - home equity	767	530	1,297	176,280	177,577
Consumer - other	313	33	346	7,082	7,428
	$28,662	$30,987	$59,649	$5,103,670	$5,163,319

Impaired loans are defined as non-accrual loans, loans classified as substandard, loans with SVAs and TDRs that have not yet performed under the restructured terms for 12 consecutive months or are required by the accounting literature to be classified as such for the life of the loan. Substantially all of the impaired loans at December 31, 2010 were secured by residential real estate. Impaired loans are individually evaluated to ensure that the carrying value of the loan is not in excess of the fair value of the collateral, less estimated selling costs. Fair values are estimated through such methods as current appraisals, AVMs, BPOs or listing prices. Fair values may be adjusted by management to reflect current economic and market conditions. If the outstanding loan balance is in excess of the estimated fair value determined by management, less estimated costs to sell, then a specific valuation allowance is recorded for the difference. The following is a summary of information pertaining to impaired loans by loan class at December 31, 2010 and for the quarter ended December 31, 2010.

	Impaired Loans Without An ALLL	Impaired Loans With An ALLL	Total Impaired Loans	ALLL on Impaired Loans	Average Investment in Impaired Loans	Net Interest Income Recognized on Impaired Loans
			(Dollars in thousands)			
One- to four-family - originated	$34,562	$1,507	$36,069	$125	$33,778	$ 331
One- to four-family - purchased	8,259	15,065	23,324	3,892	23,706	74
Multi-family and commercial	589	--	589	--	589	9
Consumer - home equity	802	13	815	17	863	6
Consumer - other	63	--	63	3	53	--
	$44,275	$16,585	$60,860	$4,037	$58,989	$ 420

In connection with the filing of the Bank's periodic reports with the OTS and in accordance with the Bank's asset classification policy, management regularly reviews the problem loans in the Bank's portfolio to determine whether any assets require classification in accordance with applicable regulations. The following table sets forth the balance of loans, less SVAs, classified as special mention or substandard at December 31, 2010 by loan class. Special mention loans are performing loans on which known information about the collateral pledged or the possible credit problems of the borrowers have caused management to have doubts as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such loans in the non-performing loan categories. Special mention loans are included with loans 30 to 89 days delinquent in the general valuation allowance model, if the loan is not considered impaired. A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans include those characterized by the distinct possibility the Bank will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have all the weaknesses inherent as those classified as substandard, with the added characteristic that the weaknesses present make collection or liquidation in full on the basis of currently existing facts and conditions and values highly questionable and improbable. Loans classified as loss are considered uncollectible and of such little value that their continuance as loans without the establishment of specific loss allowance is not warranted. Loans classified as substandard, doubtful or loss are considered impaired loans and are individually evaluated for impairment. At December 31, 2010, there were no loans classified as doubtful or loss. In addition to the classified loans below, the Bank has $14.3 million of other assets also classified per its asset classification policy and application regulations.

	Special Mention	Substandard
	(Dollars in thousands)	
One- to four-family - originated	$18,113	$ 18,741
One- to four-family - purchased	--	19,432
Multi-family and commercial	8,275	--
Consumer - home equity	55	789
Consumer - other	--	62
	$26,443	$ 39,024

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The following tables show the LTV and credit score information for originated and purchased one- to four-family loans and originated consumer home equity loans. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent bank appraisal, BPO or AVM, if available. In most cases, the most recent appraisal was obtained at the time of origination. The LTV ratios based upon appraisals obtained at the time of origination may not necessarily indicate the extent to which the Bank may incur a loss on any given loan that may go into foreclosure as the value of the underlying collateral may have declined since the time of origination. Credit scores were most recently updated in December 2010. Management will continue to update credit scores as deemed necessary based upon economic conditions.

One- to Four-Family - Originated				Credit Score						
	Less than 660		661 to 700		701 to 750		751 and above		Total	
LTV ratio	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
					(Dollars in thousands)					
Less than 70%	$96,103	2.2 %	$106,116	2.4%	$310,771	7.1 %	$1,693,484	38.8%	$2,206,474	50.5 %
70% to 80%	76,418	1.7	93,072	2.1	279,973	6.4	1,034,798	23.6	1,484,261	33.8
More than 80%	63,584	1.5	64,183	1.5	176,135	4.0	382,505	8.7	686,407	15.7
	$236,105	5.4 %	$263,371	6.0%	$766,879	17.5%	$3,110,787	71.1%	$4,377,142	100.0%
Weighted average LTV ratio	66 %									
Weighted average credit score	761									

One- to Four-Family - Purchased				Credit Score						
	Less than 660		661 to 700		701 to 750		751 and above		Total	
LTV ratio	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
					(Dollars in thousands)					
Less than 70%	$23,359	4.4 %	$32,123	6.0%	$73,118	13.6%	$247,239	45.9%	$375,839	69.9 %
70% to 80%	19,218	3.6	15,852	3.0	35,206	6.6	68,502	12.8	138,778	26.0
More than 80%	17,965	3.4	1,342	0.3	1,558	0.3	517	0.1	21,382	4.1
	$60,542	11.4%	$49,317	9.3%	$109,882	20.5%	$316,258	58.8%	$535,999	100.0%
Weighted average LTV ratio	59 %									

Weighted average credit score	740

Consumer - Home Equity	Credit Score									
	Less than 660		661 to 700		701 to 750		751 and above		Total	
LTV ratio	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(Dollars in thousands)									
Less than 70%	$16,048	9.0%	$13,983	7.9%	$33,112	18.6%	$111,999	63.0%	$175,142	98.5 %
70% to 80%	164	0.1	114	0.1	283	0.2	765	0.4	1,326	0.8
More than 80%	119	0.1	34	0.0	304	0.2	652	0.4	1,109	0.7
	$16,331	9.2%	$14,131	8.0%	$33,699	19.0%	$113,416	63.8%	$177,577	100.0%
Weighted average LTV ratio	19 %									
Weighted average credit score	742									

ALLL - The following is a summary of the activity in the ALLL by loan portfolio segment for the quarter ended December 31, 2010 and the ending balance of the ALLL at December 31, 2010 disaggregated by the Company's impairment methodology.

