

WASHINGTON FEDERAL INC  
Form 10-Q  
August 07, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended June 30, 2015

or

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  
(State or other jurisdiction of  
incorporation or organization)

91-1661606  
(I.R.S. Employer  
Identification No.)

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

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  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

**APPLICABLE ONLY TO CORPORATE ISSUERS**

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

Title of class: \_\_\_\_\_ at August 6, 2015

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Common stock, \$1.00 par value

93,982,148

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART IItem 1. Financial Statements (Unaudited)

The Consolidated Financial Statements of Washington Federal, Inc. and Subsidiaries filed as a part of the report are as follows:

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

	June 30, 2015	September 30, 2014
	(In thousands, except share data)	
<b>ASSETS</b>		
Cash and cash equivalents	\$349,550	\$781,843
Available-for-sale securities, at fair value	2,624,374	3,049,442
Held-to-maturity securities, at amortized cost	1,586,514	1,548,265
Loans receivable, net	8,645,609	8,148,322
Covered loans, net	77,311	176,476
Interest receivable	39,550	52,037
Premises and equipment, net	267,835	257,543
Real estate held for sale	55,491	55,072
Real estate held for investment	4,336	4,808
Covered real estate held for sale	4,434	24,082
FDIC indemnification asset	18,783	36,860
FHLB and FRB stock	103,189	158,839
Bank owned life insurance	101,720	—
Intangible assets, net	300,109	302,909
Federal and state income tax assets, net	11,286	16,515
Other assets	180,405	143,028
	\$14,370,496	\$14,756,041
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Customer accounts		
Transaction deposit accounts	\$5,696,536	\$5,490,687
Time deposit accounts	4,881,849	5,226,241
	10,578,385	10,716,928
FHLB advances	1,730,000	1,930,000
Advance payments by borrowers for taxes and insurance	30,656	29,004
Accrued expenses and other liabilities	72,334	106,826
	12,411,375	12,782,758
<b>Stockholders' equity</b>		
Common stock, \$1.00 par value, 300,000,000 shares authorized; 133,688,179 and 133,322,909 shares issued; 93,982,148 and 98,404,705 shares outstanding	133,688	133,323
Paid-in capital	1,643,243	1,638,211
Accumulated other comprehensive income, net of taxes	10,977	20,708
Treasury stock, at cost; 39,706,031 and 34,918,204 shares	(628,157	) (525,108
Retained earnings	799,370	706,149
	1,959,121	1,973,283
	\$14,370,496	\$14,756,041

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)			
<b>INTEREST INCOME</b>				
Loans and covered assets	\$107,250	\$108,089	\$324,817	\$321,650
Mortgage-backed securities	16,995	20,507	54,313	60,947
Investment securities and cash equivalents	5,055	6,415	16,084	16,023
	129,300	135,011	395,214	398,620
<b>INTEREST EXPENSE</b>				
Customer accounts	12,485	14,238	38,504	44,517
FHLB advances and other borrowings	16,250	17,494	50,082	51,877
	28,735	31,732	88,586	96,394
Net interest income	100,565	103,279	306,628	302,226
Reversal of provision for loan losses	(1,932)	(3,000)	(11,381)	(11,936)
Net interest income after reversal of provision for loan losses	102,497	106,279	318,009	314,162
<b>OTHER INCOME</b>				
Gain on sale of investments	9,639	—	9,639	—
Prepayment penalty on long-term debt	(7,941)	—	(10,554)	—
Loan fee income	1,915	2,297	6,028	5,668
Deposit fee income	5,156	4,036	16,538	9,120
Other income	3,042	1,739	6,380	5,774
	11,811	8,072	28,031	20,562
<b>OTHER EXPENSE</b>				
Compensation and benefits	29,824	28,946	89,453	81,908
Occupancy	8,492	7,468	24,866	21,864
FDIC insurance premiums	2,377	2,978	5,431	8,679
Information technology	3,783	3,505	11,695	10,365
Product delivery	6,175	4,577	17,222	9,961
Other expense	6,068	5,819	18,975	16,694
	56,719	53,293	167,642	149,471
Gain (loss) on real estate acquired through foreclosure, net	3,188	(2,056)	4,976	(3,454)
Income before income taxes	60,777	59,002	183,374	181,799
Income tax provision	21,727	21,092	65,556	64,996
<b>NET INCOME</b>	<b>\$39,050</b>	<b>\$37,910</b>	<b>\$117,818</b>	<b>\$116,803</b>
<b>PER SHARE DATA</b>				
Basic earnings	\$0.41	\$0.38	\$1.22	\$1.15
Diluted earnings	0.41	0.37	1.22	1.14
Dividends paid on common stock per share	0.13	0.10	0.41	0.30
Basic weighted average number of shares outstanding	94,466,524	100,979,219	96,335,777	101,777,112
Diluted weighted average number of shares outstanding, including dilutive stock options	94,904,262	101,393,936	96,726,085	102,234,350

