Capitol Federal Financial Inc
Form 10-Q
August 03, 2012

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 June 30, 2012

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 Securiti
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 þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small

Large accelerated filer	þ	Accelerated filer	¨	Non-accelerated filer	¨	Smaller Reporting Company	¨
				(do not check if a 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 July 31, 2012, there were 157,592,937 shares of Capitol Federal Financial, Inc. common stock outstanding.

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)

	June 30, 2012		September 30, 2011	
ASSETS:				
Cash and cash equivalents (includes interest-earning deposits of $153,606 and $105,292)	$	172,948	$	121,070
Securities:				
Available-for-sale (“AFS”) at estimated fair value (amortized cost of $1,593,725 and $1,443,529)		1,632,297		1,486,439
Held-to-maturity (“HTM”) at amortized cost (estimated fair value of $2,143,961 and $2,434,392)		2,073,951		2,370,117
Loans receivable, net (of allowance for credit losses (“ACL”) of $11,777 and $15,465)		5,209,990		5,149,734
Bank-owned life insurance (“BOLI”)		57,667		56,534
Capital stock of Federal Home Loan Bank (“FHLB”), at cost		131,437		126,877
Accrued interest receivable		27,416		29,316
Premises and equipment, net		54,707		48,423
Other real estate owned (“OREO”), net		9,913		11,321
Other assets		50,288		50,968
TOTAL ASSETS	$	9,420,614	$	9,450,799
LIABILITIES:				
Deposits	$	4,592,437	$	4,495,173
Advances from FHLB, net		2,527,903		2,379,462
Other borrowings		365,000		515,000
Advance payments by borrowers for taxes and insurance		32,231		55,138
Income taxes payable		2,763		2,289
Deferred income tax liabilities, net		22,584		20,447
Accounts payable and accrued expenses		44,838		43,761
Total liabilities		7,587,756		7,511,270
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; 158,203,649 and 167,498,133 shares issued and outstanding				

as of June 30, 2012 and September 30, 2011, respectively	1,582	1,675
Additional paid-in capital	1,315,352	1,392,567
Unearned compensation, Employee Stock Ownership Plan (“ESOP”)	(48,318)	(50,547)
Retained earnings	540,253	569,127
Accumulated other comprehensive income (“AOCI”), net of tax	23,989	26,707
Total stockholders’ equity	1,832,858	1,939,529
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 9,420,614	$ 9,450,799

See accompanying notes to consolidated financial statements.

3

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Dollars in thousands, except per share data)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2012	2011	2012	2011
INTEREST AND DIVIDEND INCOME:				
Loans receivable	$ 57,547	$ 62,393	$ 178,007	$ 189,890
Mortgage-backed securities ("MBS")	18,144	19,619	54,686	52,379
Investment securities	3,783	5,103	12,535	14,621
Capital stock of FHLB	1,111	925	3,313	2,710
Cash and cash equivalents	60	43	205	671
Total interest and dividend income	80,645	88,083	248,746	260,271
INTEREST EXPENSE:				
FHLB advances	19,859	22,539	62,641	67,638
Deposits	11,068	15,516	35,690	48,966
Other borrowings	3,530	5,720	11,387	18,798
Total interest expense	34,457	43,775	109,718	135,402
NET INTEREST INCOME	46,188	44,308	139,028	124,869
PROVISION FOR CREDIT LOSSES	--	1,240	2,040	2,410
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	46,188	43,068	136,988	122,459
OTHER INCOME:				
Retail fees and charges	3,940	3,961	11,958	11,465
Insurance commissions	870	548	2,213	2,254
Loan fees	499	589	1,634	1,865
Income from BOLI	334	512	1,133	1,348
Other income, net	437	490	1,466	1,629
Total other income	6,080	6,100	18,404	18,561
OTHER EXPENSES:				
Salaries and employee benefits	11,517	12,046	32,690	33,104
Communications, information technology, and occupancy	4,093	4,168	11,927	12,021
Regulatory and outside services	1,148	1,243	3,696	3,571
Deposit and loan transaction costs	1,357	1,033	3,862	3,659
Federal insurance premium	1,133	1,158	3,309	4,144
Advertising and promotional	923	1,110	2,674	2,634
Contribution to Capitol Federal Foundation ("Foundation")	--	--	--	40,000
Other expenses, net	2,734	2,344	8,783	10,162

Total other expenses	22,905	23,102	66,941	109,295
INCOME BEFORE INCOME TAX EXPENSE	29,363	26,066	88,451	31,725
INCOME TAX EXPENSE	10,690	8,807	31,674	10,088
NET INCOME	$ 18,673	$ 17,259	$ 56,777	$ 21,637

(Continued)

Basic earnings per common share	$ 0.12	$ 0.10	$ 0.35	$ 0.13
Diluted earnings per common share	$ 0.12	$ 0.10	$ 0.35	$ 0.13
Dividends declared per public share	$ 0.08	$ 0.08	$ 0.33	$ 1.55
Basic weighted average common shares	156,962,024	161,641,630	160,208,370	162,908,873
Diluted weighted average common shares	156,966,036	161,647,914	160,212,276	162,916,379

(Concluded)

See accompanying notes to consolidated financial statements.

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY

(Unaudited)

(Dollars in thousands, except per share data)

	Common Stock	Additional Paid-In Capital	Unearned Compensation ESOP	Retained Earnings	AOCI (Loss)	Total Stockholders' Equity
Balance at October 1, 2011	$ 1,675	$ 1,392,567	$ (50,547)	$ 569,127	$ 26,707	$ 1,939,529
Comprehensive income:						
Net income				56,777		56,777
Changes in unrealized gain/losses on securities AFS, net of deferred income taxes of $1,620					(2,718)	(2,718)
Total comprehensive income						54,059
ESOP activity, net		2,541	2,229			4,770
Restricted stock activity, net	4	(14)				(10)
Stock-based compensation		569				569
Repurchase of common stock	(97)	(80,311)		(33,285)		(113,693)
Dividends on common stock to stockholders ($0.33 per share)				(52,366)		(52,366)
Balance at June 30, 2012	$ 1,582	$ 1,315,352	$ (48,318)	$ 540,253	$ 23,989	$ 1,832,858

See accompanying notes to consolidated financial statements.

6

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	For the Nine Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 56,777	$ 21,637
Adjustments to reconcile net income to net cash provided by operating activities:		
FHLB stock dividends	(3,313)	(2,710)
Provision for credit losses	2,040	2,410
Originations of loans receivable held-for-sale (“LHFS”)	(4,410)	(9,611)
Proceeds from sales of LHFS	5,084	11,590
Amortization and accretion of premiums and discounts on securities	6,456	5,548
Depreciation and amortization of premises and equipment	3,584	3,297
Amortization of deferred amounts related to FHLB advances, net	6,378	5,271
Common stock committed to be released for allocation - ESOP	4,770	4,490
Stock-based compensation	569	189
Changes in:		
Prepaid federal insurance premium	2,923	3,774
Accrued interest receivable	1,900	(1,131)
Other assets, net	2,481	1,228
Income taxes payable/receivable	4,221	(296)
Accounts payable and accrued expenses	(12,499)	(5,763)
Net cash provided by operating activities	76,961	39,923
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of AFS securities	(613,330)	(480,815)
Purchase of HTM securities	(560,024)	(1,775,436)
Proceeds from calls, maturities and principal reductions of AFS securities	460,930	261,366
Proceeds from calls, maturities and principal reductions of HTM securities	851,938	959,066
Proceeds from the redemption of capital stock of FHLB	2,405	4,941
Purchases of capital stock of FHLB	(3,652)	(7,162)
Net increase in loans receivable	(71,184)	(7,705)
Purchases of premises and equipment	(9,119)	(8,360)

Proceeds from sales of OREO	9,753	10,060
Net cash provided by (used in) investing activities	67,717	(1,044,045)

(Continued)

	For the Nine Months Ended June 30, 2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(52,366)	(138,004)
Deposits, net of withdrawals	97,264	189,954
Deferred FHLB prepayment penalty	(7,937)	--
Proceeds from borrowings	657,414	644,062
Repayments of borrowings	(657,414)	(647,671)
Change in advance payments by borrowers for taxes and insurance	(22,907)	(24,017)
Repurchase of common stock	(106,854)	--
Net proceeds from common stock offering	--	1,076,411
Stock options exercised	--	34
Excess tax benefits from stock options	--	8
Net cash (used in) provided by financing activities	(92,800)	1,100,777
NET INCREASE IN CASH AND CASH EQUIVALENTS	51,878	96,655
CASH AND CASH EQUIVALENTS:		
Beginning of period	121,070	65,217
End of period	$ 172,948	$ 161,872
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income tax payments	$ 27,500	$ 10,371
Interest payments	$ 104,807	$ 131,371
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 common stock offering	$ --	$ 17,690
Loans transferred to OREO	$ 9,429	$ 11,186

(Concluded)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation - 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 pre

These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Co for the fiscal year ended September 30, 2011, 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 amou and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting periods. The ACL is a significant estimate that involves a high degree of complexity and requires management to make difficult and subjective judgments and assumptions about highly uncertain matters. The use of different judgments and assumptions could cause reported results to differ significantly. In addition, bank regulators periodically review the ACL of Capitol Federal Savings Bank (the "Bank"). The bank regulators have the authority to require the Bank, as they can require all banks, to increase the ACL or recognize additional charge-offs based upon their judgments, which may differ from management's judgments. Any increases in the ACL or recognition of additional charge-offs required by bank regulators could adversely affect the Company's financial condition and results of operations.

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 in consolidation.

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 ACL, charge-offs, 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.

For borrowers experiencing financial difficulties, the Bank may grant a concession to the borrower. Generally, the Bank grants a short-term payment accommodation to borrowers who are experiencing a temporary cash flow problem. The most frequently used accommodation is to reduce the monthly payment amount for a period of six to 12 months, often by requiring payments of only interest and escrow during this period. These restructurings result in an extension of the maturity date of the loan. For more severe situations requiring long-term solutions, the Bank also offers interest rate reductions to currently-offered rates and more lengthy extensions of the maturity date. Each such concession is considered a troubled debt restructuring ("TDR"). The Bank does not forgive principal or interest nor does it commit to lend additional funds, except for the capitalization of delinquent principal, interest and/or escrow balances not to exceed the original loan balance, to debtors whose terms have been modified in TDRs. A restructured loan will be reported as a TDR and an impaired loan until it pays off, unless it has been restructured to an interest rate equal to or greater than the rate the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk, and has performed under the new terms of the restructuring agreement for at least 12 consecutive months. TDRs are reported as nonaccrual if the loan was either nonaccrual at the time of restructuring or if the borrower(s) did not receive a credit evaluation prior to the restructuring and have not made six consecutive monthly payments per the restructured loan terms.