	One- to Four-Family - Originated	One- to Four-Family - Purchased	One- to Four-Family - Total	Multi-family and Commercial	Consumer	Total
			(Dollars in thousands)			
Beginning balance	$3,813	$10,425	$14,238	$ 275	$379	$14,892
Charge-offs	(73)	(658)	(731)	--	(88)	(819)
Recoveries	--	--	--	--	--	--
Provision for loan losses	(129)	671	542	(5)	113	650
Ending balance	$3,611	$10,438	$14,049	$ 270	$404	$14,723
ALLL for loans individually evaluated for impairment	$126	$3,891	$4,017	$ --	$20	$4,037
ALLL for loans collectively evaluated for impairment	3,485	6,547	10,032	270	384	10,686
Ratio of net charge-offs to average loans outstanding during the period						0.02 %
Ratio of net charge-offs during the period to average non-performing assets						1.95 %

The following is a summary of the loan portfolio at December 31, 2010 by loan portfolio segment disaggregated by the Company's impairment method.

	One- to Four-Family	Multi-family and Commercial	Consumer	Total
	(Dollars in thousands)			
Loans collectively evaluated for impairment	$4,853,748	$ 64,584	$184,127	$5,102,459
Loans individually evaluated for impairment	59,393	589	878	60,860
Loan balance	$4,913,141	$ 65,173	$185,005	$5,163,319

As noted above, the Bank has a loan concentration in residential first mortgage loans. Continued declines in residential real estate values could adversely impact the property used as collateral for the Bank's loans. Adverse changes in the economic conditions and increasing unemployment rates may have a negative effect on the ability of the Bank's borrowers to make timely loan payments, which would likely increase delinquencies and have an adverse impact on the Bank's earnings. Further increases in delinquencies will decrease interest income on loans receivable and will likely adversely impact the Bank's loan loss experience, resulting in an increase in the Bank's ALLL and provision for loan losses. Although management believes the ALLL was at an adequate level to absorb known and inherent losses in the loan portfolio at December 31, 2010, the level of the ALLL remains an estimate that is subject to significant judgment and short-term changes. Additions to the ALLL may be necessary if future economic and other conditions differ substantially from the current environment.

5. Fair Value of Financial Instruments

Fair Value Measurements - ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures. ASC 820 was issued to increase consistency and comparability in reporting fair values.

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The Company did not have any liabilities that were measured at fair value at December 31, 2010 and September 30, 2010. The Company's AFS securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets or liabilities on a non-recurring basis, such as REO, LHFS, and impaired loans. These non-recurring fair value adjustments involve the application of lower-of-cost-or-fair value accounting or write-downs of individual assets.

In accordance with ASC 820, the Company groups its assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 — Valuation is based upon quoted prices for identical instruments traded in active markets.

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Level 2 — Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

- Level 3 — Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

The Company bases its fair values on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As required by ASC 820, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

The following is a description of valuation methodologies used for assets measured at fair value on a recurring basis.

AFS Securities - The Company's AFS securities portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders' equity. The Company's major security types based on the nature and risks of the securities are included in the table below. The majority of the securities within the AFS portfolio are issued by U.S. government sponsored enterprises. The fair values for all AFS securities are based on quoted prices for similar securities. Various modeling techniques are used to determine pricing for the Company's securities, including option pricing and discounted cash flow models. The inputs to these models may include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. There are some AFS securities in the AFS portfolio that have significant unobservable inputs requiring the independent pricing services to use some judgment in pricing the related securities. These AFS securities are classified as Level 3. All other AFS securities are classified as Level 2.

The following table provides the level of valuation assumption used to determine the carrying value of the Company's assets measured at fair value on a recurring basis, which consists of AFS securities, at December 31, 2010 and September 30, 2010.

	December 31, 2010			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (1)
	(Dollars in thousands)			
Municipal bonds	$2,766	$--	$ 2,766	$ --
Trust preferred securities	2,781	--	--	2,781
MBS	917,578	--	917,578	--
	$923,125	$--	$ 920,344	$ 2,781

	September 30, 2010			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (2)
	(Dollars in thousands)			
GSE debentures	$50,255	$--	$ 50,255	$ --
Municipal bonds	2,819	--	2,819	--
Trust preferred securities	2,796	--	--	2,796
MBS	1,004,496	--	1,004,496	--

$1,060,366	$--	$ 1,057,570	$ 2,796

(1) The Company's Level 3 AFS security has had no activity since September 30, 2010, except for principal repayments of $17 thousand and increases in net unrealized losses recognized in other comprehensive income. Increases in net unrealized losses included in other comprehensive income for the three months ended December 31, 2010 were six thousand.
(2) The Company's Level 3 AFS security has had no activity during fiscal year 2010, except for principal repayments of $93 thousand and reductions in net unrealized losses recognized in other comprehensive income. Reductions of net unrealized losses included in other comprehensive income for the year ended September 30, 2010 were $460 thousand.

The following is a description of valuation methodologies used for significant assets measured at fair value on a non-recurring basis.

Loans Receivable - Loans which meet certain criteria are evaluated individually for impairment. A loan is considered impaired when, based upon current information and events, it is probable the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Impaired loans at December 31, 2010 and September 30, 2010 were $60.9 million and $57.1 million, respectively. Substantially all of the Bank’s impaired loans at December 31, 2010 and September 30, 2010 were secured by residential real estate. These impaired loans are individually assessed to ensure that the carrying value of the loan is not in excess of the fair value of the collateral, less estimated selling costs. Fair value is estimated through current appraisals, AVMs, BPOs or listing prices. Fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. Based on this evaluation, the Company maintained an ALLL of $4.0 million and $4.3 million at December 31, 2010 and September 30, 2010, respectively, for such impaired loans.

REO, net - REO represents real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at lower-of-cost or fair value. Fair value is estimated through current appraisals, AVMs, BPOs, or listing prices. As these properties are actively marketed, estimated fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. The fair value of REO at December 31, 2010 and September 30, 2010 was $11.0 million and $9.9 million, respectively.

The following table provides the level of valuation assumption used to determine the carrying value of the Company’s assets measured at fair value on a non-recurring basis at December 31, 2010 and September 30, 2010.

	December 31, 2010			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Impaired loans	$60,860	$--	$ --	$ 60,860
REO, net	10,979	--	--	10,979
	$71,839	$--	$ --	$ 71,839

	September 30, 2010			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			

Impaired loans	$57,118	$--	$ --	$ 57,118
REO, net	9,920	--	--	9,920
	$67,038	$--	$ --	$ 67,038

Fair Value Disclosures - The Company determined estimated fair value amounts using available market information and a selection from a variety of valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amount the Company could realize in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2010 and September 30, 2010. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates.

