WASHINGTON FEDERAL INC
Form 10-Q
July 27, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-34654
WASHINGTON FEDERAL, INC.
(Exact name of registrant as specified in its charter)

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | o |
| Non-accelerated filer | o | Smaller reporting company | o |
| Emerging growth company | o | | |

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

| Title of class: | July 24, 2018 |
| --- | --- |
| Common stock, $1.00 par value | 83,537,545 |

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

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

| | June 30, 2018 | September 30, 2017 |
|---|---|---|
| | (In thousands, except share data) | |
| ASSETS | | |
| Cash and cash equivalents | $345,919 | $313,070 |
| Available-for-sale securities, at fair value | 1,255,401 | 1,266,209 |
| Held-to-maturity securities, at amortized cost | 1,670,450 | 1,646,856 |
| Loans receivable, net of allowance for loan losses of $128,666 and $123,073 | 11,325,971 | 10,882,622 |
| Interest receivable | 43,670 | 41,643 |
| Premises and equipment, net | 269,674 | 263,694 |
| Real estate owned | 11,275 | 20,658 |
| FHLB and FRB stock | 128,790 | 122,990 |
| Bank owned life insurance | 214,752 | 211,330 |
| Intangible assets, including goodwill of $301,368 and $293,153 | 311,796 | 298,682 |
| Federal and state income tax assets, net | 4,293 | — |
| Other assets | 184,330 | 185,826 |
| | $15,766,321 | $15,253,580 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Customer accounts | | |
| Transaction deposit accounts | $6,572,766 | $6,361,158 |
| Time deposit accounts | 4,714,707 | 4,473,850 |
| | 11,287,473 | 10,835,008 |
| FHLB advances | 2,370,000 | 2,225,000 |
| Advance payments by borrowers for taxes and insurance | 32,632 | 56,631 |
| Accrued expenses and other liabilities | 89,953 | 131,253 |
| | 13,780,058 | 13,247,892 |
| Stockholders' equity | | |
| Common stock, $1.00 par value, 300,000,000 shares authorized; 135,343,437 and 134,957,511 shares issued; 83,534,098 and 87,193,362 shares outstanding | 135,344 | 134,958 |
| Additional paid-in capital | 1,665,421 | 1,660,885 |
| Accumulated other comprehensive income (loss), net of taxes | 8,137 | 5,015 |
| Treasury stock, at cost; 51,809,339 and 47,764,149 shares | (975,001) | (838,060) |
| Retained earnings | 1,152,362 | 1,042,890 |
| | 1,986,263 | 2,005,688 |
| | $15,766,321 | $15,253,580 |