Existing loan customers, whose loans have not been sold to third parties, who have not been delinquent on their contractual loan payments during the previous 12 months and who are not currently in bankruptcy, have the opportunity for a fee to endorse their original loan terms to current loan terms being offered. The fee assessed for endorsing the mortgage loan is deferred and amortized over the remaining life of the endorsed loan using the level-yield method and is reflected as an adjustment to interest income. Each endorsement is examined on a loan-by-loan basis and if the new loan terms represent more than a minor change to the loan, then the unamortized balance of the pre-endorsement deferred fees and/or costs associated with the mortgage loan are recognized in interest income at the time of the endorsement. If the endorsement of terms does not represent more than a minor change to the loan, then the unamortized balance of the pre-endorsement deferred fees and/or costs continue to be deferred. Endorsed loans are classified as TDRs when certain guidelines for soft credit scores and/or estimated loan-to-value ("LTV") ratios are not met. As a result of these changes since origination, the borrower could be experiencing financial difficulties even though the borrower has not been delinquent on their contractual loan payment in the previous 12 months.

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 or, until a nonaccrual TDR has made six consecutive monthly payments per the restructured loan terms. Loans on which the accrual of income has been discontinued are designated as nonaccrual and outstanding interest previously credited beyond 90 days delinquent is reversed. A nonaccrual loan is returned to accrual status once the contractual payments have been made to bring the loan less than 90 days past due or in the case of a TDR, the borrower has made six consecutive payments under the restructured terms.

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. The following types of loans are reported as impaired loans: all nonaccrual loans, loans classified as substandard, loans partially charged-off, and certain TDRs. However, all TDRs are accounted for as impaired loans in regards to evaluating the ACL.

Allowance for Credit Losses - The ACL represents management's best estimate of the amount of inherent losses in the loan portfolio as of the balance sheet date. Management's methodology for assessing the appropriateness of the ACL consists of an analysis ("formula analysis") model, along with analyzing several other factors. Management maintains the ACL through provisions for credit losses that are charged to income.

For one- to four-family secured loans, losses are charged-off when the loan is generally 180 days delinquent. Losses are based on new collateral values obtained through appraisals or broker price opinions ("BPOs"), less estimated costs to sell. Anticipated private mortgage insurance ("PMI") proceeds are taken into consideration when calculating the loss amount. An updated fair value is requested, at a minimum, every 12 months thereafter. If the Bank holds the first and second mortgage, both loans are combined when evaluating whether there is a potential loss on the loan. However, charge-offs for real estate-secured loans may also occur at any time if the Bank has knowledge of the existence of a potential loss. For all other real estate loans that are not secured by one- to four-family property, losses are charged-off when the collection of such amounts is unlikely. When a non-real estate secured loan is 120 days delinquent, any identified losses are charged-off.

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 is subject to the same risk of continued weakened economic conditions, the primary risks for this portfolio include the ability of the borrower to sustain sufficient cash flows from leases and to control expenses to satisfy their contractual debt payments, and/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/or potentially be forced to sell at a discounted price, resulting in additional losses.

Each quarter, a formula analysis is prepared which segregates the loan portfolio into categories based on certain risk characteristics. The categories include the following: 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 model to calculate a combined LTV ratio. Loans individually evaluated for loss are excluded from the formula analysis model. 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 bulk purchased; interest payments (fixed-rate, adjustable-rate, and interest-only); LTV ratios; borrower's credit scores; and geographic location. The 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 residential real estate values in certain areas of the U.S. and unemployment rates. The geographic location category pertains primarily to certain states in which the Bank has experienced measurable loan losses.

Quantitative loss factors are applied to each loan category in the formula analysis model based on the historical loss experience for each respective loan category. Each quarter, management reviews the historical loss time periods and utilizes the historical loss time periods believed to be the most reflective of the current economic conditions and recent charge-off experience for each respective loan category.

Qualitative loss factors are applied to each loan category in the formula analysis model. 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 delinquent, the qualitative loss factors increase. 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.

Management utilizes the formula analysis, along with analyzing several other factors, when evaluating the adequacy of the ACL. Such factors include the trend and composition of delinquent loans, results of foreclosed property and short sale transactions, the current status and trends of local and national economies, particularly levels of unemployment, trends and current conditions in the real estate and housing 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 ACL. Reviewing these factors assists management in evaluating the overall credit quality of the loan portfolio and the reasonableness of the ACL on an ongoing basis, and whether changes need to be made to the Bank’s ACL methodology. Management seeks to apply the ACL methodology in a consistent manner; however, the methodology can be modified in response to changing conditions.

Assessing the adequacy of the ACL 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 ACL. In the opinion of management, the ACL, 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.

Repurchase of Common Stock - Prior to the second-step stock offering in December 2010 (the “corporate reorganization”), common stock that was repurchased was classified as treasury stock and recorded at cost. Effective with the corporate reorganization, the Company became a Maryland corporation which does not recognize treasury shares but considers repurchased shares as going back into authorized but unissued shares.

Recent Accounting Pronouncements - In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for

Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which defers certain provisions of ASU 2011-05, Presentation of Comprehensive Income. One of ASU 2011-05's provisions requires entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented (for both interim and annual financial statements). Accordingly, this requirement is indefinitely deferred by ASU 2011-12 and will be further deliberated by the FASB at a future date. ASUs 2011-05 and 2011-12 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, which is October 1, 2012 for the Company, and should be applied retrospectively for all periods presented in the financial statements. The Company has not yet decided which statement format it will adopt.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The ASU requires new disclosures regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new disclosures are designed to make GAAP financial statements more comparable to those prepared under International Financial Reporting Standards. The new disclosures entail presenting information about both gross and net exposures. The new disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, which is October 1, 2013 for the Company, and interim periods therein; retrospective application is required. The Company has not yet completed its evaluation of this ASU; however, since the provisions of ASU 2011-11 are disclosure-related, the Company's adoption of this ASU is not expected to 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 restricted stock benefit plans in accordance with Accounting Standards Codification ("ASC") 260, which requires that unvested restricted stock 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.

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in thousands, except per share data)			
Net income	$ 18,673	$ 17,259	$ 56,777	$ 21,637
Income allocated to participating securities (unvested restricted stock)[(1)]	(23)	--	(25)	--
Net income available to common stockholders	18,650	17,259	56,752	21,637
Average common shares outstanding	156,684,512	161,385,084	160,069,365	162,783,841
Average committed ESOP shares outstanding	277,512	256,546	139,005	125,032
Total basic average common shares outstanding	156,962,024	161,641,630	160,208,370	162,908,873
Effect of dilutive restricted stock	--	1,313	--	2,516
Effect of dilutive stock options	4,012	4,971	3,906	4,990
Total diluted average common shares outstanding	156,966,036	161,647,914	160,212,276	162,916,379
Net earnings per share:				
Basic	$ 0.12	$ 0.10	$ 0.35	$ 0.13
Diluted	$ 0.12	$ 0.10	$ 0.35	$ 0.13
Antidilutive stock options and restricted stock, excluded from the diluted average common shares outstanding calculation	1,458,510	901,816	1,074,543	895,025

[(1)]Income allocated to participating securities (unvested restricted stock) was inconsequential for the three and nine month periods ended June 30, 2011.

12

3. Securities

The following tables reflect the amortized cost, estimated fair value, and gross unrealized gains and losses of AFS and HTM securities at June 30, 2012 and September 30, 2011. The majority of the MBS and investment portfolios are composed of securities issued by U.S. government-sponsored enterprises ("GSEs").

	June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$ 1,035,981	$ 4,137	$ 16	$ 1,040,102
Municipal bonds	2,439	94	--	2,533
Trust preferred securities	2,932	--	847	2,085
MBS	552,373	35,204	--	587,577
	1,593,725	39,435	863	1,632,297
HTM:				
GSE debentures	99,962	521	--	100,483
Municipal bonds	50,907	1,876	7	52,776
MBS	1,923,082	67,676	56	1,990,702
	2,073,951	70,073	63	2,143,961
	$ 3,667,676	$ 109,508	$ 926	$ 3,776,258

	September 30, 2011			
		Gross	Gross	Estimated
	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$ 746,545	$ 1,996	$ 233	$ 748,308
Municipal bonds	2,628	126	--	2,754
Trust preferred securities	3,681	--	740	2,941
MBS	690,675	41,764	3	732,436
	1,443,529	43,886	976	1,486,439
HTM:				
GSE debentures	633,483	3,171	--	636,654
Municipal bonds	56,994	2,190	4	59,180
MBS	1,679,640	59,071	153	1,738,558
	2,370,117	64,432	157	2,434,392
	$ 3,813,646	$ 108,318	$ 1,133	$ 3,920,831

The following tables summarize the estimated fair value and gross unrealized losses of those securities on which an unrealized loss at June 30, 2012 and September 30, 2011 was reported and the continuous unrealized loss position for at least 12 months or less than 12 months as of June 30, 2012 and September 30, 2011.

	June 30, 2012					
	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:						
GSE debentures	2	$ 42,729	$ 16	--	$ --	$ --
Trust preferred securities	--	--	--	1	2,085	847
MBS	--	--	--	--	--	--
	2	$ 42,729	$ 16	1	$ 2,085	$ 847
HTM:						
GSE debentures	--	$ --	$ --	--	$ --	$ --
Municipal bonds	5	1,924	7	--	--	--
MBS	2	42,987	56	--	--	--
	7	$ 44,911	$ 63	--	$ --	$ --

	September 30, 2011					
	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:						
GSE debentures	7	$ 230,848	$ 233	--	$ --	$ --
Trust preferred securities	--	--	--	1	2,941	740
MBS	5	1,189	3	--	--	--
	12	$ 232,037	$ 236	1	$ 2,941	$ 740
HTM:						
GSE debentures	--	$ --	$ --	--	$ --	$ --
Municipal bonds	2	615	4	--	--	--
MBS	1	25,142	153	--	--	--

3	$ 25,757	$ 157	--	$ --	$ --

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-temporary 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 June 30, 2012 and September 30, 2011 were 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, nor is it 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 June 30, 2012 are shown below. Actual maturities of MBS may differ from contractual maturities because borrowers have the right to prepay obligations, generally without penalties. As of June 30, 2012, the amortized cost of the securities in our portfolio which are callable or have pre-refunding dates within one year totaled $737.8 million. Maturities of MBS depend on the repayment characteristics and experience of the underlying financial instruments. Issuers of certain investment securities have the right to call and prepay obligations with or without prepayment penalties.