The estimated fair values of the Company's financial instruments as of December 31, 2010 and September 30, 2010 are as follows.

	At			
	December 31, 2010		September 30, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$1,329,861	$1,329,861	$65,217	$65,217
AFS securities	923,125	923,125	1,060,366	1,060,366
HTM securities	2,119,826	2,133,260	1,880,154	1,913,454
Loans receivable	5,121,018	5,345,827	5,168,202	5,392,550
BOLI	55,042	55,042	54,710	54,710
Capital stock of FHLB	121,768	121,768	120,866	120,866
Liabilities:				
Deposits	4,682,101	4,737,828	4,386,310	4,459,052
Advances from FHLB	2,350,126	2,507,437	2,348,371	2,557,064
Other borrowings	668,609	697,048	668,609	701,099

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

Cash and Cash Equivalents - The carrying amounts of cash and cash equivalents are considered to approximate their fair value due to the nature of the financial asset.

AFS and HTM Securities - Estimated fair values of securities are based on one of three methods: 1) quoted market prices where available, 2) quoted market prices for similar instruments if quoted market prices are not available, 3) unobservable data that represents the Bank's assumptions about items that market participants would consider in determining fair value where no market data is available. AFS securities are carried at estimated fair value. HTM securities are carried at amortized cost.

Loans Receivable - Fair values are estimated for portfolios with similar financial characteristics. Loans are segregated by type, such as one- to four-family residential mortgages, multi-family residential mortgages, nonresidential and installment loans. Each loan category is further segmented into fixed and adjustable interest rate categories. Market pricing sources are used to approximate the estimated fair value of fixed- and adjustable-rate one- to four-family residential mortgages. For all other loan categories, future cash flows are discounted using the LIBOR curve plus a margin at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturity.

BOLI - The carrying value of BOLI is considered to approximate its fair value due to the nature of the financial asset.

Capital Stock of FHLB - The carrying value of FHLB stock equals cost. The fair value is based on redemption at par value.

Deposits - The estimated fair value of demand deposits, savings and money market accounts is the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using a margin to the LIBOR curve.

Advances from FHLB - The estimated fair value of advances from FHLB is determined by discounting the future cash flows of each advance using a margin to the LIBOR curve.

Other Borrowings - Other borrowings consists of repurchase agreements and Junior Subordinated Deferrable Interest Debentures (“the debentures”). The estimated fair value of the repurchase agreements is determined by discounting the future cash flows of each agreement using a margin to the LIBOR curve. The debentures have a variable rate structure, with the ability to redeem at par; therefore, the carrying value of the debentures approximates their estimated fair value.

6. Employee Stock Ownership Plan

The ESOP Trust acquired 4,726,000 shares of common stock in the Company's corporate reorganization, with proceeds from a loan from the Company. The Bank has agreed to make contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required annual loan payments to the Company on September 30 of each year.

The loan referenced above bears interest at a fixed-rate of 3.25% and has a 30 year term. The first three years of the loan are interest-only, with the first interest payment of $1.2 million payable on September 30, 2011 and the next two interest payments of $1.5 million each being payable on September 30, 2012 and 2013. Beginning in fiscal year 2014, principal and interest payments of $2.7 million will be payable annually. The loan is secured by the shares of Company stock purchased.

As the annual loan payments are made, shares will be released from collateral annually at September 30 and allocated to qualified employees based on the proportion of their qualifying compensation to total qualifying compensation. 74,574 shares will be released from collateral on September 30, 2011 and allocated to qualified employees based on the proportion of their qualifying compensation to total qualifying compensation. As ESOP shares are committed to be released from collateral, the Company will record compensation expense. Dividends on unallocated ESOP shares will be applied to ESOP's current year debt service payment.

The loan for the existing ESOP shares acquired in the initial public offering in 1999 bears interest at a fixed-rate of 5.80%, with future principal and interest payable annually in three remaining fixed installments of $3.0 million, as of December 31, 2010. This loan is also secured by the shares of Company stock purchased.

7. Subsequent Events

In preparing these financial statements, management has evaluated events occurring subsequent to December 31, 2010, for potential recognition and disclosure. There have been no material events or transactions which would require adjustments to the consolidated financial statements at December 31, 2010.

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

The Company and its wholly-owned subsidiary may from time to time make written or oral "forward-looking statements," including statements contained in documents filed or furnished by the Company with the SEC. These forward-looking statements may be included in this Quarterly Report on Form 10-Q and the exhibits attached to it, in the Company's reports to stockholders, in the Company's press releases, and in other communications by the Company, which are made in good faith by us pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements about our beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond our control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause our future results to differ materially from the plans, objectives, goals, expectations, anticipations, estimates and intentions expressed in the forward-looking statements:

- our ability to continue to maintain overhead costs at reasonable levels;
- our ability to continue to originate a significant volume of one- to four-family mortgage loans in our market areas;
- our ability to acquire funds from or invest funds in wholesale or secondary markets;
- the future earnings and capital levels of the Bank and the continued non-objection by our primary federal banking regulator, to the extent required, to distribute capital from the Bank to the Company, which could affect the ability of the Company to pay dividends in accordance with its dividend policies;
- fluctuations in deposit flows, loan demand, and/or real estate values, as well as unemployment levels, which may adversely affect our business;
- the credit risks of lending and investing activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the ALLL;
- results of examinations of the Bank by its primary federal banking regulator, including the possibility that the regulator may, among other things, require the Bank to increase its ALLL;
- the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;
- the effects of, and changes in, foreign and military policies of the United States government;
- inflation, interest rate, market and monetary fluctuations;
- our ability to access cost-effective funding;
- the timely development and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;
- the willingness of users to substitute competitors' products and services for our products and services;
- our success in gaining regulatory approval of our products and services and branching locations, when required;
- the impact of changes in financial services laws and regulations, including laws concerning taxes, banking securities and insurance and the impact of other governmental initiatives affecting the financial services industry;
- implementing business initiatives may be more difficult or expensive than anticipated;
- technological changes;
- acquisitions and dispositions;
- changes in consumer spending and saving habits; and
- our success at managing the risks involved in our business.

This list of important factors is not all inclusive. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or the Bank.