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands, except share data) | | (In thousands, except share data) | |
| INTEREST INCOME | | | | |
| Loans receivable | $ 131,541 | $ 117,457 | $ 382,581 | $ 348,326 |
| Mortgage-backed securities | 18,022 | 15,992 | 52,588 | 45,007 |
| Investment securities and cash equivalents | 5,509 | 4,267 | 14,762 | 13,345 |
| | 155,072 | 137,716 | 449,931 | 406,678 |
| INTEREST EXPENSE | | | | |
| Customer accounts | 18,887 | 12,764 | 49,939 | 38,173 |
| FHLB advances | 16,333 | 16,337 | 47,104 | 49,011 |
| | 35,220 | 29,101 | 97,043 | 87,184 |
| Net interest income | 119,852 | 108,615 | 352,888 | 319,494 |
| Provision (release) for loan losses | 1,000 | — | 50 | (1,600) |
| Net interest income after provision (release) for loan losses | 118,852 | 108,615 | 352,838 | 321,094 |
| OTHER INCOME | | | | |
| Gain on sale of investment securities | — | — | — | 968 |
| FDIC loss share valuation adjustments | — | — | (8,550) | — |
| Loan fee income | 1,094 | 889 | 2,909 | 3,310 |
| Deposit fee income | 6,411 | 5,714 | 19,500 | 15,803 |
| Other income | 4,946 | 7,319 | 17,974 | 15,873 |
| | 12,451 | 13,922 | 31,833 | 35,954 |
| OTHER EXPENSE | | | | |
| Compensation and benefits | 31,223 | 28,947 | 92,467 | 84,774 |
| Occupancy | 9,095 | 8,829 | 26,779 | 26,370 |
| FDIC insurance premiums | 2,950 | 2,842 | 8,622 | 8,591 |
| Product delivery | 4,356 | 3,246 | 11,977 | 10,096 |
| Information technology | 10,118 | 6,617 | 26,828 | 19,754 |
| Other expense | 9,235 | 6,581 | 28,032 | 19,285 |
| | 66,977 | 57,062 | 194,705 | 168,870 |
| Gain (loss) on real estate owned, net | 168 | (124) | (64) | 1,069 |
| Income before income taxes | 64,494 | 65,351 | 189,902 | 189,247 |
| Income tax expense | 13,100 | 21,239 | 37,567 | 61,819 |
| NET INCOME | $ 51,394 | $ 44,112 | $ 152,335 | $ 127,428 |
| PER SHARE DATA | | | | |
| Basic earnings per share | $ 0.61 | $ 0.49 | $ 1.78 | $ 1.43 |
| Diluted earnings per share | 0.61 | 0.49 | 1.78 | 1.42 |
| Dividends paid on common stock per share | 0.17 | 0.15 | 0.49 | 0.69 |
| Basic weighted average number of shares outstanding | 84,168,992 | 89,199,823 | 85,589,588 | 89,297,471 |
| Diluted weighted average number of shares outstanding | 84,252,659 | 89,497,264 | 85,698,888 | 89,653,955 |

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | (In thousands) | |
| Net income | $51,394 | $44,112 | $152,335 | $127,428 |
| Other comprehensive income (loss) net of tax: | | | | |
| Net unrealized gain (loss) on available-for-sale investment securities | (4,851) | 3,171 | (18,282) | (8,224) |
| Reclassification adjustment of net gain (loss) from sale of available-for-sale securities included in net income | — | — | — | 968 |
| Related tax benefit (expense) | 1,104 | (1,165) | 5,506 | 2,667 |
| | (3,747) | 2,006 | (12,776) | (4,589) |
| Net unrealized gain (loss) on cash flow hedges of borrowings | 3,865 | (2,856) | 20,887 | 28,810 |
| Related tax benefit (expense) | (879) | 1,049 | (4,989) | (10,587) |
| | 2,986 | (1,807) | 15,898 | 18,223 |
| Other comprehensive income (loss) net of tax | (761) | 199 | 3,122 | 13,634 |
| Comprehensive income | $50,633 | $44,311 | $155,457 | $141,062 |

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

| (in thousands) | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|---|---|---|---|---|---|---|
| Balance at October 1, 2017 | $134,958 | $1,660,885 | $1,042,890 | $ 5,015 | $(838,060) | $2,005,688 |
| Adjustment pursuant to adoption of ASU 2018-02 | — | — | (1,772) | 1,772 | — | — |
| Net income | — | — | 152,335 | — | — | 152,335 |
| Other comprehensive income (loss) | — | — | — | 1,350 | — | 1,350 |
| Dividends on common stock | — | — | (41,091) | — | — | (41,091) |
| Proceeds from exercise of common stock options | 60 | 1,228 | — | — | — | 1,288 |
| Restricted stock expense | 215 | 3,419 | — | — | — | 3,634 |
| Exercise of stock warrants | 111 | (111) | | | | — |
| Treasury stock acquired | — | — | — | — | (136,941) | (136,941) |
| Balance at June 30, 2018 | $135,344 | $1,665,421 | $1,152,362 | $ 8,137 | $(975,001) | $1,986,263 |