	AFS		HTM	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
One year or less	$ 120,276	$ 120,437	$ 3,132	$ 3,145
One year through five years	893,287	897,321	130,442	132,201
Five years through ten years	163,825	174,995	396,470	414,194
Ten years and thereafter	416,337	439,544	1,543,907	1,594,421
	$ 1,593,725	$ 1,632,297	$ 2,073,951	$ 2,143,961

The following table presents the carrying value of the MBS in our portfolio by issuer as of the dates indicated.

	June 30, 2012	September 30, 2011
	(Dollars in thousands)	
Federal National Mortgage Association (“FNMA”)	$ 1,428,447	$ 1,384,396
Federal Home Loan Mortgage Corporation (“FHLMC”)	891,748	823,728
Government National Mortgage Association	189,529	202,340
Private Issuer	935	1,612
	$ 2,510,659	$ 2,412,076

The following table presents the taxable and non-taxable components of interest income on investment securities for the time periods indicated.

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in thousands)			
Taxable	$ 3,390	$ 4,639	$ 11,274	$ 13,176
Non-taxable	393	464	1,261	1,445
	$ 3,783	$ 5,103	$ 12,535	$ 14,621

The following table summarizes the amortized cost and estimated fair value of securities pledged as collateral as of the dates indicated.

	June 30, 2012		September 30, 2011	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
Repurchase agreements	$ 403,286	$ 426,636	$ 571,016	$ 597,286
Retail deposits	--	--	44,429	44,991
Public unit deposits	198,497	208,704	116,472	124,785
Federal Reserve Bank	53,679	56,165	26,666	27,939
	$ 655,462	$ 691,505	$ 758,583	$ 795,001

4. Loans Receivable and Allowance for Credit Losses

Loans receivable, net at June 30, 2012 and September 30, 2011 is summarized as follows:

	June 30, 2012	September 30, 2011
	(Dollars in thousands)	
Real estate loans:		
One- to four-family	$ 4,995,840	$ 4,918,778

Multi-family and commercial	49,755	57,965
Construction	52,163	47,368
Total real estate loans	5,097,758	5,024,111
Consumer loans:		
Home equity	152,301	164,541
Other	6,744	7,224
Total consumer loans	159,045	171,765
Total loans receivable	5,256,803	5,195,876
Less:		
Undisbursed loan funds	25,451	22,531
ACL	11,777	15,465
Discounts/unearned loan fees	21,246	19,093
Premiums/deferred costs	(11,661)	(10,947)
	$ 5,209,990	$ 5,149,734

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. The Bank purchases one- to four-family loans, on a loan-by-loan basis, from a select group of correspondent lenders located throughout the central United States. As a result of originating loans in our branches, along with the correspondent lenders in our local markets, the Bank has a concentration of loans secured by real property located in Kansas and Missouri. Additionally, the Bank periodically purchases whole one- to four-family loans in bulk packages from nationwide and correspondent lenders. 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 is 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.

The underwriting standards for loans purchased from correspondent and nationwide lenders are generally similar to the Bank's internal underwriting standards. The underwriting of correspondent loans is generally performed by the Bank's underwriters. Before committing to a bulk loan purchase, 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 population. Before the bulk loan purchase is funded, an internal Bank underwriter or a third party 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, correspondent loans are included with originated loans, and bulk loan purchases are reported as purchased loans.

The Bank also originates construction-to-permanent loans secured by one- to four-family residential real estate. The majority of the one- to four-family construction loans are secured by property located within the Bank's Kansas City market area. Construction loans are obtained 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.

Multi-family and commercial loans - The Bank's multi-family and commercial real estate loans are secured primarily by properties generally located in the Bank's market areas or surrounding areas. These loans are granted based on the income producing potential of the property and the financial strength of the borrower. At the time of origination, LTV ratios on multi-family and commercial real estate loans cannot 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. Bank policy permits a limited amount of construction-to-permanent loans secured by multi-family dwellings and commercial real estate.

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. The majority of the consumer loan portfolio is comprised of home equity lines of credit.

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.

Credit quality indicators – Based on the Bank's lending emphasis and underwriting standards, management has segmented the loan portfolio into three segments: one- to four-family loans, consumer loans, and multi-family and commercial loans. The one- to four-family and consumer segments are further grouped into classes for purposes of providing disaggregated information about the credit quality of the loan portfolio. The classes are: one- to four-family loans – originated, one- to four-family loans – purchased, consumer loans – home equity, and consumer loans – other.

The Bank's primary credit quality indicators for the one- to four-family loan and consumer - home equity loan portfolios are delinquency status, asset classifications in accordance with applicable regulations, LTV ratios and borrower credit scores. The Bank's primary credit quality indicators for the multi-family and commercial loan and consumer – other loan portfolios are delinquency status and asset classifications in accordance with applicable regulations.

The following table presents the recorded investment of loans, defined as the unpaid loan principal balance (net of unadvanced funds related to loans in process and charge-offs) inclusive of unearned loan fees and deferred costs, of the Company's loans 30 to 89 days delinquent, loans 90 or more days delinquent, total delinquent loans, total current loans, and the total loans receivable balance at June 30, 2012 and September 30, 2011 by class. In the formula analysis model, delinquent loans not individually evaluated for impairment are assigned a higher loss factor than corresponding performing loans. At June 30, 2012 and September 30, 2011, all loans in the 90 or more days delinquent category were on nonaccrual status. In addition to loans 90 or more days delinquent, the Bank also had $4.2 million of originated one- to four-family TDRs classified as nonaccrual at June 30, 2012, as the borrowers had not yet made six consecutive payments per the restructured loan terms. At June 30, 2012 and September 30, 2011, there were no loans 90 or more days delinquent that were still accruing interest.

	June 30, 2012				
	30 to 89 Days Delinquent	90 or More Days Delinquent	Total Delinquent Loans	Current Loans	Total Recorded Investment
	(Dollars in thousands)				
One- to four-family loans - originated	$ 14,624	$ 9,313	$ 23,937	$ 4,502,515	$ 4,526,452
One- to four-family loans - purchased	8,530	11,895	20,425	459,457	479,882
Multi-family and commercial loans	--	--	--	56,388	56,388
Consumer - home equity	526	505	1,031	151,270	152,301
Consumer - other	128	20	148	6,596	6,744
	$ 23,808	$ 21,733	$ 45,541	$ 5,176,226	$ 5,221,767

	September 30, 2011				
	30 to 89 Days Delinquent	90 or More Days Delinquent	Total Delinquent Loans	Current Loans	Total Recorded Investment
	(Dollars in thousands)				
One- to four-family loans - originated	$ 19,682	$ 12,363	$ 32,045	$ 4,362,498	$ 4,394,543
One- to four-family loans - purchased	6,243	13,836	20,079	520,876	540,955
Multi-family and commercial loans	--	--	--	57,936	57,936
Consumer - home equity	759	380	1,139	163,402	164,541
Consumer - other	92	3	95	7,129	7,224
	$ 26,776	$ 26,582	$ 53,358	$ 5,111,841	$ 5,165,199

18

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. Loan classifications, other than pass loans, are defined as follows:

- Special mention - These 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 borrower(s) to comply with present loan repayment terms and which may result in the future inclusion of such loans in the non-performing loan categories.
- Substandard - 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.
- Doubtful - 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.
- Loss - Loans classified as loss are considered uncollectible and of such little value that their continuance as assets on the books is not warranted.

Special mention and substandard loans are included in the formula analysis model, if the loan is not individually evaluated for impairment. Loans classified as doubtful or loss are individually evaluated for impairment.

The following tables set forth the recorded investment in loans, less charge-offs and specific valuation allowances ("SVAs"), classified as special mention or substandard at June 30, 2012 and September 30, 2011, by class. At June 30, 2012 and September 30, 2011, there were no loans classified as doubtful or loss that were not fully charged-off or reserved.

	June 30, 2012		September 30, 2011	
	Special Mention	Substandard	Special Mention	Substandard
	(Dollars in thousands)			
One- to four-family - originated	$ 36,159	$ 23,066	$ 32,673	$ 18,419
One- to four-family - purchased	905	16,387	447	15,987
Multi-family and commercial	2,253	--	7,683	--
Consumer - home equity	42	712	50	592
Consumer - other	--	20	--	5
	$ 39,359	$ 40,185	$ 40,853	$ 35,003

The following table shows the weighted average LTV and credit score information for originated and purchased one- to four-family loans and originated consumer home equity loans at June 30, 2012 and September 30, 2011. Borrower credit scores are intended to provide an indication as to the likelihood that a borrower will repay their debts. Credit scores are typically updated in the last month of the quarter and are obtained from a nationally recognized consumer rating agency. The LTV ratios provide an estimate of the extent to which the Bank may incur a loss on any given loan that may go into foreclosure. 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, or BPO, if available. In most cases, the most recent appraisal was obtained at the time of origination.

	June 30, 2012		September 30, 2011	
	Weighted Average Credit Score	Weighted Average LTV	Weighted Average Credit Score	Weighted Average LTV
One- to four-family - originated	763	65 %	762	66 %
One- to four-family - purchased	739	58	740	60
Consumer - home equity	745	19	742	20
	760	63 %	759	64 %

19

Troubled Debt Restructurings - The following table presents the recorded investment prior to restructuring and immediately after restructuring for all loans restructured during the three and nine months ending June 30, 2012. This table does not reflect the recorded investment at June 30, 2012. The increase in the recorded investment at the time of the restructuring was generally due to the capitalization of delinquent amounts due.

	For the Three Months Ended June 30, 2012			For the Nine Months Ended June 30, 2012		
	Number of Contracts	Pre-Restructured Outstanding	Post-Restructured Outstanding	Number of Contracts	Pre-Restructured Outstanding	Post-Restructured Outstanding
	(Dollars in thousands)					
One- to four-family loans - originated	30	$ 4,930	$ 4,945	155	$ 24,655	$ 24,761
One- to four-family loans - purchased	--	--	--	--	--	--
Multi-family and commercial loans	--	--	--	--	--	--
Consumer - home equity	--	--	--	1	--	10
Consumer - other	--	--	--	--	--	--
	30	$ 4,930	$ 4,945	156	$ 24,655	$ 24,771

As of June 30, 2012, the recorded investment of TDRs 30 to 89 days delinquent and over 90 days delinquent was $2.7 million and $2.3 million, respectively. The following table provides information on TDRs restructured within the last 12 months that subsequently became delinquent during the three and nine months ended June 30, 2012.

