

Capitol Federal Financial Inc  
Form 10-Q  
August 05, 2013

---

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, 2013

or

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

Commission file number: 001-34814

Capitol Federal Financial, Inc.

(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of incorporation or organization)

700 Kansas Avenue, Topeka, Kansas  
(Address of principal executive offices)

27-2631712  
(I.R.S. Employer Identification No.)

66603  
(Zip Code)

Registrant's telephone number, including area code:

(785) 235-1341

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

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

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

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

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

As of July 24, 2013, there were 147,841,368 shares of Capitol Federal Financial, Inc. common stock outstanding.

---

---

<u>PART 1 – FINANCIAL INFORMATION</u>	Page Number
<u>Item 1. Financial Statements (Unaudited):</u>	
<u>Consolidated Balance Sheets at June 30, 2013 and September 30, 2012</u>	3
<u>Consolidated Statements of Income for the three and nine months ended June 30, 2013 and 2012</u>	4
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended June 30, 2013 and 2012</u>	6
<u>Consolidated Statement of Stockholders’ Equity for the nine months ended June 30, 2013</u>	7
<u>Consolidated Statements of Cash Flows for the nine months ended June 30, 2013 and 2012</u>	8
<u>Notes to Consolidated Financial Statements</u>	10
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Financial Condition – Loans</u>	33
<u>Financial Condition – Asset Quality</u>	42
<u>Financial Condition – Liabilities</u>	52
<u>Financial Condition – Stockholders’ Equity</u>	55
<u>Operating Results</u>	57
<u>Results of Operations for the nine months ended June 30, 2013 and 2012</u>	58
<u>Results of Operations for the three months ended June 30, 2013 and 2012</u>	65
<u>Results of Operations for the three months ended June 30, 2013 and March 31, 2013</u>	71
<u>Item 3. Quantitative and Qualitative Disclosure about Market Risk</u>	82
<u>Item 4. Controls and Procedures</u>	87
<u>PART II -- OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	88
<u>Item 1A. Risk Factors</u>	88
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	88
<u>Item 3. Defaults Upon Senior Securities</u>	88
<u>Item 4. Mine Safety Disclosures</u>	88
<u>Item 5. Other Information</u>	88
<u>Item 6. Exhibits</u>	88
<u>Signature Page</u>	89
<u>INDEX TO EXHIBITS</u>	90



## PART I -- FINANCIAL INFORMATION

## Item 1. Financial Statements

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS (Unaudited)  
(Dollars in thousands)

	June 30, 2013	September 30, 2012
<b>ASSETS:</b>		
Cash and cash equivalents (includes interest-earning deposits of \$117,411 and \$127,544)	\$ 131,287	\$ 141,705
Securities:		
Available-for-sale ("AFS") at estimated fair value (amortized cost of \$1,155,363 and \$1,367,925)	1,167,043	1,406,844
Held-to-maturity ("HTM") at amortized cost (estimated fair value of \$1,841,851 and \$1,969,899)	1,819,895	1,887,947
Loans receivable, net (of allowance for credit losses ("ACL") of \$9,239 and \$11,100)	5,792,620	5,608,083
Bank-owned life insurance ("BOLI")	59,133	58,012
Capital stock of Federal Home Loan Bank ("FHLB"), at cost	134,222	132,971
Accrued interest receivable	24,426	26,092
Premises and equipment, net	64,946	57,766
Other real estate owned ("OREO"), net	5,499	8,047
Other assets	40,693	50,837
<b>TOTAL ASSETS</b>	<b>\$ 9,239,764</b>	<b>\$ 9,378,304</b>
<b>LIABILITIES:</b>		
Deposits	\$ 4,628,436	\$ 4,550,643
Borrowings from FHLB, net	2,611,480	2,530,322
Repurchase agreements	290,000	365,000
Advance payments by borrowers for taxes and insurance	34,332	55,642
Income taxes payable	347	918
Deferred income tax liabilities, net	19,053	25,042
Accounts payable and accrued expenses	31,614	44,279
Total liabilities	7,615,262	7,571,846

STOCKHOLDERS' EQUITY:

Preferred stock (\$0.01 par value) 100,000,000 shares authorized; no shares issued or outstanding	--	--
Common stock (\$0.01 par value) 1,400,000,000 shares authorized; 147,841,368 and 155,379,739 shares issued and outstanding as of June 30, 2013 and September 30, 2012, respectively	1,478	1,554
Additional paid-in capital	1,234,265	1,292,122
Unearned compensation, Employee Stock Ownership Plan ("ESOP")	(45,346)	(47,575)
Retained earnings	426,840	536,150
Accumulated other comprehensive income ("AOCI"), net of tax	7,265	24,207
Total stockholders' equity	1,624,502	1,806,458
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,239,764	\$ 9,378,304

See accompanying notes to consolidated financial statements.