| (in thousands) | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|---|---|---|---|---|---|---|
| Balance at October 1, 2016 | $134,308 | $1,648,388 | $943,877 | $ (11,156) | $(739,686) | $1,975,731 |
| Net income | — | — | 127,428 | — | — | 127,428 |
| Other comprehensive income (loss) | — | — | — | 13,634 | — | 13,634 |
| Dividends on common stock | — | — | (61,341) | — | — | (61,341) |
| Proceeds from exercise of common stock options | 309 | 6,769 | — | — | — | 7,078 |
| Restricted stock expense | 105 | 5,021 | — | — | — | 5,126 |
| Exercise of stock warrants | 225 | (225) | — | — | — | — |
| Treasury stock acquired | — | — | — | — | (46,470) | (46,470) |
| Balance at June 30, 2017 | $134,947 | $1,659,953 | $1,009,964 | $ 2,478 | $(786,156) | $2,021,186 |

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Nine Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $152,335 | $127,428 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, amortization, and accretion expense, net | 38,980 | 29,602 |
| Cash received from (paid to) FDIC under loss share agreements, net | 1,595 | 813 |
| Stock based compensation expense | 3,634 | 5,126 |
| Provision (release) for loan losses | 50 | (1,600) |
| Loss (gain) on sale of investment securities | — | (968) |
| Decrease (increase) in accrued interest receivable | (2,027) | (1,257) |
| Decrease (increase) in federal and state income tax receivable | (4,293) | 16,047 |
| Decrease (increase) in cash surrender value of bank owned life insurance | (4,490) | (4,907) |
| Gain on bank owned life insurance | (2,416) | (4,983) |
| Net realized (gain) loss on sales of premises, equipment, and real estate owned | (1,333) | (1,691) |
| Decrease (increase) in other assets | (878) | 6,618 |
| Increase (decrease) in accrued expenses and other liabilities | (40,862) | (47,859) |
| Net cash provided by (used in) operating activities | 140,295 | 122,369 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Origination of loans and principal repayments, net | (308,167) | (668,413) |
| Loans purchased | (143,605) | (72,856) |
| FHLB & FRB stock purchased | (408,800) | (93,009) |
| FHLB & FRB stock redeemed | 403,000 | 85,224 |
| Available-for-sale securities purchased | (166,696) | — |
| Principal payments and maturities of available-for-sale securities | 156,240 | 290,243 |
| Proceeds from sales of available-for-sale securities | — | 350,890 |
| Held-to-maturity securities purchased | (170,836) | (415,729) |
| Principal payments and maturities of held-to-maturity securities | 143,837 | 176,333 |
| Proceeds from sales of real estate owned | 11,960 | 13,780 |
| Proceeds from settlement of bank owned life insurance | 3,484 | 6,913 |
| Cash paid for acquisitions | (2,211) | — |
| Proceeds from sales of premises and equipment | 1 | 3,956 |
| Premises and equipment purchased and REO improvements | (22,604) | (9,541) |
| Net cash provided by (used in) investing activities | (504,397) | (332,209) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase (decrease) in customer accounts | 452,694 | 33,654 |
| Proceeds from borrowings | 10,220,000 | 2,325,000 |
| Repayments of borrowings | (10,075,000) | (2,130,000) |
| Proceeds from exercise of common stock options and related tax benefit | 1,288 | 7,078 |
| Dividends paid on common stock | (41,091) | (61,341) |
| Treasury stock purchased | (136,941) | (46,470) |
| Increase (decrease) in borrower advances related to taxes and insurance, net | (23,999) | (9,197) |
| Net cash provided by (used in) financing activities | 396,951 | 118,724 |
| Increase (decrease) in cash and cash equivalents | 32,849 | (91,116) |

| | | |
|---|---|---|
| Cash and cash equivalents at beginning of period | 313,070 | 450,368 |
| Cash and cash equivalents at end of period | $345,919 | $359,252 |