	For the Three Months Ended June 30, 2012		For the Nine Months Ended June 30, 2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment

	(Dollars in thousands)					
One- to four-family loans - originated	5	$	910	12	$	1,748
One- to four-family loans - purchased	--		--	1		401
Multi-family and commercial loans	--		--	--		--
Consumer - home equity	--		--	--		--
Consumer - other	--		--	--		--
	5	$	910	13	$	2,149

20

Impaired loans - Substantially all of the impaired loans at June 30, 2012 and September 30, 2011 included in the impaired loan tables below were secured by residential real estate. Impaired loans related to residential real estate 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 of residential real estate are estimated through such methods as current appraisals, 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 charge-off is recorded for the difference. In January 2012, management implemented a loan charge-off policy change as Office of the Comptroller of the Currency ("OCC") Call Report requirements do not permit the use of SVAs, which the Bank was previously utilizing for potential loan losses, as permitted by the Bank's previous regulator. As a result of implementing the loan charge-off policy, the balance of loans with no related allowance increased during the year as losses are now charged-off instead of establishing SVAs, as was permitted at September 30, 2011.

	June 30, 2012						
	Recorded Investment	Unpaid Principal Balance	Related ACL	Current Quarter Average Recorded Investment	Fiscal Year-to-Date Average Recorded Investment	Current Quarter Interest Income Recognized	Fiscal Year-to-Date Interest Income Recognized
	(Dollars in thousands)						
With no related allowance recorded							
One- to four-family - originated	$ 49,177	$ 49,367	$ --	$ 50,075	$ 49,063	$ 487	$ 1,273
One- to four-family - purchased	16,312	16,174	--	16,258	11,535	44	162
Multi-family and commercial	--	--	--	--	279	--	--
Consumer - home equity	432	432	--	390	458	3	9
Consumer - other	3	3	--	7	7	--	--
	65,924	65,976	--	66,730	61,342	534	1,444
With an allowance recorded							
One- to four-family - originated	3,561	3,564	144	3,652	3,327	22	67
One- to four-family - purchased	979	977	153	1,234	7,166	5	11
Multi-family and commercial	--	--	--	--	--	--	--
Consumer - home equity	280	280	53	223	205	1	4
Consumer - other	17	17	1	9	4	--	--
	4,837	4,838	351	5,118	10,702	28	82
Total							
One- to four-family - originated	52,738	52,931	144	53,727	52,390	509	1,340
One- to four-family - purchased	17,291	17,151	153	17,492	18,701	49	173
Multi-family and commercial	--	--	--	--	279	--	--
Consumer - home equity	712	712	53	613	663	4	13
Consumer - other	20	20	1	16	11	--	--

$ 70,761	$ 70,814	$ 351	$ 71,848	$ 72,044	$ 562	$ 1,526

21

	September 30, 2011		
	Recorded Investment	Unpaid Principal Balance	Related ACL
	(Dollars in thousands)		
With no related allowance recorded			
One- to four-family - originated	$ 47,710	$ 47,845	$ --
One- to four-family - purchased	6,075	6,056	--
Multi-family and commercial	563	565	--
Consumer - home equity	468	468	--
Consumer - other	5	5	--
	54,821	54,939	--
With an allowance recorded			
One- to four-family - originated	3,297	3,299	335
One- to four-family - purchased	13,640	13,546	3,280
Multi-family and commercial	--	--	--
Consumer - home equity	264	264	140
Consumer - other	--	--	--
	17,201	17,109	3,755
Total			
One- to four-family - originated	51,007	51,144	335
One- to four-family - purchased	19,715	19,602	3,280
Multi-family and commercial	563	565	--
Consumer - home equity	732	732	140
Consumer - other	5	5	--
	$ 72,022	$ 72,048	$ 3,755

Allowance for credit losses - The following is a summary of the activity in the ACL by segment and the ending balance of the ACL based on the Company's impairment methodology for and at the periods presented. As a result of the implementation of the charge-off policy change in January 2012, $3.5 million of SVAs were charged-off during the second fiscal quarter of 2012, and are reflected in the activity for the nine months ended June 30, 2012. These charge-offs did not impact the provision for credit losses, and therefore had no additional income statement impact, as the amounts were expensed in previous periods. There was no ACL for loans individually evaluated for impairment at June 30, 2012, as all potential losses were charged-off.

	For the Three Months Ended June 30, 2012					
	One- to Four-Family - Originated	One- to Four-Family - Purchased	One- to Four-Family - Total	Multi-family and Commercial	Consumer	Total
Quarter	(Dollars in thousands)					
Beginning balance	$ 4,792	$ 7,492	$ 12,284	$ 82	$ 193	$ 12,559
Charge-offs	(227)	(498)	(725)	--	(65)	(790)
Recoveries	--	6	6	--	2	8
Provision for credit losses	1,495	(1,810)	(315)	106	209	--
Ending balance	$ 6,060	$ 5,190	$ 11,250	$ 188	$ 339	$ 11,777
Ratio of net charge-offs to average loans outstanding during the period						0.01 %
Ratio of net charge-offs during the period to average non-performing assets						2.01 %
ACL for loans collectively evaluated for impairment	$ 6,060	$ 5,190	$ 11,250	$ 188	$ 339	$ 11,777

23

	For the Nine Months Ended June 30, 2012					
	One- to Four-Family - Originated	One- to Four-Family - Purchased	One- to Four-Family - Total	Multi-family and Commercial	Consumer	Total
	(Dollars in thousands)					
Year-to-Date						
Beginning balance	$ 4,915	$ 9,901	$ 14,816	$ 254	$ 395	$ 15,465
Charge-offs	(814)	(4,652)	(5,466)	--	(270)	(5,736)
Recoveries	--	6	6	--	2	8
Provision for credit losses	1,959	(65)	1,894	(66)	212	2,040
Ending balance	$ 6,060	$ 5,190	$ 11,250	$ 188	$ 339	$ 11,777
Ratio of net charge-offs to average loans outstanding during the period						0.11 %
Ratio of net charge-offs during the period to average non-performing assets						15.57 %

The following is a summary of the loan portfolio at June 30, 2012 and September 30, 2011 by loan portfolio segment disaggregated by the Company's impairment method.

	June 30, 2012					
	One- to Four-Family - Originated	One- to Four-Family - Purchased	One- to Four-Family - Total	Multi-family and Commercial	Consumer	Total
	(Dollars in thousands)					
Recorded investment of loans collectively evaluated for impairment	$ 4,460,187	$ 463,570	$ 4,923,757	$ 55,854	$ 157,606	$ 5,137,217
Recorded investment of loans individually evaluated for impairment	66,265	16,312	82,577	534	1,439	84,550
	$ 4,526,452	$ 479,882	$ 5,006,334	$ 56,388	$ 159,045	$ 5,221,767

	September 30, 2011					
	One- to Four-Family - Originated	One- to Four-Family - Purchased	One- to Four-Family - Total	Multi-family and Commercial	Consumer	Total
	(Dollars in thousands)					
Recorded investment of loans collectively evaluated for impairment	$ 4,343,536	$ 521,240	$ 4,864,776	$ 57,373	$ 171,028	$ 5,093,177
Recorded investment of loans individually evaluated for impairment	51,007	19,715	70,722	563	737	72,022
	$ 4,394,543	$ 540,955	$ 4,935,498	$ 57,936	$ 171,765	$ 5,165,199

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 would decrease interest income on loans receivable and would likely adversely impact the Bank's loan loss experience, resulting in an increase in the Bank's ACL and provision for credit losses. Although management believes the ACL was at an adequate level to absorb known and inherent losses in the loan portfolio at June 30, 2012, the level of the ACL remains an estimate that is subject to significant judgment and short-term changes. Additions to the ACL may be necessary if future economic and other conditions worsen substantially from the current environment.

5. Stock-Based Compensation

The Company has Stock Option and Restricted Stock Plans, both of which are considered share-based plans. Compensation expense is recognized over the service period of the share-based payment award. The Company utilizes a fair-value-based measurement method in accounting for the share-based payment transactions with employees, except for equity instruments held by the ESOP.

Stock Option Plans – The Company currently has two plans outstanding which provide for the granting of stock option awards, the 2000 Stock Option Plan and the 2012 Equity Incentive Plan. The objective of both plans is to provide additional incentive to certain officers, directors and key employees by facilitating their purchase of a stock interest in the Company. The total number of shares originally eligible to be granted as stock options under the 2000 Stock Option Plan was 8,558,411. Prior to stockholder approval of the 2012 Equity Incentive Plan, the 2000 Stock Option Plan still had 2,867,859 shares available for future grants. The Company intends to award all future stock option grants from the 2012 Equity Incentive Plan, which had 5,907,500 shares originally eligible to be granted as stock options. The Company may issue incentive and nonqualified stock options under the 2012 Equity Incentive Plan. The Company may also award stock appreciation rights, although to date no stock appreciation rights have been awarded. The incentive stock options expire no later than 10 years and the nonqualified stock options expire no later than 15 years from the date of grant. The date on which the options are first exercisable is determined by the Stock Benefits Committee ("sub-committee"), a sub-committee of the Compensation Committee ("committee") of the Board of Directors. The vesting period of the options generally ranges from three-to-five years. The option price is equal to the market value at the date of the grant as defined by each plan.

At June 30, 2012, the Company had 4,810,500 shares still available for future grants of stock options under the 2012 Equity Incentive Plan. This plan will expire in January 2027 and no additional grants may be made after expiration, but outstanding grants continue until they are individually vested, forfeited, or expire. The following provisions generally apply: 1) if a holder of such stock options terminates service for reasons other than death, disability or termination for cause, the holder forfeits all rights to the non-vested stock options and all outstanding vested options granted to the holder will remain exercisable for three months following the termination date, but not beyond the expiration date of the options; 2) if the participant's service terminates as a result of death or disability, all outstanding stock options vest and all outstanding stock options will remain exercisable for one year following such event, but not beyond the expiration date of the options; 3) if the participant's service is terminated for cause, all outstanding stock options expire immediately; and 4) if a change in control of the Company occurs, all outstanding unvested stock options vest in full.