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)  
(Dollars in thousands, except per share data)

	For the Three Months Ended		For the Nine Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
<b>INTEREST AND DIVIDEND INCOME:</b>				
Loans receivable	\$ 56,627	\$ 57,547	\$ 172,030	\$ 178,007
Mortgage-backed securities ("MBS")	13,419	18,144	43,048	54,686
Investment securities	2,439	3,783	7,761	12,535
Capital stock of FHLB	1,151	1,111	3,384	3,313
Cash and cash equivalents	39	60	108	205
Total interest and dividend income	73,675	80,645	226,331	248,746
<b>INTEREST EXPENSE:</b>				
FHLB borrowings	17,377	19,859	53,914	62,641
Deposits	9,009	11,068	28,202	35,690
Repurchase agreements	2,885	3,530	9,861	11,387
Total interest expense	29,271	34,457	91,977	109,718
<b>NET INTEREST INCOME</b>	<b>44,404</b>	<b>46,188</b>	<b>134,354</b>	<b>139,028</b>
<b>PROVISION FOR CREDIT LOSSES</b>	<b>(800)</b>	<b>--</b>	<b>(567)</b>	<b>2,040</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES</b>	<b>45,204</b>	<b>46,188</b>	<b>134,921</b>	<b>136,988</b>
<b>NON-INTEREST INCOME:</b>				
Retail fees and charges	3,856	3,940	11,369	11,958
Insurance commissions	787	870	2,337	2,213
Loan fees	427	499	1,312	1,634
Income from BOLI	377	334	1,120	1,133
Other non-interest income	374	437	1,395	1,466
Total non-interest income	5,821	6,080	17,533	18,404

(Continued)





	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2013	2012	2013	2012
<b>NON-INTEREST EXPENSE:</b>				
Salaries and employee benefits	12,137	11,517	36,473	32,690
Occupancy	2,427	2,175	7,136	6,339
Information technology and communications	2,293	1,918	6,723	5,588
Regulatory and outside services	1,391	1,148	4,435	3,696
Deposit and loan transaction costs	1,286	1,357	4,207	3,862
Federal insurance premium	1,107	1,133	3,337	3,309
Advertising and promotional	1,186	923	3,222	2,674
Other non-interest expense	1,775	2,734	6,027	8,783
Total non-interest expense	23,602	22,905	71,560	66,941
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>27,423</b>	<b>29,363</b>	<b>80,894</b>	<b>88,451</b>
<b>INCOME TAX EXPENSE</b>	<b>9,428</b>	<b>10,690</b>	<b>27,621</b>	<b>31,674</b>
<b>NET INCOME</b>	<b>\$ 17,995</b>	<b>\$ 18,673</b>	<b>\$ 53,273</b>	<b>\$ 56,777</b>
Basic earnings per share	\$ 0.13	\$ 0.12	\$ 0.37	\$ 0.35
Diluted earnings per share	\$ 0.13	\$ 0.12	\$ 0.37	\$ 0.35
Dividends declared per share	\$ 0.08	\$ 0.08	\$ 0.93	\$ 0.33
Basic weighted average common shares	143,262,534	156,962,024	145,518,110	160,208,370
Diluted weighted average common shares	143,263,324	156,966,036	145,518,222	160,212,276

(Concluded)

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 17,995	\$ 18,673	\$ 53,273	\$ 56,777
Other comprehensive income, net of tax:				
Changes in unrealized gains/losses on AFS securities, net of deferred income taxes of \$6,390 and \$529 for the three months ended June 30, 2013 and 2012, respectively, and \$10,297 and \$1,620 for the nine months ended June 30, 2013 and 2012, respectively	(10,516)	(865)	(16,942)	(2,718)
Comprehensive income	\$ 7,479	\$ 17,808	\$ 36,331	\$ 54,059

See accompanying notes to consolidated financial statements.

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

	Common Stock	Additional Paid-In Capital	Unearned Compensation ESOP	Retained Earnings	AOCI	Total Stockholders' Equity
Balance at October 1, 2012	\$ 1,554	\$ 1,292,122	\$ (47,575)	\$ 536,150	\$ 24,207	\$ 1,806,458
Net income				53,273		53,273
Other comprehensive income, net of tax					(16,942)	(16,942)
ESOP activity, net		2,693	2,229			4,922
Restricted stock activity, net		163				163
Stock-based compensation		2,123				2,123
Repurchase of common stock	(76)	(62,836)		(26,462)		(89,374)
Dividends on common stock to stockholders (\$0.93 per share)				(136,121)		(136,121)
Balance at June 30, 2013	\$ 1,478	\$ 1,234,265	\$ (45,346)	\$ 426,840	\$ 7,265	\$ 1,624,502

See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended June 30,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 53,273	\$ 56,777
Adjustments to reconcile net income to net cash provided by operating activities:		
FHLB stock dividends	(3,384)	(3,313)
Provision for credit losses	(567)	2,040
Originations of loans receivable held-for-sale ("LHFS")	(4,996)	(4,410)
Proceeds from sales of LHFS	5,527	5,084
Amortization and accretion of premiums and discounts on securities	6,640	6,456
Depreciation and amortization of premises and equipment	3,980	3,584
Amortization of deferred amounts related to FHLB advances, net	6,158	6,378
Common stock committed to be released for allocation - ESOP	4,922	4,770
Stock-based compensation	2,123	569
Changes in:		
Prepaid federal insurance premium	11,802	2,923
Accrued interest receivable	1,666	1,900
Other assets, net	(3,791)	2,481
Income taxes payable/receivable	3,901	4,221
Accounts payable and accrued expenses	(12,684)	(12,499)
Net cash provided by operating activities	74,570	76,961
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of AFS securities	(408,497)	(613,330)
Purchase of HTM securities	(420,501)	(560,024)
Proceeds from calls, maturities and principal reductions of AFS securities	620,620	460,930
Proceeds from calls, maturities and principal reductions of HTM securities	482,352	851,938
Proceeds from the redemption of capital stock of FHLB	4,524	2,405
Purchases of capital stock of FHLB	(2,391)	(3,652)
Net increase in loans receivable	(189,051)	(71,184)
Purchases of premises and equipment	(10,802)	(9,119)
Proceeds from sales of OREO	7,770	9,753
Net cash provided by investing activities	84,024	67,717