(CONTINUED)

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

| | Nine Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| | (In thousands) | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Non-cash investing activities | | |
| Real estate acquired through foreclosure | $1,517 | $2,323 |
| Non-cash financing activities | | |
| Stock issued upon exercise of warrants | 3,836 | 7,546 |
| Cash paid during the period for | | |
| Interest | 95,394 | 82,919 |
| Income taxes | 34,160 | 33,228 |

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE A – Summary of Significant Accounting Policies

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

Basis of Presentation - The Company has prepared the consolidated unaudited interim financial statements included in this report. All intercompany transactions and accounts have been eliminated in consolidation. The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America (“GAAP”), requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation are reflected in the interim financial statements. Certain amounts in the financial statements from prior periods have been reclassified to conform to the current financial statement presentation.

The information included in this Form 10-Q should be read in conjunction with the financial statements and related notes in the Company's 2017 Annual Report on Form 10-K (“2017 Annual Financial Statements”). Interim results are not necessarily indicative of results for a full year.

During the nine months ended June 30, 2018, an immaterial correction was recorded related to acquisitions of insurance agency businesses in prior years. The balance sheet classification correction resulted in an increase in goodwill of $7,135,000 and finite-lived intangible assets of $5,106,000 and a corresponding decrease in other assets of $12,241,000.

Summary of Significant Accounting Policies - The significant accounting policies used in preparation of the Company's consolidated financial statements are disclosed in its 2017 Annual Financial Statements. There have not been any material changes in the Company's significant accounting policies compared to those contained in its 2017 Annual Financial Statements for the year ended September 30, 2017.

Off-Balance-Sheet Credit Exposures - The only material off-balance-sheet credit exposures are loans in process and unused lines of credit, which had a combined balance of $2,161,343,000 and $1,992,905,000 at June 30, 2018 and September 30, 2017, respectively. The Company estimates losses on off-balance-sheet credit exposures by allocating a loss percentage derived from historical loss factors for each asset class.

NOTE B – New Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The ASU expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition with a cumulative effect adjustment recorded to opening retained earnings as of the initial adoption date. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities. The ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The ASU is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December

15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The ASU clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments also define the term in substance nonfinancial asset. The amendments clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. A contract that includes the transfer of ownership interests in one or more consolidated subsidiaries is within the scope of Subtopic 610-20 if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets. The amendments clarify that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The ASU is effective for public business entities for annual periods beginning after December 15, 2017, and interim periods therein. Entities may use either a full or modified approach to adopt the ASU. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash: a Consensus of the FASB Emerging Issues Task Force. This ASU requires a company’s cash flow statement to explain the changes during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Additionally, amounts for restricted cash and restricted cash equivalents are to be included with cash and cash equivalents if the cash flow statement includes a reconciliation of the total cash balances for a reporting period. This ASU is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017, with early application permitted. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendments in this ASU address eight specific cash flow issues with the objective of reducing diversity in practice. The specific issues identified include: debt prepayments or extinguishment costs; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period; however, early adoption is permitted. The Company is currently evaluating the guidance to determine its adoption method and does not expect this guidance to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. The amendments in this ASU were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investments in leases and other commitments to extend credit held by a reporting entity at each reporting date. The amendments require that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The ASU eliminates the current framework of recognizing probable incurred losses and instead requires an entity to use its current estimate of all expected credit losses over the contractual life. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets.

For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination (“PCD assets”) that are measured at amortized cost, an allowance for expected credit losses is recorded as an adjustment to the cost basis of the asset. Subsequent changes in estimated cash flows would be recorded as an adjustment to the allowance and through the statement of income.

Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security's cost basis.

