

WASHINGTON FEDERAL INC  
Form 10-Q  
August 06, 2010  
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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, 2010

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)

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**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 2, 2010
Common stock, \$1.00 par value	112,473,960



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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART I**

Item 1. Financial Statements (Unaudited)

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

Consolidated Statements of Financial Condition as of June 30, 2010 and September 30, 2009 Page 3

Consolidated Statements of Operations for the quarter and nine months ended June 30, 2010 and 2009 Page 4

Consolidated Statements of Cash Flows for the nine months ended June 30, 2010 and 2009 Page 5

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**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(UNAUDITED)**

	June 30, 2010	September 30, 2009
	(Dollars in thousands, except share data)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,128,943	\$ 498,388
Available-for-sale securities, including encumbered securities of \$871,704 and \$860,655, at fair value	2,255,787	2,201,083
Held-to-maturity securities, including encumbered securities of \$65,472 and \$80,717, at amortized cost	85,220	103,042
Loans receivable, net	8,577,791	8,983,430
Covered loans, net	558,593	0
Interest receivable	49,995	53,288
Premises and equipment, net	160,098	133,477
Real estate held for sale	180,786	176,863
Covered real estate held for sale	45,699	0
FDIC indemnification asset	154,247	0
FHLB stock	151,746	144,495
Intangible assets, net	258,120	256,797
Federal and state income taxes, net	9,928	0
Other assets	92,942	31,612
	<b>\$ 13,709,895</b>	<b>\$ 12,582,475</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Customer accounts		
Savings and demand accounts	\$ 8,831,525	\$ 7,786,467
Repurchase agreements with customers	55,222	55,843
	<b>8,886,747</b>	<b>7,842,310</b>
FHLB advances	2,067,444	2,078,930
Other borrowings	800,000	800,600
Advance payments by borrowers for taxes and insurance	24,175	38,376
Federal and state income taxes, net	0	18,075
Accrued expenses and other liabilities	95,782	58,699
	<b>11,874,148</b>	<b>10,836,990</b>
<b>Stockholders equity</b>		
Common stock, \$1.00 par value, 300,000,000 shares authorized; 129,546,736 and 129,320,072 shares issued; 112,474,412 and 112,247,748 shares outstanding	129,547	129,320
Paid-in capital	1,578,132	1,574,555
Accumulated other comprehensive income, net of taxes	55,028	54,431
Treasury stock, at cost; 17,072,324 shares	(208,985)	(208,985)
Retained earnings	282,025	196,164
	<b>1,835,747</b>	<b>1,745,485</b>
	<b>\$ 13,709,895</b>	<b>\$ 12,582,475</b>



**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in thousands, except per share data)			
<b>INTEREST INCOME</b>				
Loans & covered loans	\$ 141,744	\$ 141,120	\$ 421,513	\$ 440,477
Mortgage-backed securities	21,790	27,919	70,169	81,572
Investment securities and cash equivalents	3,837	762	6,394	2,459
	<b>167,371</b>	169,801	<b>498,076</b>	524,508
<b>INTEREST EXPENSE</b>				
Customer accounts	37,682	44,062	111,865	151,095
FHLB advances and other borrowings	30,404	31,486	92,120	95,665
	<b>68,086</b>	75,548	<b>203,985</b>	246,760
<b>Net interest income</b>	<b>99,285</b>	94,253	<b>294,091</b>	277,748
Provision for loan losses	20,736	52,200	153,909	141,200
<b>Net interest income after provision for loan losses</b>	<b>78,549</b>	42,053	<b>140,182</b>	136,548
<b>OTHER INCOME</b>				
Gain on FDIC-assisted transaction	0	0	85,608	0
Gain on sale of investments	0	959	20,428	959
Other	5,154	4,386	14,409	12,949
	<b>5,154</b>	5,345	<b>120,445</b>	13,908
<b>OTHER EXPENSE</b>				
Compensation and benefits	16,756	14,522	54,570	43,165
Occupancy	3,711	3,215	10,358	9,748
FDIC premiums	4,874	6,779	13,313	8,243
Other	7,536	6,417	21,574	19,424
	<b>32,877</b>	30,933	<b>99,815</b>	80,580
Loss on real estate acquired through foreclosure, net	(31,031)	(4,786)	(60,386)	(7,745)
Income before income taxes	19,795	11,679	100,426	62,131
Income tax provision (benefit)	7,127	5,646	(2,264)	23,564
<b>NET INCOME</b>	<b>12,668</b>	6,033	<b>102,690</b>	38,567
Preferred dividends accrued	0	3,533	0	7,488
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>	<b>\$ 12,668</b>	\$ 2,500	<b>\$ 102,690</b>	\$ 31,079