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Net income	\$39,050	\$37,910	\$117,818	\$116,803
Other comprehensive income (loss) net of tax:				
Net unrealized gain (loss) on available-for-sale securities	(35,001	) 22,026	(21,378	) 28,527
Reclassification adjustment of net gain (loss) from sale of available-for-sale securities included in net income	9,639	—	9,639	—
Related tax benefit (expense)	9,320	(8,095	) 4,314	—
	(16,042	) 13,931	(7,425	) 28,527
Net unrealized gain (loss) on long-term borrowing hedge	5,587	—	(3,646	) —
Related tax benefit (expense)	(2,053	) —	1,340	(10,484
	3,534	—	(2,306	) (10,484
Other comprehensive income (loss) net of tax	(12,508	) 13,931	(9,731	) 18,043
Comprehensive income	\$26,542	\$51,841	\$108,087	\$134,846
SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS				





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

	Nine Months Ended June 30,	
	2015	2014
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 117,818	\$ 116,803
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,075	8,467
Cash received from (paid to) FDIC under loss share	(714	) 949
Stock option compensation expense	900	900
Reversal of provision for loan losses	(11,381	) (11,936
(Gain) loss on investment securities and real estate held for sale	(25,817	) 598
Prepayment penalty from repayment of borrowings	10,554	—
Decrease (increase) in accrued interest receivable	12,487	(2,174
Decrease (increase) in FDIC loss share receivable	1,795	(2,029
Decrease in federal and state income tax	10,883	8,258
Increase in cash surrender value in bank owned life insurance	(1,720	) —
Increase in other assets	(37,376	) (14,514
Decrease in accrued expenses and other liabilities	(23,738	) (10,487
Net cash provided by operating activities	72,766	94,835
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net loan originations	(204,527	) (329,076
Loans purchased	(183,406	) —
FHLB & FRB stock redemption	55,649	9,952
Available-for-sale securities purchased	(329,490	) (1,080,476
Principal payments and maturities of available-for-sale securities	502,561	363,103
Proceeds on available-for-sale securities sold	244,749	—
Held-to-maturity securities purchased	(249,382	) —
Principal payments and maturities of held-to-maturity securities	207,954	68,981
Net cash received from acquisitions	—	1,776,660
Proceeds from sales of real estate owned and held for investment	45,603	49,550
Proceeds from sales of covered REO	17,474	17,216
Purchase of bank owned life insurance	(100,000	) —
Premises and equipment purchased and REO improvements	(24,582	) (35,647
Net cash provided by (used in) investing activities	(17,397	) 840,263
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net decrease in customer accounts	(138,390	) (178,161
Repayments of borrowings	(210,554	) —
Proceeds from exercise of common stock options and related tax benefit	1,676	10,358
Dividends paid on common stock	(38,997	) (31,393
Treasury stock purchased	(103,049	) (64,231
Increase (decrease) in advance payments by borrowers for taxes and insurance	1,652	(13,930
Net cash used in financing activities	(487,662	) (277,357
Increase (decrease) in cash and cash equivalents	(432,293	) 657,741
Cash and cash equivalents at beginning of period	781,843	203,563
Cash and cash equivalents at end of period	\$ 349,550	\$ 861,304

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SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Nine Months Ended June 30,	
	2015	2014
	(In thousands)	
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Non-cash investing activities		
Non-covered real estate acquired through foreclosure	\$23,940	\$32,818
Covered real estate acquired through foreclosure	1,892	6,163
Cash paid during the period for		
Interest	88,511	97,485
Income taxes	48,096	54,072
The following summarizes the non-cash activities related to acquisitions		
Fair value of assets and intangibles acquired, including goodwill	\$—	\$80,384
Fair value of liabilities assumed	—	(1,857,044 )
Net fair value of assets (liabilities)	\$—	\$(1,776,660 )

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
QUARTER ENDED JUNE 30, 2015 AND 2014  
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies

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

Basis of Presentation - The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal. 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. The September 30, 2014 Consolidated Statement of Financial Condition was derived from audited financial statements.