(Continued)



	For the Nine Months Ended June 30,	
	2013	2012
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Dividends paid	(136,121)	(52,366)
Deposits, net of withdrawals	77,793	97,264
Proceeds from borrowings	875,535	657,414
Repayments on borrowings	(875,535)	(657,414)
Deferred FHLB prepayment penalty	--	(7,937)
Change in advance payments by borrowers for taxes and insurance	(21,310)	(22,907)
Repurchase of common stock	(89,374)	(106,854)
Net cash used in financing activities	(169,012)	(92,800)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(10,418)</b>	<b>51,878</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of period	141,705	121,070
End of period	\$ 131,287	\$ 172,948
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Income tax payments	\$ 23,718	\$ 27,500
Interest payments	\$ 87,171	\$ 104,807
		(Concluded)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation - The accompanying consolidated financial statements of Capitol Federal® Financial, Inc. (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2012, filed with the Securities and Exchange Commission (“SEC”). Interim results are not necessarily indicative of results for a full year.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting periods. The ACL is a significant estimate that involves a high degree of complexity and requires management to make difficult and subjective judgments and assumptions about highly uncertain matters. The use of different judgments and assumptions could cause reported results to differ significantly. In addition, bank regulators periodically review the ACL of Capitol Federal Savings Bank (the “Bank”). The bank regulators have the authority to require the Bank, as they can require all banks, to increase the ACL or recognize additional charge-offs based upon their judgments, which may differ from management’s judgments. Any increases in the ACL or recognition of additional charge-offs required by bank regulators could adversely affect the Company’s financial condition and results of operations.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. The Bank has a wholly-owned subsidiary, Capitol Funds, Inc. Capitol Funds, Inc. has a wholly-owned subsidiary, Capitol Federal Mortgage Reinsurance Company. All intercompany accounts and transactions have been eliminated in consolidation.

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

Endorsed loans - Existing loan customers, whose loans have not been sold to third parties, who have not been delinquent on their contractual loan payments during the previous 12 months and who are not currently in bankruptcy, have the opportunity, for a cash fee, to endorse their original loan terms to current loan terms being offered. The fee assessed for endorsing the mortgage loan is deferred and amortized over the remaining life of the endorsed loan using the level-yield method and is reflected as an adjustment to interest income. Each endorsement is examined on a loan-by-loan basis and if the new loan terms represent more than a minor change to the loan, then the unamortized balance of the pre-endorsement deferred fees and/or costs associated with the mortgage loan are recognized in interest income at the time of the endorsement. If the endorsement of terms does not represent more than a minor change to

the loan, then the unamortized balance of the pre-endorsement deferred fees and/or costs continue to be deferred.

Troubled debt restructurings (“TDRs”) - For borrowers experiencing financial difficulties, the Bank may grant a concession to the borrower. Generally, the Bank grants a short-term payment concession to borrowers who are experiencing a temporary cash flow problem. The most frequently used concession is to reduce the monthly payment amount for a period of 6 to 12 months, often by requiring payments of only interest and escrow during this period, resulting in an extension of the maturity date of the loan. For more severe situations requiring long-term solutions, the Bank also offers interest rate reductions to currently-offered rates and the capitalization of delinquent interest and/or escrow resulting in an extension of the maturity date of the loan. The Bank does not forgive principal or interest nor does it commit to lend additional funds, except for the capitalization of delinquent interest and/or escrow not to exceed the original loan balance, to these borrowers.

Endorsed loans are classified as TDRs when certain guidelines for soft credit scores and/or estimated loan-to-value (“LTV”) ratios are not met. These guidelines are intended to identify changes in the borrower’s credit condition since origination, signifying the borrower could be experiencing financial difficulties even though the borrower has not been delinquent on his contractual loan payment in the previous 12 months.

The TDRs discussed above will be reported as such until paid-off, unless the loan has been restructured to an interest rate equal to or greater than the rate the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk, and has performed under the new terms of the restructuring agreement for at least 12 consecutive months.



During July 2012, the Office of the Comptroller of the Currency (“OCC”) provided guidance to the industry regarding loans that had been discharged under Chapter 7 bankruptcy proceedings where the borrower has not reaffirmed the debt owed to the lender. The OCC requires that these loans be reported as TDRs, regardless of their delinquency status. These loans will be reported as TDRs until the borrower has made 48 consecutive monthly loan payments after the Chapter 7 discharge date.

**Delinquent loans** - A loan is considered delinquent when payment has not been received within 30 days of its contractual due date.

**Nonaccrual loans** - The accrual of income on loans is discontinued when interest or principal payments are 90 days in arrears or, for TDR loans, the borrower has not made six consecutive monthly payments per the restructured loan terms or since the discharge date for loans discharged under Chapter 7 bankruptcy proceedings where the borrower did not reaffirm the debt. Loans on which the accrual of income has been discontinued are designated as nonaccrual and outstanding interest previously credited beyond 90 days delinquent is reversed. A nonaccrual loan is returned to accrual status once the contractual payments have been made to bring the loan less than 90 days past due or, in the case of a TDR loan, the borrower has made six consecutive payments per the restructured loan terms or the borrower has made six consecutive payments since the discharge date for loans discharged under Chapter 7 bankruptcy proceedings where the borrower did not reaffirm the debt.