As used in this Form 10-Q, unless we specify otherwise, “the Company,” “we,” “us,” and “our” refer to Capitol Federal Financial, Inc., a Maryland corporation, and its predecessor, Capitol Federal Financial, a United States

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corporation. "Capitol Federal Savings," and "the Bank," refer to Capitol Federal Savings Bank, a federal savings bank and the wholly-owned subsidiary of Capitol Federal Financial, Inc.

The following discussion and analysis is intended to assist in understanding the financial condition and results of operations of the Company. It should be read in conjunction with the consolidated financial statements and notes presented in this report. The discussion includes comments relating to the Bank, since the Bank is wholly-owned by the Company and comprises the majority of its assets and is the principal source of income for the Company. This discussion and analysis should be read in conjunction with management's discussion and analysis included in the Company's 2010 Annual Report on Form 10-K filed with the SEC.

Executive Summary

The following summary should be read in conjunction with our Management's Discussion and Analysis of Financial Condition and Results of Operations in its entirety.

In December 2010, Capitol Federal Financial completed its conversion from a mutual holding company form of organization to a stock form of organization. Capitol Federal Financial, which owned 100% of the Bank, was succeeded by Capitol Federal Financial, Inc, a new Maryland corporation. As part of the corporate reorganization, MHC's ownership interest of Capitol Federal Financial was sold in a public stock offering. Capitol Federal Financial, Inc. sold 118,150,000 shares of common stock at $10.00 per share in the stock offering. The publicly held shares of Capitol Federal Financial were exchanged for new shares of common stock of Capitol Federal Financial, Inc. The exchange ratio was 2.2637 and ensured that immediately after the corporate reorganization the public stockholders of Capitol Federal Financial owned the same aggregate percentage of Capitol Federal Financial, Inc. common stock that they owned of Capitol Federal Financial common stock immediately prior to that time. In lieu of fractional shares, Capitol Federal Financial stockholders were paid in cash. The net proceeds from the stock offering were $1.13 billion, of which 50%, or $567.4 million, was contributed to the Bank as a capital contribution, as required by Office of Thrift ("OTS") regulations. The other 50%, or $567.4 million, remained at Capitol Federal Financial, Inc., of which $40.0 million was contributed to the Bank's charitable foundation, Capitol Federal Foundation, and $47.3 million was loaned to the Bank's ESOP for its purchase of Capitol Federal Financial, Inc. shares in the stock offering.

We have been, and intend to continue to be, a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. We attract retail deposits from the general public and invest those funds primarily in permanent loans secured by first mortgages on owner-occupied, one- to four-family residences. To a much lesser extent, we also originate consumer loans, loans secured by first mortgages on non-owner-occupied one- to four-family residences, multi-family and commercial real estate loans and construction loans. While our primary business is the origination of one- to four-family mortgage loans funded through retail deposits, we also purchase whole one- to four-family mortgage loans from correspondent lenders located within our market areas and select market areas in Missouri and from nationwide lenders, and invest in certain investment and MBS funded through retail deposits, advances from FHLB, and repurchase agreements. The Company is significantly affected by prevailing economic conditions including federal monetary and fiscal policies and federal regulation of financial institutions. Deposit balances are influenced by a number of factors including interest rates paid on competing personal investment products, the level of personal income, and the personal rate of savings within our market areas. Lending activities are influenced by the demand for housing and other loans, changing loan underwriting guidelines, as well as interest rate pricing competition from other lending institutions. The primary sources of funds for lending activities include deposits, loan repayments, investment income, borrowings, and funds provided from operations.

The Company's results of operations are primarily dependent on net interest income, which is the difference between the interest earned on loans, MBS, investment securities and cash, and the interest paid on deposits and borrowings. On a weekly basis, management reviews deposit flows, loan demand, cash levels, and changes in several market rates to assess all pricing strategies. We generally price our loan and deposit products based upon an analysis of our competition and changes in market rates. The Bank generally prices its first mortgage loan products based on secondary market and competitor pricing. Generally, deposit pricing is based upon a survey of competitors in the Bank's market areas, and the need to attract funding and retain maturing deposits. The majority of our loans are fixed-rate products with maturities up to 30 years, while the majority of our deposits have maturity or repricing dates of less than two years.

During fiscal year 2010 and into the first quarter of fiscal year 2011, the economy began to show signs of recovery, as evidenced by increases in consumer spending and the stabilization of the labor market, the housing sector, and financial markets. However, unemployment levels remained elevated and unemployment periods prolonged, and demand for housing was weak due to distressed sales, increased inventory due to foreclosures and tightened lending standards. In an effort to support mortgage lending and housing market recovery, and to help improve credit conditions overall, the Federal Open Market Committee of the Federal Reserve has maintained the overnight lending rate between zero and 25 basis points since December 2008. At the November 2010 Federal Open Market Committee meeting, the Committee announced a second round of quantitative easing. Under this new program, the Federal Reserve is committed to purchasing $600 billion, or approximately $75 billion per month, of Treasury securities over the next eight months. By doing this, the Federal Reserve will effectively increase the amount of excess reserves in the banking system and intends to reduce long-term interest rates in an effort to help stimulate the economy.

The historically low interest rate environment during the past two fiscal years spurred an increased demand for our loan modification program and mortgage refinances. Our loan modification program allows existing loan customers, whose loans have not been sold to third parties and who have been current on their contractual loan payments for the previous 12 months, the opportunity to modify, for a fee, their original loan terms to current loan terms being offered. During the first quarter of fiscal year 2011 and all of fiscal year 2010, the Bank modified $544.9 million and $545.1 million of originated loans, respectively, with a weighted average rate decrease of 98 and 87 basis points, respectively. Additionally, the Bank refinanced $151.0 million and $153.6 million of its customers' loans during the first quarter of fiscal year 2011 and all of fiscal year 2010, respectively.

Total assets increased $1.31 billion, from $8.49 billion at September 30, 2010 to $9.80 billion at December 31, 2010, due primarily to the corporate reorganization completed in December 2010. The increase in assets was primarily in cash and cash equivalents as a result of the stock offering. Management anticipates the majority of the net proceeds from the stock offering will be invested in securities during the second quarter of fiscal year 2011. Capitol Federal Financial, Inc. plans to use the cash from the stock offering to buy short-term securities with laddered maturities in order to provide cash flows that can be used to repurchase stock, when allowed by federal banking regulations, or that can be reinvested into higher yielding assets if interest rates rise. The Bank plans to use the cash from the stock offering to purchase securities that are consistent with the Bank's current investment portfolio. These securities will have a shorter risk profile than the Bank's long-term fixed-rate mortgage portfolio in order to help shorten the overall duration of the Bank's total assets. The yields on these securities will be less than the yields on the Bank's current investment portfolio due to the lower interest rate environment, which will result in a decline in our net interest margin in the short term. The intent of the Bank's investment portfolio is to create a steady stream of cash flows that can be redeployed into other assets as the Bank grows the loan portfolio or be reinvested into higher yielding assets should interest rates rise.