The information included in this Form 10-Q should be read in conjunction with the financial statements and related notes in the Company's 2014 Annual Report on Form 10-K ("2014 Form 10-K") as filed with the SEC. Interim results are not necessarily indicative of results for a full year.

Summary of Significant Accounting Policies - The significant accounting policies used in preparation of the Company's consolidated financial statements are disclosed in its 2014 Form 10-K. Other than the reclassifications discussed below, there have not been any material changes in our significant accounting policies compared to those contained in our 2014 Form 10-K disclosure for the year ended September 30, 2014.

Off-Balance-Sheet Credit Exposures – The only material off-balance-sheet credit exposures are loans in process and unused lines of credit, which had a combined balance at June 30, 2015 and September 30, 2014, of \$686,134,000 and \$583,838,000, 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.

Reclassifications - Reclassification of Other Expenses into Product Delivery and Information Technology line items have been made to the financial statements for the quarters prior to September 30, 2014 to conform to current year classifications.

NOTE B - Acquisitions

There were no acquisitions completed during the nine months ended June 30, 2015. During the 2014 fiscal year, the Bank acquired seventy-four branches from Bank of America, National Association. Effective as of the close of business on October 31, 2013, the Bank completed the acquisition of eleven branches that are located in New Mexico. Effective as of the close of business on December 6, 2013, the Bank completed the acquisition of another forty branches that are located in Washington, Oregon, and Idaho. Effective as of the close of business on May 2, 2014, the Bank completed the acquisition of another twenty-three branches that are located in Arizona and Nevada. Management believes that these transactions represent a significant enhancement of our branch network. These transactions have brought new customers to the Bank and improved the deposit mix and reduced overall funding costs.

The combined acquisitions provided \$1,853,798,000 in deposit accounts, \$12,881,000 in loans, and \$25,097,000 in branch properties. The Bank paid a 1.99% premium on the total deposits and received \$1,776,660,000 in cash from the transactions. The acquisition method of accounting was used to account for the acquisitions. The purchased assets and assumed liabilities are recorded at their respective acquisition date estimated fair values. The Bank recorded \$11,040,000 in core deposit intangible and \$31,225,000 in goodwill related to these transactions.

The operating results include the operating results produced by the first eleven branches for the period from November 1, 2013 to June 30, 2015, for the additional forty branches from December 7, 2013 to June 30, 2015, and for the most recent twenty-three branches from May 3, 2014 to June 30, 2015.



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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014  
(UNAUDITED)

The table below displays the adjusted fair value as of the acquisition date for each major class of assets acquired and liabilities assumed during fiscal year 2014:

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

## NOTE C – Dividends

On May 29, 2015, the Company paid its 129th consecutive quarterly cash dividend on common stock. Dividends per share were \$.13 and \$.10 for the quarters ended June 30, 2015 and 2014, respectively. The Company also announced the authorization of an additional 5 million shares that may be repurchased under Washington Federal's share repurchase program in May 2015.

On July 27, 2015, the Company announced its 130th consecutive quarterly cash dividend on common stock of \$0.13 per share. The current dividend will be paid on August 21, 2015, to common shareholders of record on August 7, 2015. For the nine months ended June 30, 2015, the Company has repurchased 4.8 million shares or 4.9 percent of the shares that were outstanding at the beginning of the year at an average price of \$21.52.

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014  
(UNAUDITED)