**Impaired loans** - A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Interest income on impaired loans is recognized in the period collected unless the ultimate collection of principal is considered doubtful. The following types of loans are reported as impaired loans: all nonaccrual loans, loans classified as substandard, loans partially charged-off, and all TDRs except those that have been restructured to an interest rate equal to or greater than the rate the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk, and has performed under the new terms of the restructuring agreement for at least 12 consecutive months.

The majority of the Bank’s impaired loans are related to one- to four-family properties. Impaired loans related to one- to four-family properties are individually evaluated for loss when the loan becomes 180 days delinquent or at any time management has knowledge of the existence of a potential loss to ensure that the carrying value of the loan is not in excess of the fair value of the collateral, less estimated selling costs.

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

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

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

Each quarter, a formula analysis is prepared which segregates the loan portfolio into categories based on certain risk characteristics. The categories include the following: one- to four-family loans; multi-family and commercial loans; consumer home equity loans; and other consumer loans. Home equity loans with the same underlying collateral as a one- to four-family loan are combined with the one- to four-family loan in the formula analysis model to calculate a combined LTV ratio. Loans individually evaluated for loss are excluded from the formula analysis model. The one- to four-family loan portfolio and related home equity loans are segregated into additional categories based on the following risk characteristics: originated, correspondent purchased or bulk purchased; interest payments (fixed-rate and adjustable-rate/interest-only); LTV ratios; borrower's credit scores; and certain geographic locations. The categories were derived by management based on reviewing the historical performance of the one- to four-family loan portfolio and taking into consideration current economic conditions, such as trends in residential real estate values in certain areas of the U.S. and unemployment rates.

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

Qualitative loss factors are applied to each loan category in the formula analysis model. The qualitative loss factors that are applied in the formula analysis model for one- to four-family and consumer loan portfolios are: unemployment rate trends; collateral value trends; credit score trends; and delinquent loan trends. The qualitative loss factors that are applied in the formula analysis model for multi-family and commercial loan portfolio are: unemployment rate trends; credit score trends for the primary guarantor; delinquent loan trends; and a factor based on management's judgment due to the higher risk nature of these loans, as compared to one- to four-family loans. As loans are classified or become delinquent, the qualitative loss factors increase for each respective loan category. Additionally, TDRs that have not been partially charged-off are included in a category within the formula analysis model with an overall higher qualitative loss factor than corresponding performing loans, for the life of the loan. The qualitative factors were derived by management based on a review of the historical performance of the respective loan portfolios and consideration of current economic conditions and their likely impact to the loan portfolio.

Management utilizes the formula analysis, along with analyzing several other factors, when evaluating the adequacy of the ACL. Such factors include the trend and composition of delinquent loans, results of foreclosed property and short sale transactions, charge-off trends, the current status and trends of local and national economies (particularly levels of unemployment), trends and current conditions in the real estate and housing markets, and loan portfolio growth and concentrations. Since the Bank's loan portfolio is primarily concentrated in one- to four-family real estate, management monitors residential real estate market value trends in the Bank's local market areas and geographic sections of the U.S. by reference to various industry and market reports, economic releases and surveys, and management's general and specific knowledge of the real estate markets in which the Bank lends, in order to determine what impact, if any, such trends may have on the level of ACL. Reviewing these factors assists management in evaluating the overall credit quality of the loan portfolio and the reasonableness of the ACL on an ongoing basis, and whether changes need to be made to the Bank's ACL methodology. Management seeks to apply the ACL methodology in a consistent manner; however, the methodology can be modified in response to changing conditions.

Recent Accounting Pronouncements - In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, Presentation of Comprehensive Income, which revised how entities present comprehensive income in their financial statements. The ASU requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. In a continuous statement of comprehensive income, an entity would be required to present the

components of the income statement as presented today, along with the components of other comprehensive income. In the two-statement approach, an entity would be required to present a statement that is consistent with the income statement format used today, along with a second statement, which would immediately follow the income statement that would include the components of other comprehensive income. The ASU did not change the items that an entity must report in other comprehensive income. ASU 2011-05 was effective October 1, 2012 for the Company. The Company elected the two-statement approach upon adoption on October 1, 2012 and applied the ASU retrospectively for all periods presented in the financial statements.

In January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The ASU clarifies the scope of the offsetting disclosure requirements in ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. These standards are effective for fiscal years beginning on or after January 1, 2013, which is October 1, 2013 for the Company. The Company has not yet completed its evaluation of ASU 2013-01 and ASU 2011-11; however, the standards are disclosure-related and therefore, their adoption is not expected to have an impact on the Company's financial condition or results of operations.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which is intended to improve the transparency of changes in other comprehensive income and items reclassified out of AOCI. The standard requires entities to disaggregate the total change of each component of other comprehensive income and separately present reclassification adjustments and current period other comprehensive income. Additionally, the standard requires that significant items reclassified out of AOCI be presented by component either on the face of the statement where net income is presented or as a separate disclosure in the notes to the financial statements. ASU 2013-02 is effective for fiscal years beginning after

December 15, 2012, which is October 1, 2013 for the Company, and should be applied prospectively. The adoption of this ASU is disclosure-related and therefore is not expected to have an impact on the Company's financial condition or results of operations.

In February 2013, the FASB issued ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. The ASU provides recognition, measurement, and disclosure guidance for certain obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. ASU 2013-04 is effective for fiscal years beginning after December 15, 2013, which is October 1, 2014 for the Company, and should be applied retrospectively. The Company has not yet completed its evaluation of this standard.