Non-performing loans decreased $969 thousand from $32.0 million at September 30, 2010 to $31.0 million at December 31, 2010. The balance of non-performing loans continues to remain at historically high levels due to the continued elevated level of unemployment coupled with the decline in real estate values, particularly in some of the states in which we have purchased loans. Despite the current economic operating environment and some deterioration in our portfolio, particularly the purchased loan portfolio, we believe that our overall credit quality continues to compare favorably to the industry and our peers.

The Company reported a net loss of $11.3 million for the quarter ended December 31, 2010, compared to net income of $21.0 million for the quarter ended December 31, 2009. The net loss in the current quarter was due to the $40.0 million ($26.0 million, net of income tax benefit) contribution to the Foundation in connection with the corporate reorganization. Net interest income for the quarter ended December 31, 2010 was $40.0 million compared to $44.9 million in the same quarter of the prior year. The $4.9 million decrease was a result of an $11.6 million decrease in interest and dividend income, partially offset by a $6.8 million decrease in interest expense. The Bank recorded a provision for loan losses of $650 thousand during the current quarter primarily due to the increase/establishment of

SVAs on purchased loans, compared to a $3.1 million provision for loan losses for the quarter ended December 31, 2009. Other income decreased $6.8 million, from $13.1 million for the quarter ended December 31, 2009 to $6.3 million for the quarter ended December 31, 2010. The decrease in other income was primarily due to a $6.5 million gain on the sale of securities in the prior year and no similar gain in the current year.

Currently, the Bank has no plans to open any branches in our market areas during fiscal year 2011. We have a branch scheduled to open in early fiscal year 2012 in our Kansas City market area. Management continues to consider expansion opportunities in all of our market areas.

Available Information

Financial and other Company information, including press releases, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports can be obtained free of charge from our investor relations website, http://ir.capfed.com. SEC filings are available on our website immediately after they are electronically filed with or furnished to the SEC, and are also available on the SEC's website at www.sec.gov.

Critical Accounting Policies

Our most critical accounting policies are the methodologies used to determine the ALLL, other-than-temporary declines in the value of securities and fair value measurements. These policies are important to the presentation of our financial condition and results of operations, involve a high degree of complexity, and require management to make difficult and subjective judgments that may require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions, and estimates could cause reported results to differ materially. These critical accounting policies and their application are reviewed at least annually by our audit committee. For a full discussion of our critical accounting policies, see Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

Financial Condition

Total assets increased $1.31 billion, from $8.49 billion at September 30, 2010 to $9.80 billion at December 31, 2010, due to the corporate reorganization during the first quarter of fiscal year 2011. The increase in assets was primarily in cash and cash equivalents as a result of the stock offering. Management anticipates the majority of the net proceeds from the stock offering will be invested in securities during the second quarter of fiscal year 2011. Capitol Federal Financial, Inc. plans to use the cash from the offering to buy short-term securities with laddered maturities in order to provide cash flows that can be used to repurchase stock, when allowed by federal banking regulations, or that can be reinvested into higher yielding assets if interest rates rise. The Bank plans to use the cash from the stock offering to purchase securities that are consistent with the Bank's current investment portfolio. These securities will have a shorter risk profile than the Bank's long-term fixed-rate mortgage portfolio in order to help shorten the overall duration of the Bank's total assets. The intent of the Bank's investment portfolio is to create a steady stream of cash flows that can be redeployed into other assets as the Bank grows the loan portfolio or be reinvested into higher yielding assets should interest rates rise.

	Balance at				
	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
	(Dollars in thousands, except per share amounts)				
Total assets	$9,798,294	$8,487,130	$8,543,357	$8,485,465	$8,374,762
Cash and cash equivalents	1,329,861	65,217	75,886	60,735	105,128
AFS securities	923,125	1,060,366	1,163,416	1,354,884	1,539,097
HTM securities	2,119,826	1,880,154	1,660,271	1,372,857	990,815

Loans receivable, net	5,121,018	5,168,202	5,316,172	5,380,852	5,423,923
Capital stock of FHLB	121,768	120,866	136,055	135,050	134,064
Deposits	4,682,101	4,386,310	4,373,844	4,319,066	4,227,252
Advances from FHLB	2,350,126	2,348,371	2,396,637	2,395,842	2,394,214
Other borrowings	668,609	668,609	713,609	713,609	713,609
Stockholders' equity	2,018,973	961,950	960,000	946,073	941,999
Equity to total assets at end of period	20.6 %	11.3 %	11.2 %	11.1 %	11.2 %
Bank tangible equity ratio (1)	13.9 %	9.8 %	9.7 %	10.0 %	10.1 %
Book value per share	$12.50	$13.11	$13.09	$12.91	$12.86

(1) See tangible equity to GAAP equity reconciliation in “Liquidity and Capital Resources – Regulatory Capital.”

Loans Receivable. The loans receivable portfolio decreased $47.2 million from $5.17 billion at September 30, 2010 to $5.12 billion at December 31, 2010. For the three months ended December 31, 2010, principal repayments on loans exceeded originations, refinances, and purchases by $43.4 million. Mortgage origination volume, in general, has decreased from the prior year as the market demand for lending was reduced and the Bank did not actively pursue the purchase of loans. Refinance activity increased, though, due to the decline in mortgage rates during the current quarter and customer perceptions that the decline in mortgage rates may be nearing an end.

The Bank did not purchase any one- to four-family loans from nationwide lenders during the first quarter of fiscal year 2011. The Bank is working to expand the number of relationships with third parties from whom it may buy loans in the future. At December 31, 2010, one- to four-family loans purchased from nationwide lenders represented 10% of our loan portfolio and were secured by properties located in 47 of the continental United States. At December 31, 2010, one- to four-family purchased loans from nationwide lenders in the following states comprised 5% or greater of total one- to four-family purchased loans: Illinois 12%; Florida 8%, Texas 7%, New York 7%, and Arizona 5%. As of December 31, 2010, the average balance of a one-to four-family purchased nationwide loan was approximately $340 thousand, the average balance of a one- to four-family correspondent loan was approximately $275 thousand, and the average balance of a one- to four-family originated loan was approximately $123 thousand.