**PER SHARE DATA**

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Basic earnings	\$	.11	\$	.03	\$	.91	\$	.35
Diluted earnings		.11		.03		.91		.35
Cash dividends per share		.05		.05		.15		.15
Basic weighted average number of shares outstanding		<b>112,470,205</b>		88,047,527		<b>112,424,364</b>		88,011,571
Diluted weighted average number of shares outstanding, including dilutive stock options		<b>112,705,160</b>		88,082,467		<b>112,693,009</b>		88,043,422

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	Nine Months Ended	
	June 30, 2010	June 30, 2009
	(Dollars in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 102,690	\$ 31,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) of fees, discounts, premiums and intangible assets, net	83,628	3,285
Depreciation	4,200	3,825
Stock option compensation expense	922	900
Provision for loan losses	153,909	141,200
Loss on investment securities and real estate held for sale, net	39,958	6,596
Gain on FDIC-assisted transaction	(85,608)	0
Decrease in accrued interest receivable	7,024	2,390
Decrease in income taxes payable	(28,350)	(51,049)
FHLB stock dividends	(4)	(14)
Increase in other assets	(59,778)	(10,843)
Decrease in accrued expenses and other liabilities	(66,101)	(19,635)
Net cash provided by operating activities	152,490	107,734
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loans originated	(1,108,325)	(1,303,787)
Loan principal repayments	1,376,973	1,498,603
Other changes in loans, net	(82,833)	(99,542)
FHLB stock redemption	0	394
Available-for-sale securities purchased	(1,001,644)	(753,902)
Principal payments and maturities of available-for-sale securities	643,263	349,159
Available-for-sale securities sold	368,309	16,000
Principal payments and maturities of held-to-maturity securities	17,972	14,983
Net cash received from acquisition	111,684	0
Proceeds from sales of real estate held for sale	103,323	72,258
Premises and equipment purchased	(8,838)	(4,214)
Net cash provided (used) by investing activities	419,784	(210,048)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in customer accounts	224,909	501,441
Net decrease in borrowings	(137,138)	(288,209)
Proceeds from exercise of common stock options	1,757	32
Dividends paid	(16,829)	(13,848)
Proceeds from Employee Stock Ownership Plan	0	809
Proceeds from issuance of preferred stock and related warrants	0	200,000
Repurchase of preferred stock	0	(200,000)
Decrease in advance payments by borrowers for taxes and insurance	(14,418)	(14,480)
Net cash provided by financing activities	58,281	185,745
<b>Increase in cash and cash equivalents</b>	<b>630,555</b>	<b>83,431</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>498,388</b>	<b>82,600</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,128,943</b>	<b>\$ 166,031</b>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

**Non-cash investing activities**

Non-covered real estate acquired through foreclosure	\$ 192,091	\$ 156,297
Covered real estate acquired through foreclosure	24,459	0

**Cash paid during the period for**

Interest	203,754	252,991
Income taxes	27,489	77,742

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**QUARTER AND NINE MONTHS ENDED JUNE 30, 2010 AND 2009**

**(UNAUDITED)**

**NOTE A Basis of Presentation**

The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal, Inc. ( Company ). 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 accruals) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2009 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 Company s 2009 Annual Report on Form 10-K ( 2009 Form 10-K ) as filed with the SEC. Interim results are not necessarily indicative of results for a full year.

References to Net Income in this document refer to Net Income Available to Common Shareholders.

**NOTE B Acquisition**

Effective January 8, 2010, Washington Federal Savings & Loan Association, a federally-chartered savings and loan association (the Bank ) and wholly-owned subsidiary of the Company, acquired certain assets and liabilities, including most of the loans and deposits, of Horizon Bank, headquartered in Bellingham, Washington ( Horizon ) from the Federal Deposit Insurance Corporation ( FDIC ), as receiver for Horizon (the Acquisition ). All branches of Horizon have reopened as offices of the Bank.