## 2. Earnings Per Share

The Company accounts for the shares acquired by its ESOP and the shares awarded pursuant to its restricted stock benefit plans in accordance with Accounting Standard Codification ("ASC") 260, which requires that unvested restricted stock awards be treated as participating securities in the computation of earnings per share pursuant to the two-class method as they contain nonforfeitable rights to dividends. The two-class method is an earnings allocation that determines earnings per share for each class of common stock and participating security. Shares acquired by the ESOP are not considered in the basic average shares outstanding until the shares are committed for allocation or vested to an employee's individual account.

	For the Three Months Ended		For the Nine Months Ended	
	June 30,	2012	June 30,	2012
	2013		2013	
	(Dollars in thousands, except per share data)			
Net income	\$ 17,995	\$ 18,673	\$ 53,273	\$ 56,777
Income allocated to participating securities	(50)	(23)	(161)	(25)
Net income available to common stockholders	\$ 17,945	\$ 18,650	\$ 53,112	\$ 56,752
Average common shares outstanding	142,985,022	156,684,512	145,379,101	160,069,365
Average committed ESOP shares outstanding	277,512	277,512	139,009	139,005
Total basic average common shares outstanding	143,262,534	156,962,024	145,518,110	160,208,370
Effect of dilutive stock options	790	4,012	112	3,906
Total diluted average common shares outstanding	143,263,324	156,966,036	145,518,222	160,212,276

Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

Net earnings per share:

Basic	\$ 0.13	\$ 0.12	\$ 0.37	\$ 0.35
Diluted	\$ 0.13	\$ 0.12	\$ 0.37	\$ 0.35

Antidilutive stock options, excluded  
from the diluted average common shares  
outstanding calculation

2,444,932	1,458,510	2,465,393	1,074,543
-----------	-----------	-----------	-----------

13

---

## 3. Securities

The following tables reflect the amortized cost, estimated fair value, and gross unrealized gains and losses of AFS and HTM securities at the dates presented. The majority of the MBS and investment portfolios are composed of securities issued by U.S. government-sponsored enterprises (“GSEs”).

	June 30, 2013			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	\$ 774,189	\$ 1,896	\$ 10,638	\$ 764,429
MBS	377,271	1,536	1	398,811
Trust preferred securities	2,606	--	165	2,441
Municipal bonds	1,310	52	--	1,362
	1,155,376	3,484	10,804	1,167,043
HTM:				
MBS	1,780,403	2,800	19,388	1,801,640
Municipal bonds	39,167	1,069	25	40,211
	1,819,570	3,869	19,413	1,841,851
	\$ 2,974,946	\$ 7,353	\$ 30,217	\$ 3,008,894

	September 30, 2012			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	\$ 857,409	\$ 1,817	\$ 2	\$ 861,724
MBS	505,159	1,137	--	540,306
Municipal bonds	2,435	81	--	2,516
Trust preferred securities	2,912	--	614	2,298
	1,367,913	3,035	616	1,406,844
HTM:				
MBS	1,792,703	683	--	1,872,519
GSE debentures	49,974	7	--	50,224
Municipal bonds	45,334	1,822	--	47,156
	1,887,991	2,512	--	1,969,899

\$ 3,251,872,487    \$ 616    \$ 3,376,743



Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

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

	June 30, 2013			Equal to or Greater		
	Less Than 12 Months	Estimated Fair Value	Unrealized Losses	Than 12 Months	Estimated Fair Value	Unrealized Losses
	Count			Count		
(Dollars in thousands)						
AFS:						
GSE debentures	23	\$ 523,002	\$ 10,638	--	\$ --	\$ --
MBS	2	88	1	--	--	--
Trust preferred securities	--	--	--	1	2,441	165
	25	\$ 523,090	\$ 10,639	1	\$ 2,441	\$ 165
HTM:						
MBS	41	\$ 745,766	\$ 19,388	--	\$ --	\$ --
Municipal bonds	7	2,309	25	--	--	--
	48	\$ 748,075	\$ 19,413	--	\$ --	\$ --

	September 30, 2012			Equal to or Greater		
	Less Than 12 Months	Estimated Fair Value	Unrealized Losses	Than 12 Months	Estimated Fair Value	Unrealized Losses
	Count			Count		
(Dollars in thousands)						
AFS:						
GSE debentures	2	\$ 42,733	\$ 2	--	\$ --	\$ --
MBS	--	--	--	--	--	--
Trust preferred securities	--	--	--	1	2,298	614
	2	\$ 42,733	\$ 2	1	\$ 2,298	\$ 614
HTM:						
MBS	--	\$ --	\$ --	--	\$ --	\$ --
Municipal bonds	--	--	--	--	--	--
	--	\$ --	\$ --	--	\$ --	\$ --

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

The unrealized losses at September 30, 2012 are primarily a result of a decrease in the credit rating of a trust preferred security held by the Bank. Management reviews the underlying cash flows of this security on a quarterly basis. As of June 30, 2013 and September 30, 2012, the analysis indicated the present value of future expected cash flows are adequate to recover the entire amortized cost. Management neither intends to sell this security, nor is it more likely than not that the Company will be required to sell the security before the recovery of the remaining amortized cost amount, which could be at maturity.

The unrealized losses at June 30, 2013, excluding the trust preferred security, are primarily a result of an increase in market yields from the time the securities were purchased. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Additionally, the impairment is also considered temporary because scheduled coupon payments have been made, it is anticipated that the entire principal balance will be collected as scheduled, and management neither intends to sell the securities, nor is it more likely than not that the Company will be required to sell the securities before the recovery of the remaining amortized cost amount, which could be at maturity. As a result of the analysis discussed above, management does not believe any other-than-temporary impairments existed at June 30, 2013 or September 30, 2012.