## NOTE D – Loans Receivable (excluding Covered Loans)

	June 30, 2015 (In thousands)		September 30, 2014		
Non-acquired loans					
Single-family residential	\$5,549,746	60.1	% \$5,560,203	64.1	%
Construction - speculative	181,668	2.0	140,060	1.6	
Construction - custom	375,425	4.1	385,824	4.5	
Land - acquisition & development	87,382	0.9	77,832	0.9	
Land - consumer lot loans	102,495	1.1	108,623	1.3	
Multi-family	1,089,682	11.8	917,286	10.6	
Commercial real estate	808,539	8.7	591,336	6.9	
Commercial & industrial	451,478	4.9	379,226	4.4	
HELOC	122,870	1.3	116,042	1.4	
Consumer	205,932	2.2	132,590	1.5	
Total non-acquired loans	8,975,217	97.1	8,409,022	97.2	
Non-impaired acquired loans					
Single-family residential	12,895	0.1	11,716	0.1	
Construction - speculative	—	—	—	—	
Construction - custom	—	—	—	—	
Land - acquisition & development	1,028	—	905	—	
Land - consumer lot loans	2,472	—	2,507	—	
Multi-family	3,692	—	2,999	—	
Commercial real estate	102,089	1.1	97,898	1.1	
Commercial & industrial	57,614	0.6	51,386	0.6	
HELOC	6,414	0.1	8,274	0.1	
Consumer	2,916	—	5,670	0.1	
Total non-impaired acquired loans	189,120	1.9	181,355	2.0	
Credit-impaired acquired loans					
Single-family residential	6,288	0.1	325	—	
Construction - speculative	—	—	—	—	
Land - acquisition & development	1,842	—	1,622	—	
Land - consumer lot loans	496	—	—	—	
Multi-family	—	—	—	—	
Commercial real estate	71,196	0.8	63,723	0.7	
Commercial & industrial	3,881	—	3,476	—	
HELOC	8,553	0.1	10,139	0.1	
Consumer	108	—	55	—	
Total credit-impaired acquired loans	92,364	1.0	79,340	0.8	
Total loans					
Single-family residential	5,568,929	60.3	5,572,244	64.2	
Construction - speculative	181,668	2.0	140,060	1.6	
Construction - custom	375,425	4.1	385,824	4.5	
Land - acquisition & development	90,252	0.9	80,359	0.9	
Land - consumer lot loans	105,463	1.1	111,130	1.3	

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Multi-family	1,093,374	11.8	920,285	10.6
Commercial real estate	981,824	10.6	752,957	8.7

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014  
(UNAUDITED)

Commercial & industrial	512,973	5.5	434,088	5.0	
HELOC	137,837	1.5	134,455	1.6	
Consumer	208,956	2.2	138,315	1.6	
Total Loans	9,256,701	100	% 8,669,717	100	%
Less:					
Allowance for probable losses	105,611		112,347		
Loans in process	438,941		346,172		
Discount on acquired loans	28,399		25,391		
Deferred net origination fees	38,141		37,485		
	611,092		521,395		
	\$8,645,609		\$8,148,322		

Changes in the carrying amount and accretible yield for acquired non-impaired and credit-impaired loans (excluding covered loans) for the nine months ended June 30, 2015 and June 30, 2014 were as follows:

June 30, 2015	Acquired Impaired		Acquired Non-impaired		
	Accretible Yield	Net Carrying Amount of Loans	Accretible Yield	Carrying Amount of Loans	
	(In thousands)				
Balance as of beginning of period	\$32,591	\$57,771	\$4,254	\$177,440	
Transfer from covered loans (2)	23,167	15,866	1,482	33,649	
Additions	—	—	346	—	
Accretion	(11,501	) 11,501	(2,427	) 2,427	
Transfers to REO	—	(458	) —	—	
Payments received, net	—	(18,140	) —	(27,556	)
Balance as of end of period	\$44,257	\$66,540	\$3,655	\$185,960	

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

(2) reclassification from covered to non-covered due to expiration of loss share agreement

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

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

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014  
(UNAUDITED)

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

	June 30, 2015 (In thousands)		September 30, 2014		
Non-accrual loans:					
Single-family residential	\$56,638	86.7	% \$74,067	84.8	%
Construction - speculative	762	1.2	1,477	1.7	
Construction - custom	355	0.5	—	—	
Land - acquisition & development	—	—	811	0.9	
Land - consumer lot loans	1,308	2.0	2,637	3.0	
Multi-family	786	1.2	1,742	2.0	
Commercial real estate	2,852	4.4	5,106	5.8	
Commercial & industrial	1,205	1.8	7	—	
HELOC	889	1.4	795	0.9	
Consumer	513	0.8	789	0.9	
Total non-accrual loans	\$65,308	100	% \$87,431	100	%

The Company recognized interest income on nonaccrual loans of approximately \$5,272,000 in the nine months ended June 30, 2015. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately \$2,421,000 for the nine months ended June 30, 2015. The recognized interest income may include more than nine months of interest for some of the loans that were brought current.

In addition to the nonaccrual loans reflected in the above table, the Company had \$94,346,000 of loans that were less than 90 days delinquent at June 30, 2015 but which it had classified as substandard for one or more reasons. The following tables provide an analysis of the age of loans (net of LIP and excluding covered loans) in past due status as of June 30, 2015 and September 30, 2014, respectively.