The Stock Option Plans are administered by the sub-committee, which selects the employees and non-employee directors to whom options are to be granted and the number of shares to be granted. The exercise price may be paid in cash, shares of the common stock, or a combination of both. The option price may not be less than 100% of the fair market value of the shares on the date of the grant. In the case of any employee who is granted an incentive stock option who owns more than 10% of the outstanding common stock at the time the option is granted, the option price may not be less than 110% of the fair market value of the shares on the date of the grant, and the option shall not be exercisable after the expiration of five years from the grant date. Prior to the corporate reorganization in December 2010, the Company issued shares held in treasury upon the exercise of stock options. After the corporate reorganization, new shares are issued by the Company upon the exercise of stock options.

The fair value of stock option grants is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average grant-date fair value of stock options granted during the year-to-date ended June 30, 2012 was $1.62. Compensation expense attributable to stock option awards during the nine months ended June 30, 2012 was $178 thousand ($154 thousand, net of tax). The following weighted average assumptions were used for valuing stock option grants for the nine months ended June 30, 2012:

Risk-free interest rate	0.5	%
Expected life (years)	4	
Expected volatility	23.7	%
Dividend yield	2.5	%
Estimated forfeitures	0.0	%

The risk-free interest rate was determined using the yield available on the option grant date for a zero-coupon U.S. Treasury security with a term nearest to the equivalent of the expected life of the option. The expected life for options granted was based upon historical experience. The expected volatility was determined using historical volatilities based on historical stock prices. The dividend yield was determined based upon historical quarterly dividends and the Company's stock price on the option grant date. Estimated forfeitures were determined based upon voluntary termination behavior and actual option forfeitures.

A summary of option activity for the nine months ended June 30, 2012 follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding at beginning of year	906,964	$ 15.09
Granted	1,097,000	11.91
Forfeited	(13,346)	16.03
Expired	(3,390)	11.33
Exercised	--	--
Options outstanding at end of period	1,987,228	$ 13.34

The fair value of stock options vested during the nine months ended June 30, 2012 was $139 thousand.

The following summarizes information about the stock options outstanding and exercisable as of June 30, 2012:

	Options Outstanding			
Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price per Share	Aggregate Intrinsic Value
	(Dollars in thousands, except per share amounts)			
$ 4.07	8,783	2.8	$ 4.07	$ 69
10.86 - 12.71	1,100,160	11.5	11.91	2
13.33 - 17.59	827,160	6.8	14.97	--
19.19	51,125	5.9	19.19	--
	1,987,228	9.3	$ 13.34	$ 71

	Options Exercisable			
Exercise Price	Number of Options Exercisable	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price per Share	Aggregate Intrinsic Value
	(Dollars in thousands, except per share amounts)			
$ 4.07	8,783	2.8	$ 4.07	$ 69
10.86 - 12.71	32,342	11.7	11.91	--
13.33 - 17.59	771,601	6.6	15.00	--
19.19	41,624	5.8	19.19	--
	854,350	6.7	$ 14.97	$ 69

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the Company's closing stock price of $11.88 as of June 30, 2012, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of June 30, 2012 was 9,595.

As of June 30, 2012, the total future compensation cost related to non-vested stock options not yet recognized in the consolidated statements of income was $1.7 million and the weighted average period over which these awards are expected to be recognized was 3.4 years.

Restricted Stock Plans – The Company currently has two plans outstanding which provide for the granting of restricted stock awards, the 2000 Recognition and Retention Plan and the 2012 Equity Incentive Plan. The objective of both plans is to enable the Bank to retain personnel of experience and ability in key positions of responsibility. Employees and directors are eligible to receive benefits under these plans at the sole discretion of the sub-committee. The total number of shares originally eligible to be granted as restricted stock under the 2000 Recognition and Retirement Plan was 3,423,364. Prior to stockholder approval of the 2012 Equity Incentive Plan, the 2000 Recognition and Retention Plan still had 358,767 shares available for future restricted stock grants. The Company intends to award all future grants of restricted stock from the 2012 Equity Incentive Plan, which had 2,363,000 shares originally eligible to be granted as restricted stock. At June 30, 2012, the Company had 1,999,175 shares available for future grants of restricted stock under the 2012 Equity Incentive Plan. This plan will expire in January 2027 and no additional grants may be made after expiration, but outstanding grants continue until they are individually vested, forfeited, or expire. The vesting period of the restricted stock awards generally ranges from three-to-five years.

Compensation expense in the amount of the fair market value of the common stock at the date of the grant, as defined by the plans, to the employee is recognized over the period during which the shares vest. Compensation expense attributable to restricted stock awards during the nine months ended June 30, 2012 totaled $391 thousand ($251 thousand, net of tax). The following provisions generally apply: 1) a recipient of such restricted stock will be entitled to all voting and other stockholder rights (including the right to receive dividends on vested and non-vested shares), except that the shares, while restricted, may not be sold, pledged or otherwise disposed of and are required to be held in escrow by the Company; 2) if a holder of such restricted stock terminates service for reasons other than death or disability, the holder forfeits all rights to the non-vested shares under restriction; and 3) if a participant's service terminates as a result of death or disability, or if a change in control of the Company occurs, all restrictions expire and all non-vested shares become unrestricted. A summary of restricted stock activity for the nine months ended June 30, 2012 follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock at beginning of year	13,582	$ 14.90
Granted	363,825	11.91
Vested	(18,046)	13.17
Forfeited	--	--
Unvested restricted stock at end of period	359,361	$ 11.96

The estimated forfeiture rate for the restricted stock granted during the year-to-date ended June 30, 2012 was 0% based upon voluntary termination behavior and actual forfeitures. The fair value of restricted stock that vested during the nine months ended June 30, 2012 totaled $212 thousand. As of June 30, 2012, there was $4.1 million of unrecognized compensation cost related to non-vested restricted stock to be recognized over a weighted average period of 3.5 years.

6. 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 June 30, 2012 and September 30, 2011. 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 OREO, 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.
- Level 2 — Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or sir 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 mark and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immed

The Company bases its fair values on the price that would be received to sell an asset in an orderly transaction between market 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 AOCI 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. GSEs. 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 estimates. 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 securities in the AFS portfolio that have significant unobservable inputs requiring the independent pricing services to use some judgment in pricing them. 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 m
which consists of AFS securities, at June 30, 2012 and September 30, 2011.

	June 30, 2012			
	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)			
AFS Securities:				
GSE debentures	$ 1,040,102	$ --	$ 1,040,102	$ --
Municipal bonds	2,533	--	2,533	--
Trust preferred securities	2,085	--	--	2,085
MBS	587,577	--	587,577	--
	$ 1,632,297	$ --	$ 1,630,212	$ 2,085

	September 30, 2011			
	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)			
AFS Securities:				
GSE debentures	$ 748,308	$ --	$ 748,308	$ --
Municipal bonds	2,754	--	2,754	--
Trust preferred securities	2,941	--	--	2,941

MBS	732,436	--	732,436	--
	$ 1,486,439	$ --	$ 1,483,498	$ 2,941

(1) The Company's Level 3 AFS securities had no activity from September 30, 2011 to June 30, 2012, except for principal repayments of $964 thousand and increases in net unrealized losses recognized in other comprehensive income. Increases in net unrealized losses included in other comprehensive income for the nine months ended June 30, 2012 were $67 thousand.

(2) The Company's Level 3 AFS securities had no activity from September 30, 2010 to September 30, 2011, except for principal repayments of $87 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, 2011 were $115 thousand.

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

Loans Receivable - The unpaid principal balance of loans individually evaluated for impairment at June 30, 2012 and September 30, 2011 was $84.7 million and $72.0 million, respectively. Substantially all of these loans were secured by residential real estate and were individually evaluated to ensure that the carrying value of the loan was not in excess of the fair value of the collateral, less estimated selling costs. Fair values were estimated through current appraisals, 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 charged-off any loss amounts at June 30, 2012; therefore there was no ACL related to these loans at June 30, 2012. The ACL related to these loans at September 30, 2011 was $3.8 million. In January 2012, the Company implemented a loan charge-off policy change whereby the Company no longer records SVAs for impairments; rather, loss amounts are charged-off.

OREO - OREO primarily 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, 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 OREO at June 30, 2012 and September 30, 2011 was $9.9 million and $11.3 million, respectively.

The following table provides the level of valuation assumption used to determine the carrying value of the Company's assets m
June 30, 2012 and September 30, 2011.

	June 30, 2012			
	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	$ 84,690	$ --	$ --	$ 84,690
OREO	9,913	--	--	9,913
	$ 94,603	$ --	$ --	$ 94,603

September 30, 2011

			Significant	Significant

	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Impaired loans	$ 72,048	$ --	$ --	$ 72,048
OREO	11,321	--	--	11,321
	$ 83,369	$ --	$ --	$ 83,369

Fair Value Disclosures -
The Company determined estimated fair value amounts using available market information and a selection from a variety of va

However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the es
The use of different market assumptions and estimation methodologies may have a material impact
on the estimated fair value amounts.
The fair value estimates presented herein are based on pertinent information available to management as of June 30,
2012 and September 30,
2011. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such a
dates.

31

The estimated fair values of the Company's financial instruments as of June 30, 2012 and September 30, 2011 were as follows.

	June 30, 2012		September 30, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$ 172,948	$ 172,948	$ 121,070	$ 121,070
AFS securities	1,632,297	1,632,297	1,486,439	1,486,439
HTM securities	2,073,951	2,143,961	2,370,117	2,434,392
Loans receivable	5,209,990	5,543,120	5,149,734	5,475,150
BOLI	57,667	57,667	56,534	56,534
Capital stock of FHLB	131,437	131,437	126,877	126,877
Liabilities:				
Deposits	4,592,437	4,646,677	4,495,173	4,553,516
Advances from FHLB	2,527,903	2,699,983	2,379,462	2,569,958
Other borrowings	365,000	389,500	515,000	545,096

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 consumer 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 consist of repurchase agreements.
The estimated fair value of the repurchase agreements is determined by discounting the future cash flows of each agreement us
a margin to the LIBOR curve.

7. Subsequent Events

In preparing these financial statements, management has evaluated events occurring subsequent to June 30, 2012, for potential recognition and disclosure. There have been no material events or transactions which would require adjustments to the consolidated financial statements at June 30, 2012.