Maturities of MBS depend on the repayment characteristics and experience of the underlying financial instruments. Actual maturities of MBS may differ from contractual maturities because borrowers have the right to prepay obligations, generally without penalties. Additionally, issuers of callable investment securities have the right to call and prepay obligations with or without prepayment penalties prior to the maturity dates of the securities. As of June 30, 2013, the amortized cost of the securities in our portfolio which are callable or have pre-refunding dates within one year totaled \$610.6 million. The amortized cost and estimated fair value of securities by remaining contractual maturity without consideration for call features or pre-refunding dates as of June 30, 2013 are shown below.

	AFS		HTM	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
One year or less	\$ 190	\$ 192	\$ 7,369	\$ 7,453
One year through five years	701,749	695,197	29,985	30,975
Five years through ten years	196,058	201,081	465,959	465,808
Ten years and thereafter	257,366	270,573	1,316,582	1,337,615
	\$ 1,155,363	\$ 1,167,043	\$ 1,819,895	\$ 1,841,851

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

June 30, 2013	September 30, 2012
------------------	-----------------------

Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

	(Dollars in thousands)	
Federal National Mortgage Association (“FNMA”)	\$ 1,337,751	\$ 1,324,293
Federal Home Loan Mortgage Corporation (“FHLMC”)	684,118	824,197
Government National Mortgage Association	157,670	183,778
Private Issuer	--	674
	\$ 2,179,539	\$ 2,332,942

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Taxable	\$ 2,143	\$ 3,390	\$ 6,828	\$ 11,274
Non-taxable	296	393	933	1,261
	\$ 2,439	\$ 3,783	\$ 7,761	\$ 12,535

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

	June 30, 2013		September 30, 2012	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
Repurchase agreements	\$ 319,979	\$ 336,443	\$ 400,827	\$ 427,864
Public unit deposits	277,265	280,873	219,913	232,514
Federal Reserve Bank	37,023	38,212	49,472	52,122
	\$ 634,267	\$ 655,528	\$ 670,212	\$ 712,500

#### 4. Loans Receivable and Allowance for Credit Losses

Loans receivable, net at the dates presented is summarized as follows:

	June 30, 2013	September 30, 2012
	(Dollars in thousands)	
Real estate loans:		
One- to four-family	\$ 5,587,622	\$ 5,392,429
Multi-family and commercial	37,834	48,623
Construction	73,746	52,254
Total real estate loans	5,699,202	5,493,306
Consumer loans:		
Home equity	134,919	149,321
Other	5,740	6,529
Total consumer loans	140,659	155,850
Total loans receivable	5,839,861	5,649,156

Less:

Undisbursed loan funds	34,675	22,874
ACL	9,239	11,100
Discounts/unearned loan fees	22,282	21,468
Premiums/deferred costs	(18,955)	(14,369)
	\$ 5,792,620	\$ 5,608,083

Lending Practices and Underwriting Standards - Originating and purchasing loans secured by one- to four-family residential properties is the Bank's primary lending business, resulting in a loan concentration in residential first mortgage loans. The Bank purchases one- to four-family loans, on a loan-by-loan basis, from a select group of correspondent lenders located generally throughout the central, northeastern, and southern United States.

Additionally, the Bank periodically purchases whole one- to four-family loans in bulk packages from nationwide and correspondent lenders. The Bank also makes consumer loans, construction loans secured by residential or commercial properties, and real estate loans secured by multi-family dwellings. As a result of our one- to four-family lending activity, the Bank has a concentration of loans secured by real property located in Kansas and Missouri.

One- to four-family loans - One- to four-family loans are underwritten generally in accordance with FHLMC and FNMA underwriting guidelines. Full documentation to support the applicant's credit, income, and sufficient funds to cover all applicable fees and reserves at closing are required on all loans. Properties securing one- to four-family loans are appraised by either staff appraisers or fee appraisers, both of which are independent of the loan origination function and approved by our Board of Directors.

The underwriting standards for loans purchased from correspondent and nationwide lenders are generally similar to the Bank's internal underwriting standards. The underwriting of correspondent loans is generally performed by the Bank's underwriters. Before committing to a bulk loan purchase, the Bank's Chief Lending Officer or Secondary Marketing Manager reviews specific criteria such as loan amount, credit scores, LTV ratios, geographic location, and debt ratios of each loan in the pool. If the specific criteria do not meet the Bank's underwriting standards and compensating factors are not sufficient, then a loan will be removed from the population. Before the bulk loan purchase is funded, an internal Bank underwriter or a third party reviews at least 25% of the loan files to confirm loan terms, credit scores, debt service ratios, property appraisals, and other underwriting related documentation. For the tables within Note 4, correspondent purchased loans are included with originated loans, and bulk purchased loans are reported as purchased loans.

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

Multi-family and commercial loans - The Bank's multi-family and commercial real estate loans are originated by the Bank or are in participation with a lead bank. These loans are granted based on the income producing potential of the property and the financial strength of the borrower. At the time of origination, LTV ratios on multi-family and commercial real estate loans cannot exceed 80% of the appraised value of the property securing the loans. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt at the time of origination. The Bank generally requires personal guarantees of the borrowers covering a portion of the debt in addition to the security property as collateral for these loans. Appraisals on properties securing these loans are performed by independent state certified fee appraisers.