Horizon operated through eighteen full-service offices, four commercial loan centers and four real estate loan centers in Washington with approximately 225 employees. The Bank acquired certain assets with a book value of \$1.16 billion, including \$968 million in loans and \$32 million in foreclosed real estate, and selected liabilities with a book value of \$1.03 billion, including \$820 million in deposits. Pursuant to the purchase and assumption agreement with the FDIC, the Bank received a cash payment from the FDIC for \$41 million, with an additional receivable due for \$1 million. No cash, deposit premium or other consideration was paid by the Bank. The fair value of the assets received, including the FDIC indemnification asset described below, was \$1.13 billion and the fair value of liabilities assumed was \$1.05 billion.

The loans and foreclosed real estate purchased are covered by two loss share agreements between the FDIC and the Bank (one for single family loans and the other for all other loans and foreclosed real estate), which affords the Bank significant loss protection. Under the loss share agreements, the FDIC will cover 80% of covered loan and foreclosed real estate losses up to \$536 million and 95% of losses in excess of that amount. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years with respect to losses and eight years with respect to loss recoveries. The losses reimbursable by the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction. New loans made after that date are not covered by the loss share agreements. As a result of the loss sharing agreements with the FDIC, the Bank recorded a receivable of \$228 million at the time of acquisition. To account for the transaction, the balance sheet now has three new line items, as follows:

Covered loans represents the loans acquired from Horizon recorded at their estimated fair market value;

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**QUARTER AND NINE MONTHS ENDED JUNE 30, 2010 AND 2009**

**(UNAUDITED)**

Covered real estate held for sale represents the estimated fair market value of the repossessed real estate acquired in the transaction. The covered loans and covered real estate held for sale are collectively referred to as covered assets ;

The FDIC indemnification asset represents the estimated fair value of the guarantee provided by the FDIC on the covered assets. Loans that were classified as non-performing loans by Horizon are no longer classified as non-performing because, at acquisition, the carrying value of these loans was adjusted to reflect fair value and are covered under the FDIC loss sharing agreements. Management believes that the new book value reflects an amount that will ultimately be collected.

The loss sharing agreements with the FDIC requires the Bank to pay the FDIC a calculated true-up amount after ten years if cumulative losses in the portfolio of acquired loans total less than \$536 million. Based on an analysis of the loan portfolio, the Company currently believes cumulative losses will be less than this threshold; therefore, a liability of \$21 million has been established that represents the present value of the estimated true-up payment. Going forward, the Company will be required to estimate the present value of the true-up payment on a quarterly basis and record any adjustments through the income statement.

Based on the initial purchase accounting adjustments described above, the Company recorded a pre-tax gain of \$86 million related to the FDIC-assisted transaction during the second fiscal quarter. The amount of the gain is equal to the excess of the fair value of the recorded assets over the fair value of liabilities assumed. The amounts recorded in the financial statements relating to this transaction are estimates and subject to change as the purchase accounting is finalized in the future.

The acquisition was accounted for under the acquisition method of accounting. The purchased assets, assumed liabilities and identifiable intangible asset were recorded at their respective acquisition date fair values. In many cases the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change. These fair value estimates are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair value becomes available.

The operating results for the period ended June 30, 2010 include the results of the acquired assets and liabilities for the period from January 8, 2010 through June 30, 2010. Accretion and amortization of various purchase accounting discounts and premiums were recorded in the period ending June 30, 2010 and are included in other income and other expense.

In determining the acquisition date fair value of acquired loans, and in subsequent accounting, the Company generally aggregates acquired loans into pools of loans with common risk characteristics. Expected cash flows at the acquisition date in excess of the fair value of loans are recorded as interest income over the life of the loans using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses. For loans without evidence of prior credit deterioration, revenue is recognized based on contractual cash flows using the level yield method.