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 th
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, est
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 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 or to purchase loans through correspondents;
- 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 regulators, 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, changes in property values, and changes in estimates of the adequacy of the ACL;

- results of examinations of the Bank and the Company by their respective primary federal banking regulators, including the possibility that the regulators may, among other things, require us to increase our ACL;
- 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 ("FRB");
- 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

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 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, results of operations, liquidity and capital resources 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 m This discussion and analysis should be read in conjunction with management's discussion and analysis included in the Company's 2011 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.

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 and nationwide lenders, and invest in certain investment securities and MBS using funding from 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. Retail 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.

The Federal Open Market Committee of the Federal Reserve (the "FOMC") noted in their August 2012 statement that the economy continues to expand at a moderate pace. Growth in employment has slowed, and the level of unemployment remains elevated. The June 2012 unemployment data indicated an unemployment rate of 8.2%, compared to recent levels as high as 9.1%. The FOMC noted that household spending was off from levels seen earlier in the year; however, business fixed investment continued to advance. Despite some signs of improvement, the housing sector continues to be depressed. As a result, the FOMC decided to continue its program to extend the average maturity of its holdings of securities as announced in September 2011 by purchasing Treasury securities with remaining maturities of six to 30 years. The FOMC also indicated in the August 2012 statement that the overnight lending rate would remain at zero to 0.25% through at least late 2014.

Economic conditions in the Bank's local market areas have a significant impact on the ability of borrowers to repay loans and the value of the collateral securing these loans. Our local market areas have not experienced the large fluctuations in property values as experienced by many segments of the United States. As of June 2012, the unemployment rate was 6.1% for Kansas and 7.1% for Missouri, compared to the national average of 8.2%. The unemployment rate remains relatively low, compared to the national average, due to diversified industries within our market areas, primarily in the Kansas City metropolitan statistical area, but it is higher than the historical average. The Federal Housing Finance Agency price index for Kansas and Missouri has not experienced significant fluctuations during the past 10 years, which indicates relative stability in property values. Our Kansas City market area comprises the largest segment of our loan portfolio and deposit base, and the average household income for our Kansas City market area is approximately $79 thousand per annum, based on 2011 estimates from the U.S. Bureau of Economic Analysis. The average household income in our combined market areas is approximately $68 thousand per annum, with 92% of the population at or above poverty level, also based on the 2011 estimates from the U.S. Bureau of Economic Analysis.

Total assets decreased $30.2 million, from $9.45 billion at September 30, 2011 to $9.42 billion at June 30, 2012, due primarily to a $150.3 million decrease in securities, partially offset by an increase of $60.3 million in loans receivable and an increase in cash and cash equivalents of $51.9 million. The decrease in securities was due primarily to investment securities being called and maturing during the period and not being fully replaced. The increase in loans receivable was due primarily to an increase in the one- to four-family portfolio as a result of originations and purchases exceeding principal repayments.

Loans 30 to 89 days delinquent decreased $3.0 million from $26.8 million at September 30, 2011 to $23.8 million at June 30, 2012. The decrease was primarily in our originated one- to four-family loan portfolio. Loans more than 90 days delinquent decreased $4.9 million from $26.5 million at September 30, 2011 to $21.6 million at June 30, 2012. The decrease was in both our originated one- to four-family loan portfolio and our bulk purchased loan portfolio.

Total liabilities increased $76.5 million, from $7.51 billion at September 30, 2011 to $7.59 billion at June 30, 2012. The increase in total liabilities was due primarily to a $97.3 million increase in the deposit portfolio. The increase in the deposit portfolio was led by a $55.8 million increase in the checking portfolio and a $32.9 million increase in the money market portfolio.

Stockholders' equity decreased $106.7 million, from $1.94 billion at September 30, 2011 to $1.83 billion at June 30, 2012. The decrease was due primarily to the repurchase of 9,658,309 shares of common stock for $113.7 million and to dividends paid of $52.4 million, partially offset by net income of $56.8 million.

Net income for the quarter ended June 30, 2012 was $18.7 million, compared to $17.3 million for the quarter ended June 30, 2011. The $1.4 million, or 8.2%, increase for the current quarter was due primarily to a $1.9 million, or 4.2%, increase in net interest income, from $44.3 million for the quarter ended June 30, 2011 to $46.2 million for the current quarter. The increase in net interest income was due primarily to a decrease in interest expense of $9.3 million, or 21.3%, partially offset by a decrease in interest income of $7.4 million, or 8.4%. The net interest margin increased 12 basis points, from 1.88% for the quarter ended June 30, 2011 to 2.00% for the quarter ended June 30, 2012. The increase was largely due to a decrease in the cost of funds.

Net income for the nine months ended June 30, 2012 was $56.8 million, compared to $21.6 million for the nine months ended June 30, 2011. The $35.2 million increase for the current year was due primarily to the $40.0 million ($26.0 million, net of income tax benefit) contribution to the Foundation in connection with the corporate reorganization. Additionally, net interest income increased $14.1 million, or 11.3%, from $124.9 million for the prior year nine month period to $139.0 million for the current year nine month period. The increase in net interest income was due primarily to a decrease in interest expense of $25.7 million, or 19.0%, partially offset by a decrease in interest income of $11.5 million, or 4.4%. The net interest margin increased 19 basis points, from 1.82% for the prior year nine month period to 2.01% for the current nine month period. The increase was largely due to a decrease in the cost of funds; specifically, to a decrease in interest expense on the certificate of deposit portfolio, other borrowings and FHLB advances.

The Bank currently expects to open one branch in calendar year 2012, and one in calendar year 2013. Both branches will be located 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 For

SEC filings are available on our website immediately after they are electronically filed with or furnished to the SEC, and are a

Critical Accounting Policies

Our most critical accounting policies are the methodologies used to determine the ACL 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. The following is a description of our critical accounting policies and an explanation of the methods and assumptions underlying their application.

Allowance for Credit Losses. The Company maintains an ACL to absorb inherent losses in the loan portfolio based upon ongoing quarterly assessments of the loan portfolio. The ACL is maintained through provisions for credit losses which are charged to income. The methodology for determining the ACL is considered a critical accounting policy by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the economic environment that could result in changes to the amount of the recorded ACL. Additionally, bank regulators have the ability to require the Bank, as they can require all banks, to increase the ACL or recognize additional charge-offs based upon their judgments, which may differ from management's judgments. Although management believes that the Bank has established and maintained the ACL at appropriate levels, additions may be necessary if economic and other conditions continue or worsen substantially from the current operating environment, and/or if bank regulators require the Bank to increase the ACL and/or recognize additional charge-offs.

Our primary lending emphasis is the origination and purchase of one- to four-family mortgage loans on residential properties, and, to a lesser extent, home equity and second mortgages on one- to four-family residential properties, resulting in a loan concentration in residential first mortgage loans. As a result of our lending practices, we also have a concentration of loans secured by real property located in Kansas and Missouri. At June 30, 2012, approximately 75% and 15% of the Bank's loans were secured by real property located in Kansas and Missouri, respectively. We believe the primary risks inherent in our one- to four-family and consumer portfolios are the continued weakened economic conditions, continued high levels of unemployment or underemployment, and a continuing decline in home real estate values. Any one or a combination of these events may adversely affect borrowers' ability or desire 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.

Each quarter, we prepare a formula analysis which segregates our loan portfolio into categories based on certain risk characteristics such as loan type (one- to four-family, multi-family, etc.), interest payments (fixed-rate, adjustable-rate), loan source (originated or purchased), LTV ratios, borrower's credit score and payment status (i.e. current or number of days delinquent). Consumer loans, such as second mortgages and home equity lines of credit, 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 LTV ratio. All loans that are not individually evaluated for impairment are included in the formula analysis. Quantitative loss factors are applied to each loan category in the formula analysis based on the historical net loss experience for each respective loan category. Additionally, qualitative loss factors that management believes impact the collectability of the loan portfolio as of the evaluation date are applied to certain loan categories. Such qualitative factors include changes in collateral values, unemployment rates, credit scores and delinquent loan trends. Loss factors increase as loans are classified or go delinquent.

The factors applied in the formula analysis are reviewed quarterly by management to assess whether the factors adequately cover probable and estimable losses inherent in the loan portfolio. Our ACL methodology permits modifications to the formula analysis in the event that, in management's judgment, significant factors which affect the collectability of the portfolio or any category of the loan portfolio, as of the evaluation date, have changed from the current formula analysis. Management's evaluation of the qualitative factors with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with a specific problem loan or portfolio segments.

Management utilizes the formula analysis, along with several other factors, when evaluating the adequacy of the ACL. Such factors include the trend and composition of delinquent loans, results of foreclosed property and short sale transactions, the current status and trends of local and national economies, particularly levels of unemployment, trends and current conditions in the real estate and housing markets, and loan portfolio growth and concentrations. Since our loan portfolio is primarily concentrated in one- to four-family real estate, we monitor one- to four-family real estate market value trends in our local market areas and geographic sections of the U.S. by reference to various industry and market reports, economic releases and surveys, and our general and specific knowledge of the real estate markets in which we lend, in order to determine what impact, if any, such trends may have on the level of our ACL. We seek to apply ACL methodology in a consistent manner; however, the methodology can be modified in response to changing conditions. In addition, the adequacy of the Company's ACL is reviewed during bank regulatory examinations. We consider any comments from our regulator when assessing the appropriateness of our ACL. Reviewing these quantitative and qualitative factors assists management in evaluating the overall reasonableness of the ACL and whether changes need to be made to our assumptions.

Generally, when a one- to four-family secured loan is 180 days delinquent, new collateral values are obtained through appraisals or BPOs. If the estimated fair value of the collateral, less estimated costs to sell, is less than the current loan balance, the difference is charged-off. Anticipated PMI proceeds are taken into consideration when calculating the amount of the charge-off. An updated fair value is requested, at a minimum, every 12 months thereafter. If the Bank holds the first and second mortgage, both loans are combined when evaluating whether there is a potential loss on the loan. However, charge-offs for real estate-secured loans may also occur at any time if we have knowledge of the existence of a potential loss. For all other real estate loans that are not secured by one- to four-family property, losses are charged-off when we believe the collection of such amounts is unlikely. When a non-real estate secured loan is 120 days delinquent, any identified losses are charged-off.