Consumer loans - The Bank offers a variety of secured consumer loans, including home equity loans and lines of credit, home improvement loans, auto loans, and loans secured by savings deposits. The Bank also originates a very limited amount of unsecured loans. The Bank does not originate any consumer loans on an indirect basis, such as contracts purchased from retailers of goods or services which have extended credit to their customers. The majority of the consumer loan portfolio is comprised of home equity lines of credit.

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

Credit quality indicators – Based on the Bank's lending emphasis and underwriting standards, management has segmented the loan portfolio into three segments: (1) one- to four-family loans; (2) consumer loans; and (3) multi-family and commercial loans. The one- to four-family and consumer segments are further grouped into classes for purposes of providing disaggregated information about the credit quality of the loan portfolio. The classes are: one- to four-family loans – originated, one- to four-family loans – purchased, consumer loans – home equity, and consumer loans – other.

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

18

---



The following table presents the recorded investment in loans, defined as the unpaid principal balance of a loan (net of unadvanced funds related to loans in process and charge-offs) inclusive of unearned loan fees and deferred costs, of the Company's loans 30 to 89 days delinquent, loans 90 or more days delinquent or in foreclosure, total delinquent loans, total current loans, and the total loans receivable balance at the dates presented, by class. Delinquent loans that are included in the formula analysis model are assigned a higher qualitative loss factor than corresponding performing loans. At June 30, 2013 and September 30, 2012, all loans 90 or more days delinquent were on nonaccrual status. In addition to loans 90 or more days delinquent, the Bank also had \$7.8 million and \$10.0 million of originated loan TDRs classified as nonaccrual at June 30, 2013 and September 30, 2012, respectively, as well as \$168 thousand and \$2.4 million of purchased loan TDRs classified as nonaccrual at June 30, 2013 and September 30, 2012, respectively, as required by the OCC Call Report requirements. Of these amounts, \$6.8 million and \$11.2 million were current at June 30, 2013 and September 30, 2012, respectively. At June 30, 2013 and September 30, 2012, the balance of loans on nonaccrual status was \$26.4 million and \$31.8 million, respectively.

	June 30, 2013				
	30 to 89 Days Delinquent or in Foreclosure	90 or More Days	Total		Total
		Delinquent	Delinquent	Current	Recorded
		in Foreclosure	Loans	Loans	Investment
	(Dollars in thousands)				
One- to four-family loans - originated	\$ 13,517	\$ 8,617	\$ 22,134	\$ 4,895,440	\$ 4,917,574
One- to four-family loans - purchased	6,066	9,635	15,701	674,177	689,878
Multi-family and commercial loans	--	--	--	53,748	53,748
Consumer - home equity	869	295	1,164	133,755	134,919
Consumer - other	158	23	181	5,559	5,740
	\$ 20,610	\$ 18,570	\$ 39,180	\$ 5,762,679	\$ 5,801,859

	September 30, 2012				
	30 to 89 Days Delinquent or in Foreclosure	90 or More Days	Total		Total
		Delinquent	Delinquent	Current	Recorded
		in Foreclosure	Loans	Loans	Investment
	(Dollars in thousands)				
One- to four-family loans - originated	\$ 14,902	\$ 8,602	\$ 23,504	\$ 4,590,194	\$ 4,613,698
One- to four-family loans - purchased	7,788	10,530	18,318	771,755	790,073

Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

Multi-family and commercial loans	--	--	--	59,562	59,562
Consumer - home equity	521	369	890	148,431	149,321
Consumer - other	106	27	133	6,396	6,529
	\$ 23,317	\$ 19,528	\$ 42,845	\$ 5,576,338	\$ 5,619,183

19

---

In accordance with the Bank's asset classification policy, management regularly reviews the problem loans in the Bank's portfolio to determine whether any loans require classification. Loan classifications are defined as follows:

- Special mention - These loans are performing loans on which known information about the collateral pledged or the possible credit problems of the borrower(s) have caused management to have doubts as to the ability of the borrower(s) to comply with present loan repayment terms and which may result in the future inclusion of such loans in the non-performing loan categories.
- Substandard - A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans include those characterized by the distinct possibility the Bank will sustain some loss if the deficiencies are not corrected.
- Doubtful - Loans classified as doubtful have all the weaknesses inherent as those classified as substandard, with the added characteristic that the weaknesses present make collection or liquidation in full on the basis of currently existing facts and conditions and values highly questionable and improbable.
- Loss - Loans classified as loss are considered uncollectible and of such little value that their continuance as assets on the books is not warranted.

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

The following tables set forth the recorded investment in loans classified as special mention or substandard at the dates presented, by class. At both dates, there were no loans classified as doubtful, and all loans classified as loss were fully charged-off.

	June 30, 2013		September 30, 2012	
	Special Mention	Substandard	Special Mention	Substandard
	(Dollars in thousands)			
One- to four-family - originated	\$ 31,401	\$ 27,789	\$ 36,055	\$ 23,153
One- to four-family - purchased	1,759	14,268	2,829	14,538
Multi-family and commercial	2,028	--	2,578	--
Consumer - home equity	232	929	413	815
Consumer - other	--	34	--	39
	\$ 35,420	\$ 43,020	\$ 41,875	\$ 38,545

The following table shows the weighted average LTV and credit score information for originated and purchased one-to four-family loans and originated consumer home equity loans at the dates presented. Borrower credit scores are intended to provide an indication as to the likelihood that a borrower will repay their debts. Credit scores are updated at least semiannually, with the last update in March 2013, and obtained from a nationally recognized consumer rating agency. The LTV ratios provide an estimate of the extent to which the Bank may incur a loss on any given loan that may go into foreclosure. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent bank appraisal, if available. In most cases, the most recent appraisal was obtained at the time of origination.