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**QUARTER AND NINE MONTHS ENDED JUNE 30, 2010 AND 2009**  
**(UNAUDITED)**

The net assets acquired and the resulting bargain purchase gain are presented in the following table:

	Received from FDIC	Fair Value Adjustments (Dollars in thousands)	Recorded by WFSL (1)
<b>Assets:</b>			
Cash and cash equivalents	\$ 70,870	\$ 0	\$ 70,870
Available-for-sale securities	62,341	4	62,345
Loans receivable, net	968,434	(297,051)	671,383
Interest receivable	3,731	0	3,731
Premises and equipment, net	21,983	0	21,983
Real estate held for sale	32,150	(2,949)	29,201
FDIC indemnification asset, net	0	227,500	227,500
Intangible assets, net	0	3,064	3,064
Other assets	1,552	0	1,552
<b>Total assets</b>	<b>1,161,061</b>	<b>(69,432)</b>	<b>1,091,629</b>
<b>Liabilities:</b>			
Customer accounts	819,528	0	819,528
FHLB advances	124,546	506	125,052
Advances by borrowers	217	0	217
Other liabilities	81,737	21,447	103,184
<b>Total liabilities</b>	<b>1,026,028</b>	<b>21,953</b>	<b>1,047,981</b>
 Net assets acquired	 \$ 135,033	 (\$91,385)	 \$ 43,648
 Aggregate fair value adjustments		 (\$91,385)	
 Net assets acquired			 \$ 43,648
Cash received from FDIC			40,814
Receivable due from FDIC			1,146
 Pre-tax gain on Horizon acquisition			 \$ 85,608

(1) As of January 8, 2010



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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**QUARTER AND NINE MONTHS ENDED JUNE 30, 2010 AND 2009**

**(UNAUDITED)**

The following methods and assumptions were used to estimate the fair value of significant assets and liabilities presented above:

*Cash and cash equivalents* Due to the short term nature of these instruments, the carrying amount is estimated to approximate fair value.

*Available for sale securities* Fair values for securities are based on quoted market prices.

*Loans* Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. Loans were grouped together according to similar characteristics and were aggregated when applying various valuation techniques. The discount rates used for loans are based on current market rates for new originations as well as an add-on uncertainty premium due to the nature of the loans (i.e. failed bank loans and illiquidity of certain loans).

*Real estate held for sale* Real estate held for sale is presented at the estimated present value that management expects to receive upon sale, net of the related costs to sell.

*FDIC indemnification asset and related clawback* Fair value was estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. The clawback is recorded on the Consolidated Statements of Financial Condition in other liabilities.

*Core deposit intangible* Fair value was estimated based on a discounted cash flow methodology that gave consideration to expected customer attrition rates, cost of the deposit base and the net servicing costs attributable to the customer deposits.

**NOTE C - Dividends**

On July 23, 2010 the Company paid its 110<sup>th</sup> consecutive quarterly cash dividend on common stock. Dividends per share were \$.05 for the quarters ended June 30, 2010 and 2009.

**NOTE D - Comprehensive Income**

The Company's comprehensive income includes all items which comprise net income plus the unrealized gains (losses) on available-for-sale securities. Total comprehensive income for the quarters ended June 30, 2010 and 2009 totaled \$23,809,000 and \$(3,939,000), respectively. Total comprehensive income for the nine months ended June 30, 2010 and 2009 totaled \$103,287,000 and \$70,667,000, respectively. The difference between the Company's net income and total comprehensive income for the nine months ended June 30, 2010 was \$597,000, which equals the change in the net unrealized gain on available-for-sale securities of \$944,000, less tax of \$347,000. In addition, \$13,518,000 of net unrealized gain on available-for-sale securities were included in comprehensive income for the nine months ended June 30, 2010, which included \$12,921,000 of gain on sale of investments reclassified into earnings for the same period.

**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****QUARTER AND NINE MONTHS ENDED JUNE 30, 2010 AND 2009****(UNAUDITED)****NOTE E Allowance for Losses on Loans**

The following table summarizes the activity in the allowance for loan losses for the periods ended June 30, 2010 and 2009:

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Balance at beginning of period	\$ 194,553	\$ 143,124	\$ 166,836	\$ 85,058
Provision for loan losses	20,736	52,200	153,909	141,200
Charge-offs	(42,638)	(34,015)	(149,847)	(65,399)
Recoveries	776	386	2,529	836
Acquired reserves	0	0	0	0
Balance at end of period	\$ 173,427	\$ 161,695	\$ 173,427	\$ 161,695

In comparison to the process used for the period ending June 30, 2009, the Company enhanced its general reserve allowance calculation to be more reflective of the current economic environment. Changes included shortening the look-back period for determining historical loss factors ( HLF ) and modifying the methodology to give more weighting to risks by asset type rather than geographic exposure. In addition to utilizing the HLF to calculate the general reserve, the Company utilizes a qualitative risk factor ( QRF ), which is determined by loan type and allows management to augment reserve levels to reflect the current environment and portfolio performance trends.