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014  
(UNAUDITED)

June 30, 2015 Type of Loan	Amount of Loans Net of LIP & Chg.-Offs (In thousands)	Days Delinquent Based on \$ Amount of Loans					Total	% based on \$	
		Current	30	60	90				
Non-acquired loans									
Single-family residential	\$5,546,941	\$5,473,728	\$14,525	\$8,585	\$50,103	\$73,213	1.32	%	
Construction - speculative	117,711	117,711	—	—	—	—	—		
Construction - custom	204,914	204,140	310	109	355	774	0.38		
Land - acquisition & development	72,856	72,429	427	—	—	427	0.59		
Land - consumer lot loans	102,436	99,717	595	85	2,039	2,719	2.65		
Multi-family	1,013,745	1,012,704	—	421	620	1,041	0.10		
Commercial real estate	697,960	696,678	421	57	804	1,282	0.18		
Commercial & industrial	451,473	451,404	69	—	—	69	0.02		
HELOC	122,874	121,836	401	62	575	1,038	0.84		
Consumer	205,950	205,259	519	172	—	691	0.34		
Total non-acquired loans	8,536,860	8,455,606	17,267	9,491	54,496	81,254	0.95		
Non-impaired acquired loans									
Single-family residential	12,895	12,872	—	—	23	23	0.18		
Land - acquisition & development	1,028	1,028	—	—	—	—	—		
Land - consumer lot loans	2,472	2,339	—	16	117	133	5.38		
Multi-family	3,692	3,692	—	—	—	—	—		
Commercial real estate	101,542	101,369	—	—	173	173	0.17		
Commercial & industrial	57,612	57,574	—	—	38	38	0.07		
HELOC	6,414	5,973	224	217	—	441	6.88		
Consumer	2,897	2,491	48	—	358	406	14.01		
Total non-impaired acquired loans	188,552	187,338	272	233	709	1,214	0.64		
Credit-impaired acquired loans									
Single-family residential	6,284	6,284	—	—	—	—	—		
Land - acquisition & development	1,842	771	203	—	868	1,071	58.14		
Land - consumer lot loans	495	495	—	—	—	—	NM		
Commercial real estate	71,189	69,448	608	—	1,133	1,741	2.45		
Commercial & industrial	3,881	3,058	—	—	823	823	21.21		
HELOC	8,549	8,236	—	—	313	313	3.66		

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Consumer	108	108	—	—	—	—	—	
Total credit-impaired acquired loans	92,348	88,400	811	—	3,137	3,948	4.28	
Total Loans	\$8,817,760	\$8,731,344	\$18,350	\$9,724	\$58,342	\$86,416	0.98	%

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014  
(UNAUDITED)

September 30, 2014 Type of Loan	Amount of Loans Net of LIP & Chg.-Off (In thousands)	Days Delinquent Based on \$ Amount of Loans				Total	% based on \$	
		Current	30	60	90			
Non-acquired loans								
Single-family residential	\$5,557,753	\$5,467,239	\$15,926	\$9,139	\$65,449	\$90,514	1.63	%
Construction - speculative	87,035	87,035	—	—	—	—	—	
Construction - custom	192,098	191,262	836	—	—	836	0.44	
Land - acquisition & development	68,066	67,911	155	—	—	155	0.23	
Land - consumer lot loans	108,589	104,571	1,246	304	2,468	4,018	3.70	
Multi-family	892,196	891,372	205	16	603	824	0.09	
Commercial real estate	529,453	513,409	67	15,118	859	16,044	3.03	
Commercial & industrial	379,226	377,848	53	1,318	7	1,378	0.36	
HELOC	116,262	115,262	335	292	373	1,000	0.86	
Consumer	132,686	131,642	654	262	128	1,044	0.79	
Total non-acquired loans	8,063,364	7,947,551	19,477	26,449	69,887	115,813	1.44	
Non-impaired acquired loans								
Single-family residential	11,716	11,693	—	—	23	23	0.20	
Land - acquisition & development	905	905	—	—	—	—	—	
Land - consumer lot loans	2,502	2,132	—	370	—	370	14.79	
Multi-family	2,999	2,999	—	—	—	—	—	
Commercial real estate	97,715	96,948	104	—	663	767	0.78	
Commercial & industrial	51,329	51,229	—	100	—	100	0.19	
HELOC	8,056	8,056	—	—	—	—	—	
Consumer	5,670	4,983	22	4	661	687	12.12	
Total non-impaired acquired loans	180,892	178,945	126	474	1,347	1,947	1.08	
Credit-impaired acquired loans								
Single-family residential	325	325	—	—	—	—	—	
Land - acquisition & development	1,581	1,581	—	—	—	—	—	
Commercial real estate	63,713	61,713	152	909	939	2,000	3.14	
Commercial & industrial	3,477	3,470	7	—	—	7	0.20	
HELOC	10,138	9,641	—	75	422	497	4.90	
Consumer	54	54	—	—	—	—	—	
Total credit-impaired acquired loans	79,288	76,784	159	984	1,361	2,504	3.16	