The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For most debt securities, the transition approach requires a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period the guidance is effective. For other-than-temporarily impaired debt securities and PCD assets, the guidance will be applied prospectively. While the Company is currently in the process of evaluating the impact of the amended guidance on its consolidated financial statements, it currently expects the ALLL to increase upon adoption given that the allowance will be required to cover the full remaining expected life of the portfolio upon adoption, rather than the incurred loss model under current U.S. GAAP. The extent of this increase is still being evaluated and will depend on economic conditions and the composition of the Company’s loan and lease portfolio at the time of adoption.

In February 2016, the FASB issued ASU 2016-02, Leases. The amendments require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The guidance also simplifies the accounting for sale and leaseback transactions. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently in the process of accumulating the lease data necessary to apply the amended guidance. The Company is continuing to evaluate the impact of the amended guidance on its consolidated financial statements, but the effects of recognizing most operating leases is not expected to be material. The Company expects to recognize right-of-use assets and lease liabilities for substantially all of its operating lease commitments based on the present value of unpaid lease payments as of the date of adoption.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, to require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this ASU also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update was to be effective for interim and annual periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, which delayed the effective date of ASU 2014-09 by one year and permits companies to voluntarily adopt the new standard as of the original effective date. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

NOTE C – Dividends and Share Repurchases

On May 25, 2018, the Company paid a regular dividend on common stock of $0.17 per share, which represented the 141st consecutive quarterly cash dividend. Dividends per share were $0.17 and $0.15 for the quarters ended June 30, 2018 and 2017, respectively. On July 23, 2018, the Company declared a regular dividend on common stock of $0.18 per share, which represents its 142nd consecutive quarterly cash dividend. This dividend will be paid on August 24, 2018 to common shareholders of record on August 10, 2018.

For the three months ended June 30, 2018, the Company repurchased 1,224,384 shares at an average price of $32.64. During the three months ended June 30, 2018, 2,329 shares of common stock were issued to investors holding warrants previously issued as part of the 2008 Troubled Asset Relief Program ("TARP"). As of June 30, 2018, 107,617 of these warrants remain outstanding. Net of warrant cash repurchase activity, there are 2,855,765 remaining shares authorized to be repurchased under the current Board approved share repurchase program.

NOTE D – Loans Receivable

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The following table is a summary of loans receivable.

| | June 30, 2018 | | September 30, 2017 | |
|---|---|---|---|---|
| | (In thousands) | | (In thousands) | |
| Gross loans by category | | | | |
| Single-family residential | $5,745,598 | 45.1% | $5,711,004 | 46.8% |
| Construction | 1,885,034 | 14.8 | 1,597,996 | 13.1 |
| Construction - custom | 612,688 | 4.8 | 602,631 | 4.9 |
| Land - acquisition & development | 150,936 | 1.2 | 124,308 | 1.0 |
| Land - consumer lot loans | 103,118 | 0.8 | 104,405 | 0.9 |
| Multi-family | 1,346,534 | 10.6 | 1,303,148 | 10.7 |
| Commercial real estate | 1,435,418 | 11.3 | 1,434,610 | 11.8 |
| Commercial & industrial | 1,133,075 | 8.9 | 1,093,360 | 9.0 |
| HELOC | 136,766 | 1.1 | 144,850 | 1.2 |
| Consumer | 188,125 | 1.5 | 85,075 | 0.7 |
| Total gross loans | 12,737,292 | 100 % | 12,201,387 | 100 % |
| Less: | | | | |
| Allowance for loan losses | 128,666 | | 123,073 | |
| Loans in process | 1,230,132 | | 1,149,934 | |
| Net deferred fees, costs and discounts | 52,523 | | 45,758 | |
| Total loan contra accounts | 1,411,321 | | 1,318,765 | |
| Net loans | $11,325,971 | | $10,882,622 | |

The following table sets forth information regarding non-accrual loans.