By shortening the look-back period the Company has taken into account the current housing environment where home values have declined substantially from the housing peak of 2007. We monitor delinquency trends as well as regional economic conditions including employment and housing values when determining the QRF.

The Company recorded a \$20,736,000 provision for loan losses during the quarter ended June 30, 2010, while a \$52,200,000 provision was recorded for the same quarter one year ago. Non-performing assets ( NPAs ) amounted to \$473,121,000, or 3.45%, of total assets at June 30, 2010, compared to \$605,882,000, or 5.03%, of total assets one year ago. Loans that were classified as non-performing loans by Horizon are no longer classified as non-performing because, at acquisition, the carrying value of these loans was adjusted to reflect fair value and are covered under the FDIC loss sharing agreements. Management believes that the new book value reflects an amount that will ultimately be collected (see Note B). The Company had net charge-offs of \$41,862,000 for the quarter ended June 30, 2010, compared with \$33,629,000 of net charge-offs for the same quarter one year ago. The decrease in the provision for loan losses is in response to four primary factors: first, the improvement in the amount of NPAs year-over-year described at the beginning of this paragraph; second, non-accrual loans decreased from \$492,294,000 at June 30, 2009, to \$292,335,000 at June 30, 2010, a 40.7% decrease; third, the percentage of loans 30 days or more delinquent decreased from 5.69% at June 30, 2009, to 3.95% at June 30, 2010; and finally, the Company's exposure in the land acquisition and development ( A&D ) and speculative construction portfolios, where the majority of losses have come from during this period of the cycle, has decreased from a combined 9.7% of the gross loan portfolio at June 30, 2009, to 5.9% at June 30, 2010. It should be noted that the decrease in the provision was partially offset by the \$26,245,000 increase in loss on REO. Management expects the provision to remain at elevated levels until NPAs and charge-offs improve measurably. \$89,759,000 of the allowance was calculated under the formulas contained in our methodology and the remaining \$83,668,000 was made up of specific reserves on loans that were deemed to be impaired at June 30, 2010. For the period ending June 30, 2009, \$51,979,000 of the allowance was calculated under the formulas contained in our methodology and the remaining \$109,716,000 was made up of specific reserves on loans that were deemed to be impaired.





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At June 30, 2010, the Company's recorded investment in impaired loans was \$503,179,000, of which \$241,834,000 had specific reserves of \$83,668,000. At September 30, 2009, the Company's recorded investment in impaired loans was \$531,817,000, of which \$318,543,000 had specific reserves of \$107,375,000.

The following table shows a summary of impaired loans and the allowance for loan losses:

	9/30/2008	9/30/2009	6/30/2010
	(Dollars in thousands)		
General allowance	\$ 56,162	\$ 59,461	\$ 89,759
Specific allowance	28,896	107,375	83,668
	85,058	166,836	173,427
Total impaired loans	134,438	531,817	503,179
Impaired loans with specific reserve	(98,654)	(318,543)	(241,834)
Restructured loans subject to the general reserve	0	(112,089)	(199,560)
Impaired loans without a specific reserve or general reserve	35,784	101,185	61,785
Gross non-covered loans	9,912,672	9,387,539	8,956,436
Total impaired loans	(134,438)	(531,817)	(503,179)
Restructured loans subject to the general reserve	0	112,089	199,560
Non-covered loans subject to general reserve (non-impaired loans and restructured loans subject to the general reserve)	\$ 9,778,234	\$ 8,967,811	\$ 8,652,817
General reserve as % of non-covered loans not evaluated individually for impairment	0.57%	0.66%	1.04%

**NOTE F New Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Codification ( ASC ) 860-10, *Transfers and Servicing*. The objective of this guidance is to improve the relevance and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and the transferor's continuing involvement, if any, in transferred financial assets. This guidance was effective for financial asset transfers occurring after December 31, 2009. The adoption of this guidance had no material impact on the Company's consolidated financial statements.

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**QUARTER AND NINE MONTHS ENDED JUNE 30, 2010 AND 2009**  
**(UNAUDITED)**

In June 2009, the FASB issued ASC 810-10, C