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Total Loans	\$8,323,544	\$8,203,280	\$19,762	\$27,907	\$72,595	\$120,264	1.44	%
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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014  
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Most loans restructured in troubled debt restructurings ("TDRs") are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. As of June 30, 2015, 95.9% of the Bank's \$321,481,000 in TDRs were classified as performing. Each request is individually evaluated for merit and likelihood of success. The concession for these loans is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twelve 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, 2015, single-family residential loans comprised 85.7% 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.

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

	Quarter Ended June 30, 2015			2014		
		Pre-Modification Outstanding	Post-Modification Outstanding		Pre-Modification Outstanding	Post-Modification Outstanding
	Number of Contracts	Recorded Investment (In thousands)	Recorded Investment	Number of Contracts	Recorded Investment (In thousands)	Recorded Investment
Troubled Debt Restructurings:						
Single-family residential	8	\$1,611	\$ 1,611	48	\$10,693	\$ 10,693
Land - acquisition & development	—	—	—	3	756	756
Land - consumer lot loans	2	203	203	5	573	573
Commercial real estate	—	—	—	2	1,398	1,398
	10	\$1,814	\$ 1,814	58	\$13,420	\$ 13,420

	Nine Months Ended June 30, 2015			2014		
		Pre-Modification Outstanding	Post-Modification Outstanding		Pre-Modification Outstanding	Post-Modification Outstanding
	Number of Contracts	Recorded Investment (In thousands)	Recorded Investment	Number of Contracts	Recorded Investment (In thousands)	Recorded Investment
Troubled Debt Restructurings:						
Single-family residential	57	13,875	13,875	199	45,132	45,132
Construction - speculative	2	718	718	—	—	—
Construction - custom	2	532	532	—	—	—
Land - consumer lot loans	6	923	923	10	1,746	1,746
Multi-family	—	—	—	2	1,201	1,201

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Commercial real estate	3	3,175	3,175	3	2,197	2,197
HELOC	—	—	—	1	261	261
Consumer	1	85	85	3	207	207
	71	\$19,308	\$ 19,308	221	\$51,500	\$ 51,500

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014  
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The following tables provide information on restructured loans for which a payment default occurred during the periods indicated that had been modified as a TDR within 12 months or less of the payment default:

	Quarter Ended June 30, 2015		2014	
	Number of Contracts (In thousands)	Recorded Investment	Number of Contracts (In thousands)	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-family residential	9	\$ 1,594	17	\$ 3,088
Land - consumer lot loans	2	301	1	69
Consumer	—	—	1	170
	11	\$ 1,895	19	\$ 3,327
	Nine Months Ended June 30, 2015		2014	
	Number of Contracts (In thousands)	Recorded Investment	Number of Contracts (In thousands)	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-family residential	19	\$ 3,329	42	\$ 9,206
Land - consumer lot loans	7	991	4	445
Consumer	—	—	1	170
	26	\$ 4,320	47	\$ 9,821

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014  
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## NOTE E – Allowance for Losses on Loans

The following table summarizes the activity in the allowance for loan losses (excluding certain acquired and covered loans) for the three and nine months ended June 30, 2015 and 2014:

Three Months Ended June 30, 2015	Beginning Allowance (In thousands)	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
Single-family residential	\$54,762	\$(1,698	) \$3,878	\$(4,938	) \$52,004
Construction - speculative	5,445	—	—	488	5,933
Construction - custom	968	—	—	17	985
Land - acquisition & development	7,405	—	1	(1,634	) 5,772
Land - consumer lot loans	3,035	(276	) 187	53	2,999
Multi-family	4,673	—	—	362	5,035
Commercial real estate	6,734	(1,592	) 230	1,896	7,268
Commercial & industrial	21,146	(2,106	) 896	1,726	21,662
HELOC	850	(26	) 1	39	864
Consumer					