| | June 30, 2018 | | September 30, 2017 | |
|---|---|---|---|---|
| | (In thousands, except ratio data) | | | |
| Non-accrual loans: | | | | |
| Single-family residential | $26,119 | 43.1% | $27,930 | 56.3% |
| Construction | 1,841 | 3.0 | — | — |
| Construction - custom | — | — | 91 | 0.2 |
| Land - acquisition & development | 1,757 | 2.9 | 296 | 0.6 |
| Land - consumer lot loans | 642 | 1.1 | 605 | 1.2 |
| Multi-family | — | — | 139 | 0.3 |
| Commercial real estate | 9,684 | 16.0 | 11,815 | 23.8 |
| Commercial & industrial | 19,876 | 32.8 | 8,082 | 16.3 |
| HELOC | 637 | 1.1 | 531 | 1.1 |
| Consumer | 28 | — | 91 | 0.2 |
| Total non-accrual loans | $60,584 | 100 % | $49,580 | 100 % |
| % of total net loans | 0.53 % | | 0.46 % | |

The Company recognized interest income on non-accrual loans of approximately $3,926,000 in the nine months ended June 30, 2018. Had these loans been on accrual status and performed according to their original contract terms, the Company would have recognized interest income of approximately $1,741,000 for the nine months ended June 30,

2018. Recognized interest income for the nine months ended June 30, 2018 was higher than what otherwise would have been collected in the period due to the collection of past due amounts. Interest cash flows collected on non-accrual loans vary from period to period as those loans are brought current or are paid off.

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The following tables provide details regarding delinquent loans.

| June 30, 2018 | Loans Receivable | Days Delinquent Based on $ Amount of Loans | | | | | % based |
|---|---|---|---|---|---|---|---|
| Type of Loan | Net of Loans In Process | Current | 30 | 60 | 90 | Total Delinquent | on $ |
| | (In thousands, except ratio data) | | | | | | |
| Single-family residential | $5,744,620 | $5,714,962 | $7,201 | $4,521 | $17,936 | $ 29,658 | 0.52 % |
| Construction | 1,012,239 | 1,009,782 | — | 616 | 1,841 | 2,457 | 0.24 |
| Construction - custom | 285,858 | 285,687 | 171 | — | — | 171 | 0.06 |
| Land - acquisition & development | 121,508 | 119,593 | — | 270 | 1,645 | 1,915 | 1.58 |
| Land - consumer lot loans | 103,040 | 102,303 | 128 | 301 | 308 | 737 | 0.72 |
| Multi-family | 1,346,512 | 1,346,512 | — | — | — | — | — |
| Commercial real estate | 1,435,417 | 1,433,030 | 684 | — | 1,703 | 2,387 | 0.17 |
| Commercial & industrial | 1,133,075 | 1,126,480 | — | — | 6,595 | 6,595 | 0.58 |
| HELOC | 136,766 | 135,406 | 863 | 146 | 351 | 1,360 | 0.99 |
| Consumer | 188,125 | 187,773 | 125 | 127 | 100 | 352 | 0.19 |
| Total Loans | $11,507,160 | $11,461,528 | $9,172 | $5,981 | $30,479 | $ 45,632 | 0.40 % |
| Delinquency % | | 99.60% | 0.08% | 0.05% | 0.26% | 0.40% | |