Included in the loan portfolio at December 31, 2010 were $187.4 million of adjustable-rate mortgage (“ARM”) loans that were originated as interest-only. Of these interest-only loans, $147.8 million were purchased from nationwide lenders, primarily during fiscal year 2005. Interest-only ARM loans do not typically require principal payments during their initial term, and have initial interest-only terms of either five or ten years. The $147.8 million of purchased interest-only ARM loans had a weighted average credit score of 716 and a weighted average LTV ratio of 77% at December 31, 2010. The credit scores were updated in December 2010. The LTV ratios are based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent bank appraisal, BPO or AVM, if available. The Bank has not purchased any interest-only ARM loans since 2006 and discontinued offering the product in its local markets during 2008 to reduce future credit risk. At December 31, 2010, $103.8 million, or 55%, of interest-only loans were still in their interest-only payment term. As of December 31, 2010, $13.6 million will begin to amortize principal within two years, $66.1 million will begin to amortize principal within two-to-five years and the remaining $24.1 million will begin to amortize principal within five-to-eight years. At December 31, 2010, $13.1 million, or 43% of non-performing loans, were interest-only ARMs and $2.9 million was reserved in the ALLL for these loans. Of the $13.1 million non-performing interest-only ARM loans, $6.0 million, or 46%, were still in the interest-only payment term. Non-performing interest-only ARM loans represented approximately 7% of the total interest-only ARM loan portfolio at December 31, 2010. See additional discussion regarding non-performing purchased loans in “Asset Quality – Loans and REO.”

Historically, the Bank’s underwriting guidelines have provided the Bank with loans of low delinquencies, and low levels of non-performing assets compared to national levels. Of particular importance is the complete documentation required for each loan the Bank originates and purchases. This allows the Bank to make a well informed credit decision based upon a thorough assessment of the borrower’s ability to repay the loan, compared to underwriting methodologies that do not require full documentation. As a result of our traditional underwriting guidelines and our requirement for correspondent and nationwide lenders to follow our underwriting guidelines, the Bank has not requested any correspondent lender or nationwide lender to repurchase loans during the first quarter of fiscal year 2011. Additionally, the Bank has not been required to repurchase any sold loans during the first quarter of fiscal year 2011.

The following table presents loan origination, refinance and purchase activity for the periods indicated. Loan originations, purchases and refinances are reported together. The fixed-rate one- to four-family loans less than or equal to 15 years have an original maturity at origination of less than or equal to 15 years, while fixed-rate one- to four-family loans greater than 15 years have an original maturity at origination of greater than 15 years. The adjustable-rate one- to four-family loans less than or equal to 36 months have a term to first reset of less than or equal to 36 months at origination and adjustable-rate one- to four-family loans greater than 36 months have a term to first reset of greater than 36 months at origination. Of the $275.7 million of one- to four-family loan originations and refinances in the table below, 78% had loan values below $417 thousand and 22% had loan values in excess of $417 thousand. Of the $8.9 million of correspondent purchases, 6% had loan values below $417 thousand and 94% had loan values in excess of $417 thousand.

	For the Three Months Ended									
	December 31, 2010					December 31, 2009				
	Amount	Rate		% of Total		Amount	Rate		% of Total	
Fixed-Rate:				(Dollars in thousands)						
One- to four-family										
<= 15 years	$105,951	3.75	%	34.7	%	$56,955	4.60	%	21.9	%
> 15 years	142,533	4.30		46.7		117,783	5.10		45.4	
Other real estate	892	6.00		0.3		--	--		--	
Home equity	585	6.89		0.2		1,500	7.45		0.6	
Other consumer	267	8.24		0.1		418	8.86		0.2	
Total fixed-rate	250,228	4.09		82.0		176,656	4.97		68.1	
Adjustable-Rate:										
One- to four-family										
<= 36 months	1,303	2.96		0.4		32,945	3.34		12.7	
> 36 months	34,803	3.51		11.4		26,870	4.36		10.3	
Other real estate	--	--		--		--	--		--	
Home equity	18,281	4.79		6.0		21,810	4.86		8.4	
Other consumer	564	4.22		0.2		1,190	4.73		0.5	
Total adjustable-rate	54,951	3.93		18.0		82,815	4.09		31.9	
Total originations, refinances and purchases	$305,179	4.06	%	100.0	%	$259,471	4.69	%	100.0	%
Purchased/participation loans included above:										
Fixed-Rate:										
Correspondent	$4,977	4.38	%			$17,811	5.09	%		
Nationwide	--	--				2,338	5.05			
Adjustable-Rate:										
Correspondent	3,954	3.96				9,697	4.49			
Nationwide	--	--				35,233	3.47			
Total purchased loans	$8,931	4.20	%			$65,079	4.12	%		

In an effort to offset the impact of repayments and to retain our customers, the Bank offers existing one- to four-family loan customers whose loans have not been sold to third parties who have been current on their contractual loan payments for the previous 12 months the opportunity to modify their original loan terms to new loan terms generally consistent with those currently being offered. During the three months ended December 31, 2010, the Bank modified $544.9 million of loans, with a weighted average rate decrease of 98 basis points. Loan modification activity is not included in the table above because a new loan is not generated at the time of modification.

Excluding Bank customer refinances of $151.0 million and $38.3 million during the first quarter of fiscal year 2011 and 2010, respectively, loan origination volume decreased year-over-year. Mortgage origination volume, in general, has decreased from the prior year as the market demand for lending has been reduced due to the high level of unemployment and declines in residential real estate values of those wanting to sell. Bank customer refinance activity increased, though, due to the decline in mortgage rates during the current quarter and customers' perceptions that the decline in mortgage rates may be nearing an end. The Bank did not purchase any one- to four-family loans from nationwide lenders during the first quarter of fiscal year 2011. Management is working to enhance and expand our network of relationships and partnerships related to our correspondent and nationwide purchase programs. Management intends to pursue opportunities to purchase mortgage loans in the future through enhanced business development efforts that adhere to selective geographical locations and the Bank's underwriting guidelines. Enhancements include the development of new quality business partners, including lenders for sources of business, a subservicer to service loans in nationwide locations, third party services for due diligence, and technological assistance to create greater efficiencies.