Fair Value Measurements. The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures, per the provisions of ASC 820, Fair Value Measurements and Disclosures. 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 underlying assumptions used to determine fair value, with Level 1 (quoted prices for identical assets in an active market) being considered the most reliable, and Level 3 having the most unobservable inputs and therefore being considered the least reliable. 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 Company did not have any liabilities that were measured at fair value at June 30, 2012.

The Company's AFS securities are our most significant assets measured at fair value on a recurring basis. Changes in the fair value of AFS securities are recorded, net of tax, in AOCI, which is a component of stockholders' equity. As part of determining fair value, the Company obtains fair values for all AFS securities from independent nationally recognized pricing services. 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 is a security in the AFS portfolio that has significant unobservable inputs requiring the independent pricing services to use some judgment in pricing the related securities. This AFS security is classified as Level 3. All other AFS securities are classified as Level 2.

Loans receivable and OREO are the Company’s significant assets measured at fair value on a non-recurring basis. These non-recurring fair value adjustments involve the application of lower-of-cost-or-fair value accounting or write-downs of individual assets. Fair value for these assets is estimated using current appraisals, 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.

Financial Condition

Total assets decreased $30.2 million, from $9.45 billion at September 30, 2011 to $9.42 billion at June 30, 2012, due primarily to a $150.3 million decrease in securities, partially offset by an increase of $60.3 million in loans receivable and an increase in cash and cash equivalents of $51.9 million. Total liabilities increased $76.5 million, from $7.51 billion at September 30, 2011 to $7.59 billion at June 30, 2012. The increase in total liabilities was due primarily to a $97.3 million increase in the deposit portfolio, specifically the checking and money market portfolios. Stockholders' equity decreased $106.7 million, from $1.94 billion at September 30, 2011 to $1.83 billion at June 30, 2012. The decrease was due primarily to the repurchase of 9,658,309 shares of common stock for $113.7 million and to dividends paid of $52.4 million, partially offset by net income of $56.8 million.

	Balance at June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
	(Dollars in thousands)				
Total assets	$ 9,420,614	$ 9,573,144	$ 9,421,040	$ 9,450,799	$ 9,602,457
Cash and cash equivalents	172,948	143,707	170,175	121,070	161,872
AFS securities	1,632,297	1,715,445	1,570,730	1,486,439	1,269,987
HTM securities	2,073,951	2,165,036	2,129,417	2,370,117	2,693,719
Loans receivable, net	5,209,990	5,224,178	5,224,942	5,149,734	5,162,846
Capital stock of FHLB	131,437	130,614	129,503	126,877	125,797
Deposits	4,592,437	4,657,010	4,501,144	4,495,173	4,558,574
Advances from FHLB	2,527,903	2,525,535	2,531,304	2,379,462	2,453,642
Other borrowings	365,000	365,000	365,000	515,000	565,000
Stockholders' equity	1,832,858	1,912,472	1,931,309	1,939,529	1,934,011
Equity to total assets at end of period	19.5 %	20.0 %	20.5 %	20.5 %	20.1 %

Loans Receivable. The loans receivable portfolio increased $60.3 million, or at an annualized rate of 1.6%, to $5.21 billion at June 30, 2012, from $5.15 billion at September 30, 2011. The increase in loans receivable was due primarily to an increase in the one- to four-family portfolio as a result of originations and purchases. Management continues its efforts to expand our lending relationships related to our nationwide bulk purchase program which is designed to provide mortgage loans that adhere to the Bank's underwriting standards. It is expected that purchases of loans from nationwide lenders will be funded primarily by the runoff of the investment and MBS portfolios. During the first nine months of fiscal year 2012, the Bank originated $334.5 million one- to four-family loans and purchased $158.5 million one- to four-family loans from correspondent lenders. Additionally, the Bank endorsed $707.5 million one- to four-family loans and refinanced $220.1 million of Bank customer one- to four-family loans during the first nine months of fiscal year 2012.

Included in the loan portfolio at June 30, 2012 were $143.8 million, or 2.8% of the total loan portfolio, of adjustable-rate mortgage ("ARM") loans that were originated as interest-only. Of these interest-only loans, $118.6 million were purchased in bulk loan packages 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 10 years. The $118.6 million of purchased interest-only ARM loans held as of June 30, 2012, had a weighted average credit score of 724 and a weighted average LTV ratio of 71% at June 30, 2012. In order to reduce future credit risk, the Bank has not purchased any interest-only ARM loans since 2006 and discontinued offering the product in its local markets during 2008. At June 30, 2012, $70.5 million, or 49%, of the interest-only loans were still in their interest-only payment term. At June 30, 2012, $5.8 million, or 22% of non-performing loans, were interest-only ARMs.

The following table presents characteristics of our loan portfolio as of June 30, 2012 and September 30, 2011. The weighted average rate of the loan portfolio decreased 32 basis points from 4.69% at September 30, 2011 to 4.37% at June 30, 2012. The decrease in the weighted average portfolio rate was due to loan endorsements and refinances, along with originations and purchases at rates that were lower than the existing portfolio. During the nine months ended June 30, 2012, the Bank endorsed $707.5 million of one- to four-family loans, with a weighted average rate decrease of 113 basis points. Within the one- to four-family loan portfolio at June 30, 2012, 74% of the loans had a balance at origination of less than $417 thousand.

	June 30, 2012		September 30, 2011	
	Amount	Average Rate	Amount	Average Rate
	(Dollars in thousands)			
Real Estate Loans:				
One-to four-family	$ 4,995,840	4.32 %	$ 4,918,778	4.65 %
Multi-family and commercial	49,755	6.11	57,965	6.13
Construction	52,163	4.14	47,368	4.27
Total real estate loans	5,097,758	4.34	5,024,111	4.66
Consumer Loans:				
Home equity	152,301	5.43	164,541	5.48
Other	6,744	4.76	7,224	5.10
Total consumer loans	159,045	5.40	171,765	5.46
Total loans receivable	5,256,803	4.37 %	5,195,876	4.69 %
Less:				
Undisbursed loan funds	25,451		22,531	
ACL	11,777		15,465	
Discounts/unearned loan fees	21,246		19,093	
Premiums/deferred costs	(11,661)		(10,947)	
Total loans receivable, net	$ 5,209,990		$ 5,149,734	

The following tables present the weighted average credit score, LTV ratio, and average unpaid principal balance for our one- to four-family loans as of the dates presented. Credit scores are typically updated in the last month of the quarter and are obtained from a nationally recognized consumer rating agency. 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 or BPO. In most cases, the most recent appraisal was obtained at the time of origination.

June 30, 2012

	Balance	Credit Score	LTV	Average Balance
	(Dollars in thousands)			
Originated	$ 4,027,991	764	65 %	$ 124
Correspondent purchases	492,401	761	64	317
Bulk purchases	475,448	739	58	245
	$ 4,995,840	761	64 %	$ 139

	September 30, 2011			
	Balance	Credit Score	LTV	Average Balance
	(Dollars in thousands)			
Originated	$ 3,986,957	763	66 %	$ 123
Correspondent purchases	396,063	759	64	290
Bulk purchases	535,758	740	60	252
	$ 4,918,778	760	65 %	$ 137

The following table presents the rates and weighted average lives ("WAL") in years, which reflects prepayment assumptions, of our loan portfolio as of June 30, 2012. The terms listed under fixed-rate one- to four-family loans represent original terms-to-maturity. The terms listed under adjustable-rate one- to four-family loans represent initial terms-to-repricing. Yields include the amortization of fees, costs, and premiums and discounts, all of which are considered adjustments to the yield.

	June 30, 2012		
	Amount	Rate	WAL
	(Dollars in thousands)		
Fixed-rate one- to four-family:			
<= 15 years	$ 1,037,746	4.15 %	2.4
> 15 years	3,122,790	4.64	3.4
Adjustable-rate one- to four-family:			
<= 36 months	121,113	3.45	3.0
> 36 months	714,191	3.33	2.8
All other loans	260,963	5.28	1.5
Total loans receivable	$ 5,256,803	4.37 %	3.0

The following table presents our fixed-rate one- to four-family loan portfolio, including our fixed-rate one- to four-family construction loans, and the annualized prepayment speeds for the quarter ended June 30, 2012, by interest rate tier. Loan endorsements and refinances are considered prepayments and therefore are included in the prepayment speeds below.

	Original Term					
	15 years or less			More than 15 years		
		Prepayment Speed (annualized)			Prepayment Speed (annualized)	
Rate Range	Principal Balance	Including Endorsements	Excluding Endorsements	Principal Balance	Including Endorsements	Excluding Endorsements
	(Dollars in thousands)					
< =3.50%	$ 287,339	4.05 %	3.45 %	$ 234,238	3.03 %	3.03 %
3.51 - 3.99%	275,596	14.88	9.69	326,263	9.79	7.84
4.00 - 4.50%	158,056	35.04	24.20	1,161,842	16.31	7.75

4.51 - 4.99%	129,260	41.41	28.59	311,393	36.73	14.19
5.00 - 5.50%	137,709	27.53	23.38	706,191	46.23	20.44
5.51 - 5.99%	28,684	33.93	23.35	195,660	41.69	20.76
>=6.00%	21,109	16.26	12.34	215,281	29.30	20.54
	$ 1,037,753	21.46 %	15.46 %	$ 3,150,868	27.00 %	13.05 %

The following table summarizes the activity in the loan portfolio for the periods shown, excluding changes in loans in process, deferred fees, and ACL. Loans that were paid-off as a result of refinances are included in repayments. Loan endorsements are not included in the activity in the following table because a new loan is not generated at the time of the endorsement. The endorsed balance and rate are, however, included in the ending loan portfolio balance and rate.