| September 30, 2017 | Loans Receivable | Days Delinquent Based on $ Amount of Loans | | | | | % based |
|---|---|---|---|---|---|---|---|
| Type of Loan | Net of Loans In Process | Current | 30 | 60 | 90 | Total Delinquent | on $ |
| | (In thousands, except ratio data) | | | | | | |
| Single-family residential | $5,709,690 | $5,671,933 | $10,925 | $4,810 | $22,022 | $ 37,757 | 0.66 % |
| Construction | 793,959 | 793,959 | — | — | — | — | — |
| Construction - custom | 277,599 | 277,508 | — | — | 91 | 91 | 0.03 |
| Land - acquisition & development | 104,856 | 104,526 | — | — | 330 | 330 | 0.31 |
| Land - consumer lot loans | 104,335 | 103,389 | 112 | 680 | 154 | 946 | 0.91 |
| Multi-family | 1,303,119 | 1,302,720 | 5 | 255 | 139 | 399 | 0.03 |
| Commercial real estate | 1,434,610 | 1,432,052 | 507 | — | 2,051 | 2,558 | 0.18 |
| Commercial & industrial | 1,093,360 | 1,092,735 | — | 51 | 574 | 625 | 0.06 |
| HELOC | 144,850 | 143,974 | 221 | 342 | 313 | 876 | 0.60 |
| Consumer | 85,075 | 84,644 | 245 | 107 | 79 | 431 | 0.51 |
| Total Loans | $11,051,453 | $11,007,440 | $12,015 | $6,245 | $25,753 | $ 44,013 | 0.40 % |
| Delinquency % | | 99.60% | 0.11% | 0.06% | 0.23% | 0.40% | |

The percentage of total delinquent loans was 0.40% as of June 30, 2018 and 0.40% as of September 30, 2017. There are no loans greater than 90 days delinquent and still accruing interest as of either date.

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The following table provides information related to loans restructured in a troubled debt restructuring ("TDR") during the periods presented:

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| | | ($ in thousands) | | | ($ in thousands) | |
| Troubled Debt Restructurings: | | | | | | |
| Single-family residential | 5 | $ 714 | $ 714 | 11 | $ 1,836 | $ 1,836 |
| HELOC | 1 | 75 | 75 | — | — | — |
| | 6 | $ 789 | $ 789 | 11 | $ 1,836 | $ 1,836 |

| | Nine Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| | | ($ in thousands) | | | ($ in thousands) | |
| Troubled Debt Restructurings: | | | | | | |
| Single-family residential | 25 | $4,909 | $ 4,909 | 31 | $ 5,682 | $ 5,682 |
| Land - consumer lot loans | — | — | — | 1 | 204 | 204 |
| Commercial & Industrial | 3 | 7,256 | 7,256 | — | — | — |
| HELOC | 1 | 75 | 75 | 1 | 228 | 228 |
| | 29 | $12,240 | $ 12,240 | 33 | $ 6,114 | $ 6,114 |

The following table provides information on payment defaults occurring during the periods presented where the loan had been modified in a TDR within 12 months of the payment default.

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment |
| | ($ in thousands) | | ($ in thousands) | |
| Trouble Debt Restructurings That Subsequently Defaulted: | | | | |
| Single-family residential | — | $ — | 3 | $ 401 |

| | | | |
|---|---|---|---|
| —$ | —3 | $ | 401 |

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| | Nine Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment |
| | ($ in thousands) | | ($ in thousands) | |
| Troubled Debt Restructurings That Subsequently Defaulted: | | | | |
| Single-family residential | 2 | $ 206 | 16 | $ 3,586 |
| Commercial real estate | — | — | 2 | 267 |
| | 2 | $ 206 | 18 | $ 3,853 |

Most loans restructured in TDRs are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. As of June 30, 2018, 96.7% of the Company's $171,603,000 in TDRs were classified as performing. Each request for modification is individually evaluated for merit and likelihood of success. The concession granted in a loan modification is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twenty four months. Interest-only payments may also be approved during the modification period. Principal forgiveness is not an available option for restructured loans. As of June 30, 2018, single-family residential loans comprised 89.4% of TDRs.

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

In May 2018, the Bank entered into an agreement with the FDIC to early terminate its remaining FDIC loss share agreements, which relate to the Horizon Bank and Home Valley Bank acquisitions. The Bank paid $39,906,000 to settle the FDIC clawback liability and this amount is consistent with the liability on the balance sheet as of March 31, 2018 so no additional gain or loss was recorded in the three months ended June 30, 2018. Under the termination agreement, all rights and obligations of the Bank and the FDIC have been resolved and completed. As such, future recoveries, gains, losses and expenses related to the previously covered assets will now be recognized entirely by the Bank and the FDIC will no longer share in such gains or losses.