The Bank generally prices its first mortgage loan products based on secondary market and competitor pricing. During the three months ended December 31, 2010, the average rate offered on the Bank's 30-year fixed-rate one- to four-family loans, with no points paid by the borrower, was approximately 170 basis points above the average 10-year Treasury rate, while the average rate offered on the Bank's 15-year fixed-rate one- to four-family loans was approximately 100 basis points above the average 10-year Treasury rate.

The following table summarizes our one- to four-family loan commitments for originations and purchases as of December 31, 2010 and 2009. Commitments to originate one- to four-family loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a rate lock fee. Some of the commitments are expected to expire without being fully drawn upon; therefore, the amount of total commitments disclosed below does not necessarily represent future cash requirements.

	December 31,	
	2010	2009
	Amount	Amount
	(Dollars in thousands)	
Originate fixed-rate	$116,267	$67,429
Originate adjustable-rate	24,789	12,044
Purchase fixed-rate	11,504	15,947
Purchase adjustable-rate	8,888	8,794
	$161,448	$104,214

The following table presents annualized prepayment speeds for the quarter ended December 31, 2010 by interest rate tier of our fixed-rate one- to four-family loan portfolio, including our fixed-rate one- to four-family construction loans. Loan modifications and refinances are considered a prepayment and are included in the prepayment speeds presented below. During the quarter ended December 31, 2010, $516.8 million of fixed-rate loans were modified and $129.7 million of fixed-rate loans were refinanced.

	Original Term					
	15 years or less			More than 15 years		
		Prepayment Speed (annualized)			Prepayment Speed (annualized)	
Rate Range	Principal Balance	Includes Modifications	Excludes Modifications	Principal Balance	Includes Modifications	Excludes Modifications
	(Dollars in thousands)					
< =4.50%	$383,703	42.07 %	17.45 %	$635,506	27.11 %	5.16 %
4.51 - 4.99 %	283,381	75.36	33.94	259,237	68.43	15.02
5.00 - 5.50 %	254,572	57.25	28.60	1,438,143	92.52	23.62
5.51 - 5.99 %	56,531	54.67	29.93	344,509	79.44	21.42
6.00 - 6.50 %	26,188	36.93	19.99	271,951	64.80	23.21
6.51 - 6.99 %	7,672	32.37	12.22	45,065	38.25	23.64
>=7.00%	4,331	5.98	5.98	34,699	20.15	11.45
Total	$1,016,378	58.09 %	27.02 %	$3,029,110	78.52 %	20.85 %

We attempt to mitigate the repricing risk of our fixed-rate one- to four-family loan portfolio by the interest rates we offer and through the terms of our modification program. Management closely monitors competitors' rates and also considers interest rate risk and net interest income when setting offered rates. Through our modification program a borrower can modify the rate and/or term of their loan in less time than it takes to process a refinance, and for a cost that is less than a refinance, if they have been current on their payments for the previous 12 months and the loan has not been sold to a third party. At December 31, 2010, the fixed rates offered through our modification program were at least 12 basis points higher than a similar new origination or refinance. This allows the Bank to retain the modified loan and achieve a rate slightly above current market rate.

We manage the reinvestment risk of loan prepayments through our interest rate risk and asset management strategies. Principal repayments exceeded originations, refinances, and purchases by $43.4 million for first quarter of fiscal year 2011. In recent periods, principal repayments in excess of loan originations and purchases have been reinvested in shorter-term MBS and investment securities at lower market rates than our loan portfolio, which reduces our interest rate spread. If, however, market rates were to rise, the short-term nature of the securities may allow management the opportunity to reinvest the maturing funds at a higher rate.

The following table summarizes the activity in the loan portfolio for the periods indicated, excluding changes in loans in process, deferred fees, and ALLL. Bank customer refinances are included in "repayments." Purchased loans include purchases from correspondent and nationwide lenders. Loan modification activity is not included in the activity in the following table because a new loan is not generated at the time of modification. The modified balance and rate are, however, included in the ending loan portfolio balance and rate.

	For the Three Months Ended							
	December 31, 2010		September 30, 2010		June 30, 2010		March 31, 2010	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)							
Beginning balance	$5,209,313	5.07 %	$5,361,472	5.14 %	$5,425,458	5.19 %	$5,463,744	5.23 %
Originations and refinances:								
Fixed	245,251	4.08	94,048	4.64	137,012	4.96	107,694	4.93
Adjustable	50,997	3.93	39,170	4.33	34,033	4.62	38,779	4.44
Purchases:								
Fixed	4,977	4.38	6,850	5.05	8,590	5.15	12,417	5.03
Adjustable	3,954	3.96	1,417	4.40	10,737	5.58	14,011	4.03
Repayments	(348,545)		(288,626)		(250,098)		(208,015)	
Other (1)	(2,628)		(5,018)		(4,260)		(3,172)	
Ending balance	$5,163,319	4.87 %	$5,209,313	5.07 %	$5,361,472	5.14 %	$5,425,458	5.19 %

(1) "Other" consists of transfers to REO, modification fees advanced, and reductions in commitments.

The following table presents information concerning the composition of our loan portfolio in dollar amounts and in percentages (before deductions for undisbursed loan funds, unearned loan fees and deferred costs, and the ALLL) as of the dates indicated. The weighted average portfolio rate decreased 20 basis points from 5.07% at September 30, 2010 to 4.87% at December 31, 2010, primarily due to modifications, refinances and ARM loans repricing down during the current quarter. Within the one- to four-family loan portfolio at December 31, 2010, 79% of the loans had a current balance of less than $417 thousand.