	For the Three Months Ended							
	June 30, 2012		March 31, 2012		December 31, 2011		September 30, 2011	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)							
Beginning balance	$ 5,275,296	4.45 %	$ 5,282,485	4.53 %	$ 5,195,876	4.69 %	$ 5,211,991	4.79 %
Originations and refinances:								
Fixed	151,724	3.78	139,295	3.79	180,198	3.77	141,123	4.11
Adjustable	42,802	3.74	41,139	3.67	57,321	3.52	47,009	3.77
Purchases and Participations:								
Fixed	34,567	3.94	31,165	4.29	44,800	4.03	29,585	4.47
Adjustable	12,722	3.00	16,426	3.07	53,206	3.79	13,864	3.49
Repayments	(256,221)		(228,203)		(247,928)		(244,512)	
Principal charge-offs, net[1]	(782)		(4,546)		(7)		(95)	
Other[2]	(3,305)		(2,465)		(981)		(3,089)	
Ending balance	$ 5,256,803	4.37 %	$ 5,275,296	4.45 %	$ 5,282,485	4.53 %	$ 5,195,876	4.69 %

	For the Nine Months Ended			
	June 30, 2012		June 30, 2011	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Beginning balance	$ 5,195,876	4.69 %	$ 5,209,313	5.07 %
Originations and refinances:				
Fixed	471,217	3.78	516,961	4.26
Adjustable	141,262	3.63	132,152	3.98
Purchases and Participations:				
Fixed	110,532	4.07	123,475	5.31
Adjustable	82,354	3.52	15,047	3.70
Repayments	(732,352)		(774,700)	
Principal charge-offs, net[1]	(5,335)		--	
Other[2]	(6,751)		(10,257)	
Ending balance	$ 5,256,803	4.37 %	$ 5,211,991	4.79 %

[1]Principal charge-offs, net represent potential loss amounts that reduce the unpaid principal balance of a loan.
[2]"Other" consists of transfers to OREO, endorsement fees advanced and reductions in commitments.

The following table presents loan origination, refinance and purchase activity for the periods indicated, excluding endorsement activity. Loan originations, purchases and refinances are reported together. During the quarter and nine months ended June 30, 2012, the Bank endorsed $136.4 million and $707.5 million, respectively, of one-to four-family loans, which reduced the average rate on those loans by 110 basis points and 113 basis points, respectively. Effective during the June 30, 2012 quarter, the Bank no longer offers the option to advance the fee to endorse loans. It is likely that the Bank's requirement to have the borrower pay the endorsement fee reduced the volume of endorsements during the quarter. The Bank generally prices its first mortgage loan products based on secondary market and competitor pricing. During the nine months ended June 30, 2012, 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 210 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 130 basis points above the average 10-year Treasury rate. The fixed-rate one- to four-family loans less than or equal to 15 years have a maturity at origination of less than or equal to 15 years, while fixed-rate one- to four-family loans greater than 15 years have a 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 $173.3 million of one- to four-family loan originations and refinances for the three months ended June 30, 2012, 83% had loan values of $417 thousand or less. Of the $47.3 million of one- to four-family correspondent and bulk loan purchases for the three months ended June 30, 2012, 22% had loan values of $417 thousand or less.

	For the Three Months Ended			June 30, 2011		
	June 30, 2012					
	Amount	Rate	% of Total	Amount	Rate	% of Total
Fixed-Rate:	(Dollars in thousands)					
One- to four-family:						
<= 15 years	$ 49,624	3.36 %	20.5 %	$ 47,006	4.39 %	17.9 %
> 15 years	135,642	3.95	56.1	172,093	5.13	65.4
Home equity	570	6.52	0.2	938	6.83	0.4
Other	455	6.57	0.2	431	7.79	0.2
Total fixed-rate	186,291	3.81	77.0	220,468	4.98	83.9
Adjustable-Rate:						
One- to four-family:						
<= 36 months	1,255	2.44	0.5	2,245	3.17	0.8
> 36 months	34,091	2.87	14.1	21,965	3.55	8.3
Home equity	19,751	4.86	8.2	17,738	4.82	6.7
Other	427	3.21	0.2	887	3.79	0.3
Total adjustable-rate	55,524	3.57	23.0	42,835	4.06	16.1
Total originations, refinances and purchases	$ 241,815	3.75 %	100.0 %	$ 263,303	4.83 %	100.0 %
Purchased and participation loans included above:						
Fixed-Rate:						
Correspondent - one- to four-family	$ 34,567	3.94 %		$ 12,840	4.69 %	
Bulk - one- to four-family	--	--		89,190	5.60	

Total fixed-rate purchases/participations	34,567	3.94	102,030	5.49
Adjustable-Rate:				
Correspondent - one- to four-family	12,722	3.00	5,114	3.65
Total purchased/participation loans	$ 47,289	3.69 %	$ 107,144	5.40 %

	For the Nine Months Ended					
	June 30, 2012			June 30, 2011		
	Amount	Rate	% of Total	Amount	Rate	% of Total
Fixed-Rate:	(Dollars in thousands)					
One- to four-family:						
<= 15 years	$ 221,730	3.41 %	27.5 %	$ 215,329	3.95 %	27.4 %
> 15 years	357,258	4.07	44.4	420,869	4.70	53.4
Multi-family and commercial real estate	--	--	--	892	6.00	0.1
Home equity	1,577	6.94	0.2	2,389	6.84	0.3
Other	1,184	7.11	0.1	957	8.08	0.1
Total fixed-rate	581,749	3.84	72.2	640,436	4.46	81.3
Adjustable-Rate:						
One- to four-family:						
<= 36 months	6,369	2.53	0.8	6,364	3.15	0.8
> 36 months	148,055	3.05	18.4	88,753	3.52	11.3
Multi-family and commercial real estate	13,975	5.00	1.7	--	--	--
Home equity	53,214	4.86	6.6	50,346	4.80	6.4
Other	2,003	3.31	0.3	1,736	3.93	0.2
Total adjustable-rate	223,616	3.59	27.8	147,199	3.95	18.7
Total originations, refinances and purchases	$ 805,365	3.77 %	100.0 %	$ 787,635	4.37 %	100.0 %
Purchased and participation loans included above:						
Fixed-Rate:						
Correspondent - one- to four-family	$ 110,007	4.08 %		$ 34,285	4.54 %	
Bulk - one- to four-family	392	3.25		89,190	5.60	
Participations - other	133	2.57		--	--	
Total fixed-rate purchases/participations	110,532	4.07		123,475	5.31	
Adjustable-Rate:						
Correspondent - one- to four-family	48,511	3.08		15,047	3.70	
Bulk - one- to four-family	19,868	3.55		--	--	
Participations - commercial real estate	13,975	5.00		--	--	
Total adjustable-rate purchases/participations	82,354	3.52		15,047	3.70	
Total purchased/participation loans	$ 192,886	3.84 %		$ 138,522	5.13 %	

The following table presents the origination and purchase activity in our one- to four-family loan portfolio for the three and nine months ended June 30, 2012, excluding endorsement activity, and the LTV and credit score at the time of origination.

	For the Three Months Ended June 30, 2012			For the Nine Months Ended June 30, 2012		
	Amount	LTV	Credit Score	Amount	LTV	Credit Score
	(Dollars in thousands)					
Originations	$ 119,526	77 %	767	$ 334,540	75 %	766
Refinances by Bank customers	53,797	69	768	220,094	68	773
Correspondent purchases	47,289	69	770	158,518	68	769
Bulk purchases	--	--	--	20,260	60	763
	$ 220,612	73 %	768	$ 733,412	71 %	769

The following table summarizes our one- to four-family loan commitments for originations, refinances, and purchases at the dates noted. Commitments to originate and refinance 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. The increase in commitments between March 31, 2012 and June 30, 2012 was due primarily to the Bank offering more competitive rates to its correspondent lenders.

	June 30, 2012	March 31, 2012	June 30, 2011
	(Dollars in thousands)		
Originate/refinance fixed-rate	$ 100,954	$ 79,604	$ 65,457
Originate/refinance adjustable-rate	15,580	12,904	11,302
Purchase correspondent fixed-rate	83,159	30,327	21,661
Purchase correspondent adjustable-rate	28,241	13,331	15,817
	$ 227,934	$ 136,166	$ 114,237

Asset Quality – Loans and OREO

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, 2011. In the following asset quality discussion, correspondent purchased loans are included with originated loans and bulk purchased loans are reported as purchased loans.

Delinquent and non-performing loans and OREO

The following tables present the Company's 30 to 89 day delinquent loans, non-performing loans, and OREO at the dates indicated. Non-performing loans are nonaccrual loans that are 90 or more days delinquent, are in the process of foreclosure, or TDRs that were either nonaccrual or did not receive a credit evaluation prior to the restructuring and have not made six consecutive monthly payments per the restructured loan terms. At all dates presented, there were no loans 90 or more days delinquent that were still accruing interest. OREO primarily includes assets acquired in settlement of loans. Non-performing assets include non-performing loans and OREO.

	Loans Delinquent for 30 to 89 Days at:							
	June 30, 2012		March 31, 2012		September 30, 2011		June 30, 2011	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Loans 30 to 89 Days Delinquent:	(Dollars in thousands)							
One- to four-family:								
Originated	138	$ 14,658	122	$ 13,434	178	$ 19,710	158	$ 17,669
Purchased	37	8,463	38	7,343	34	6,199	38	6,150
Multi-family and commercial	--	--	--	--	--	--	--	--
Construction	--	--	--	--	--	--	--	--
Consumer Loans:								
Home equity	31	526	33	616	43	759	36	837
Other	13	128	20	342	14	92	16	77
	219	$ 23,775	213	$ 21,735	269	$ 26,760	248	$ 24,733
30 to 89 days delinquent loans								
		0.46 %		0.42 %		0.52 %		0.48 %

to total loans
receivable, net

45

	Non-Performing Loans and OREO at:							
	June 30, 2012		March 31, 2012		September 30, 2011		June 30, 2011	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)							
Loans 90 or More Days Delinquent:								
One- to four-family:								
Originated	94	$ 9,326	103	$ 12,442	106	$ 12,375	111	$ 12,023
Purchased	47	11,792	49	12,485	46	13,749	49	15,637
Consumer Loans:								
Home equity	21	505	14	327	21	380	24	322
Other	5	20	4	10	3	3	5	52
	167	21,643	170	25,264	176	26,507	189	28,034
Nonaccrual TDRs less than 90 Days Delinquent:(1)								
One- to four-family:								
Originated	28	4,201	31	4,771	--	--	--	--
Purchased	--	--	1	324	--	--	--	--
Consumer Loans	--	--	1	10	--	--	--	--
	28	4,201	33	5,105	--	--	--	--
Total non-performing loans	195	25,844	203	30,369	176	26,507	189	28,034
Non-performing loans as a percentage of total loans		0.50 %		0.58 %		0.51 %		0.54 %
OREO:								
One- to four-family:								
Originated(2)	74	7,497	76	7,425	74	6,942	73	6,627
Purchased	5	1,007	11	2,851	12	2,877	16	3,437
Consumer Loans:								
Home equity	1	9	2	21	--	--	--	--
Other	--	--	--	--	--	--	--	--
Other(3)	1	1,400	1					