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NOTE E – Allowance for Losses on Loans

The following tables summarize the activity in the allowance for loan losses.

| Three Months Ended June 30, 2018 | Beginning Allowance | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Single-family residential | $34,144 | $ (299) | $ 283 | $ 273 | $34,401 |
| Construction | 27,389 | — | — | 2,744 | 30,133 |
| Construction - custom | 2,081 | — | — | (67) | 2,014 |
| Land - acquisition & development | 7,622 | (12) | 2,699 | (2,609) | 7,700 |
| Land - consumer lot loans | 2,853 | (1) | 35 | 20 | 2,907 |
| Multi-family | 7,982 | — | — | 109 | 8,091 |
| Commercial real estate | 11,588 | — | 91 | (100) | 11,579 |
| Commercial & industrial | 29,330 | (3,317) | 433 | 1,069 | 27,515 |
| HELOC | 802 | — | — | 9 | 811 |
| Consumer | 3,785 | (45) | 223 | (448) | 3,515 |
| | $127,576 | $ (3,674) | $ 3,764 | $ 1,000 | $128,666 |

| Three Months Ended June 30, 2017 | Beginning Allowance | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Single-family residential | $37,164 | $ (267) | $ 81 | $ 1,133 | $38,111 |
| Construction | 25,061 | — | — | (3,195) | 21,866 |
| Construction - custom | 1,176 | — | — | 714 | 1,890 |
| Land - acquisition & development | 6,669 | — | 863 | (315) | 7,217 |
| Land - consumer lot loans | 2,513 | — | 118 | (83) | 2,548 |
| Multi-family | 7,929 | — | — | (17) | 7,912 |
| Commercial real estate | 10,772 | — | 164 | 411 | 11,347 |
| Commercial & industrial | 28,365 | — | 154 | 653 | 29,172 |
| HELOC | 826 | — | 1 | 50 | 877 |
| Consumer | 1,447 | (144) | 282 | (296) | 1,289 |
| | $121,922 | $ (411) | $ 1,663 | $ (945) | $122,229 |

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| Nine Months Ended June 30, 2018 | Beginning Allowance | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Single-family residential | $36,892 | $ (1,049 ) | $ 615 | $ (2,057 ) | $ 34,401 |
| Construction | 24,556 | — | — | 5,577 | 30,133 |
| Construction - custom | 1,944 | (50 ) | — | 120 | 2,014 |
| Land - acquisition & development | 6,829 | (12 ) | 7,278 | (6,395 ) | 7,700 |
| Land - consumer lot loans | 2,649 | (67 ) | 35 | 290 | 2,907 |
| Multi-family | 7,862 | — | — | 229 | 8,091 |
| Commercial real estate | 11,818 | (36 ) | 92 | (295 ) | 11,579 |
| Commercial & industrial | 28,524 | (3,433 ) | 603 | 1,821 | 27,515 |
| HELOC | 855 | (1 ) | — | (43 ) | 811 |
| Consumer | 1,144 | (217 ) | 785 | 1,803 | 3,515 |
| | $123,073 | $ (4,865 ) | $ 9,408 | $ 1,050 | $ 128,666 |

| Nine Months Ended June 30, 2017 | Beginning Allowance | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Single-family residential | $37,796 | $ (763 ) | $ 455 | $ 623 | $ 38,111 |
| Construction | 19,838 | — | — | 2,028 | 21,866 |
| Construction - custom | 1,080 | (3 ) | — | 813 | 1,890 |
| Land - acquisition & development | 6,023 | (63 ) | 9,092 | (7,835 ) | 7,217 |
| Land - consumer lot loans | 2,535 | (17 ) | 368 | (338 ) | 2,548 |
| Multi-family | 6,925 | — | — | 987 | 7,912 |
| Commercial real estate | 8,588 | | | | |