	December 31, 2010			September 30, 2010		
	Amount	Average Rate	% of Total	Amount	Average Rate	% of Total
	(Dollars in thousands)					
Real Estate Loans:						
One- to four-family	$4,876,547	4.83 %	94.5 %	$4,915,651	5.03 %	94.4 %
Multi-family and commercial	64,280	6.18	1.3	66,476	6.24	1.3
Construction	37,487	4.64	0.7	33,168	4.90	0.6
Total real estate loans	4,978,314	4.85	96.5	5,015,295	5.05	96.3
Consumer Loans:						
Home equity	177,577	5.53	3.4	186,347	5.55	3.6
Other	7,428	5.57	0.1	7,671	5.66	0.1
Total consumer loans	185,005	5.53	3.5	194,018	5.55	3.7
Total loans receivable	5,163,319	4.87 %	100.0 %	5,209,313	5.07 %	100.0 %
Less:						
Undisbursed loan funds	17,258			15,489		
Unearned loan fees and deferred costs	10,320			10,730		
ALLL	14,723			14,892		
Total loans receivable, net	$5,121,018			$5,168,202		

Asset Quality – Loans and REO

The Bank's traditional underwriting guidelines have provided the Bank with generally low delinquencies and low levels of non-performing assets compared to national levels. Of particular importance is the complete and full documentation required for each loan the Bank originates and purchases. This allows the Bank to make an informed credit decision based upon a thorough assessment of the borrower's ability to repay the loan compared to underwriting methodologies that do not require full documentation. See additional discussion regarding underwriting standards in "Lending Practices and Underwriting Standards" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

In the following asset quality discussion, loans purchased from correspondent lenders are included with originated loans, and loans purchased from nationwide lenders are reported as purchased loans. The underwriting of loans purchased through correspondent lenders is generally performed by our underwriters, using the Bank's underwriting standards, and the Bank services the loans; therefore, these loans are included with our originated loans.

For one- to four-family loans and home equity loans, when a borrower fails to make a loan payment 15 days after the due date, a late charge is assessed and a notice is mailed. Collection personnel review all delinquent loan balances more than 16 days past due. Attempts to contact the borrower occur by personal letter and, if no response is received, by telephone, with the purpose of establishing repayment arrangements for the borrower to bring the loan current. Repayment arrangements must be approved by a designated bank officer. Once a loan becomes 90 days delinquent, a demand letter is issued requiring the loan to be brought current or foreclosure procedures will be implemented. Generally, when a loan becomes 120 days delinquent, and an acceptable repayment plan has not been established, the loan is forwarded to legal counsel to initiate foreclosure. We also monitor whether mortgagors who filed for bankruptcy are meeting their obligation to pay the mortgage debt in accordance with the terms of the bankruptcy petition.

We monitor delinquencies on our purchased loan portfolio with reports we receive from the servicers. We monitor these servicer reports to ensure that the servicer is upholding the terms of the servicing agreement. The reports generally provide total principal and interest due and length of delinquency, and are used to prepare monthly management reports and perform delinquent loan trend analysis. Management also utilizes information from the servicers to monitor property valuations and identify the need to record SVAs. The servicers handle collection efforts per the terms of the servicing agreement.

As a result of recent industry-wide issues related to foreclosure practices, the Bank evaluated its foreclosure procedures and guidelines and management believes the Bank is handling foreclosures in an appropriate manner. Additionally, the majority of the servicers of our nationwide purchased loans have not reported any issues with respect to their foreclosure processes. At December 31, 2010, we had $4.7 million of loans serviced by nationwide servicers who have reported issues with their foreclosure processes; however, none of the loans serviced by these servicers were in foreclosure at December 31, 2010.

Delinquent and non-performing loans and REO

The following tables present the Company's 30 to 89 day delinquent loans, non-performing loans, and REO at the dates indicated. Non-performing loans are non-accrual loans that are 90 or more days delinquent or are in the process of foreclosure. At all dates presented, there were no loans 90 or more days delinquent that were still accruing interest. Loans classified as TDRs are not included in delinquent or non-performing loans unless the restructured loans are 30 to 89 days or 90 or more days delinquent. REO includes assets acquired in settlement of loans. Non-performing assets include non-performing loans and REO.

	Loans Delinquent for 30 to 89 Days									
	December 31, 2010		September 30, 2010		June 30, 2010		March 31, 2010		December 31, 2009	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)									
One- to four-family:										
Originated	181	$20,009	175	$17,613	154	$15,581	143	$14,574	184	$19,468
Purchased	35	7,573	34	6,047	31	6,629	39	9,846	44	11,464
Multi-family and commercial	--	--	--	--	--	--	--	--	1	5
Construction	--	--	--	--	--	--	--	--	--	--
Consumer Loans:										
Home equity	47	767	50	874	44	806	35	670	49	1,021
Other	24	313	16	183	17	96	13	62	24	114
	287	$28,662	275	$24,717	246	$23,112	230	$25,152	302	$32,072
30 to 89 days delinquent loans to total loans receivable, net		0.56 %		0.48 %		0.43 %		0.47 %		0.59 %

	December 31, 2010		September 30, 2010		June 30, 2010		March 31, 2010		December 31, 2009	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)									
Non-performing loans:										
One- to four-family:										
Originated	125	$13,248	109	$12,884	105	$10,538	107	$9,892	104	$10,040
Purchased	53	17,176	60	18,375	73	22,090	76	23,407	70	21,912
Multi-family and commercial	--	--	--	--	--	--	--	--	--	--
Construction	--	--	--	--	--	--	--	--	--	--
Consumer Loans:										
Home equity	29	530	31	685	31	516	41	720	32	516
Other	8	33	6	12	9	36	6	18	6	9
	215	30,987	206	31,956	218	33,180	230	34,037	212	32,477
Non-performing loans as a percentage of total loans receivable, net		0.61 %		0.62 %		0.62 %		0.63 %		0.60 %
REO:										
One- to four-family:										
Originated (1)	71	7,307	73	6,172	59	4,738	59	5,450	50	4,726
Purchased	19	3,672	17	3,748	11	2,412	8	1,411	9	1,911
Multi-family and commercial	--	--	--	--	--	--	--	--	--	--
Construction	--	--	--	--	--	--	--	--	--	--
Consumer Loans:										
Home equity	--	--	--	--	--	--	--	--	--	--
Other	--	--	--	--	--	--	--	--	--	--
	90	10,979	90	9,920	70	7,150	67	6,861	59	6,637
Total non-performing assets	305	$41,966	296	$41,876	288	$40,330	297	$40,898	271	$39,114
Non-performing assets as a percentage of total assets		0.43 %		0.49 %		0.47 %		0.48 %		0.47 %

(1) Real estate related consumer loans where we also hold the first mortgage are included in the one- to four-family category as the underlying collateral is one- to four-family property.

The following table presents the weighted average percentage of one- to four-family loans, by principal balance, that entered the 30 to 89 days delinquent category during the 12 months ended December 31, 2010 that paid off, returned to performing status, stayed 30 to 89 days delinquent, or progressed to the non-performing or REO categories.

30 to 89 Day Delinquent Loan Trend Analysis

30 to 89 Days	Non-