	June 30, 2013		September 30, 2012	
	Weighted Average Credit Score	LTV	Weighted Average Credit Score	LTV
One- to four-family - originated	763	65 %	763	65 %
One- to four-family - purchased	748	67	749	67
Consumer - home equity	745	19	747	19
	761	64 %	761	64 %

20

---

Troubled Debt Restructurings - The following table presents the recorded investment prior to restructuring and immediately after restructuring for all loans restructured during the three and nine months ended June 30, 2013 and 2012. These tables do not reflect the recorded investment at the end of the periods indicated. The increase in the recorded investment at the time of the restructuring was generally due to the capitalization of delinquent interest and/or escrow balances.

	For the Three Months Ended June 30, 2013			For the Nine Months Ended June 30, 2013		
	Number of Contracts	Pre- Restructured Outstanding	Post- Restructured Outstanding	Number of Contracts	Pre- Restructured Outstanding	Post- Restructured Outstanding
	(Dollars in thousands)					
One- to four-family loans - originated	37	\$ 6,248	\$ 6,284	137	\$ 25,652	\$ 25,791
One- to four-family loans - purchased	1	581	581	8	2,119	2,161
Multi-family and commercial loans	--	--	--	2	82	79
Consumer - home equity	4	97	100	11	253	261
Consumer - other	--	--	--	--	--	--
	42	\$ 6,926	\$ 6,965	158	\$ 28,106	\$ 28,292

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

Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

The following table provides information on TDRs restructured within the last 12 months that became delinquent during the three and nine months ended June 30, 2013 and 2012.

	For the Three Months Ended				For the Nine Months Ended			
	June 30, 2013		June 30, 2012		June 30, 2013		June 30, 2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)							
One- to four-family loans - originated	12	\$ 805	5	\$ 910	29	\$ 2,316	12	\$ 1,748
One- to four-family loans - purchased	2	156	--	--	6	1,270	1	401
Multi-family and commercial loans	--	--	--	--	--	--	--	--
Consumer - home equity	--	--	--	--	2	7	--	--
Consumer - other	1	10	--	--	1	10	--	--
	15	\$ 971	5	\$ 910	38	\$ 3,603	13	\$ 2,149

Impaired loans – The following is a summary of information pertaining to impaired loans by class as of the dates presented.

	June 30, 2013			September 30, 2012		
	Recorded Investment	Unpaid Principal Balance	Related ACL	Recorded Investment	Unpaid Principal Balance	Related ACL
(Dollars in thousands)						
With no related allowance recorded						
One- to four-family - originated	\$ 11,212	\$ 11,248	\$ --	\$ 10,729	\$ 10,765	\$ --
One- to four-family - purchased	14,414	14,269	--	15,340	15,216	--
Multi-family and commercial	--	--	--	--	--	--
Consumer - home equity	556	556	--	882	881	--
Consumer - other	8	8	--	27	27	--
	26,190	26,081	--	26,978	26,889	--
With an allowance recorded						
One- to four-family - originated	37,677	37,795	247	41,125	41,293	268
One- to four-family - purchased	1,585	1,573	31	2,028	2,016	54
Multi-family and commercial	74	77	3	--	--	--
Consumer - home equity	477	477	68	307	307	52
Consumer - other	26	26	1	12	12	1
	39,839	39,948	350	43,472	43,628	375
Total						
One- to four-family - originated	48,889	49,043	247	51,854	52,058	268
One- to four-family - purchased	15,999	15,842	31	17,368	17,232	54
Multi-family and commercial	74	77	3	--	--	--
Consumer - home equity	1,033	1,033	68	1,189	1,188	52
Consumer - other	34	34	1	39	39	1
	\$ 66,029	\$ 66,029	\$ 350	\$ 70,450	\$ 70,517	\$ 375

The following is a summary of information pertaining to impaired loans by class for the three and nine months ended June 30, 2013 and 2012.

	For the Three Months Ended				For the Nine Months Ended			
	June 30, 2013		June 30, 2012		June 30, 2013		June 30, 2012	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
(Dollars in thousands)								
With no related allowance recorded								
One- to four-family - originated	\$ 11,116	\$ 89	\$ 50,075	\$ 487	\$ 9,298	\$ 228	\$ 49,063	\$ 1,273
One- to four-family - purchased	14,537	45	16,258	44	14,916	141	11,535	162
Multi-family and commercial	--	--	--	--	--	--	279	--
Consumer - home equity	554	8	390	3	577	31	458	9
Consumer - other	18	--	7	--	23	--	7	--
	26,225	142	66,730	534	24,814	400	61,342	1,444
With an allowance recorded								
One- to four-family - originated	38,383	377	3,652	22	41,236	1,282	3,327	67
One- to four-family - purchased	1,904	13	1,234	5	2,087	59	7,166	11
Multi-family and commercial	76	1	--	--	54	2	--	--
Consumer - home equity	541	6	223	1	521	18	205	4
Consumer - other	15	--	9	--	25	1	4	--
	40,919	397	5,118	28	43,923	1,362	10,702	82
Total								
One- to four-family - originated	49,499	466	53,727	509	50,534	1,510	52,390	1,340
One- to four-family - purchased	16,441	58	17,492	49	17,003	200	18,701	173
Multi-family and commercial	76	1	--	--	54	2	279	--



Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

Consumer - home equity	1,095	14	613	4	1,098	49	663	13
Consumer - other	33	--	16	--	48	1	11	--
	\$ 67,144	\$ 539	\$ 71,848	\$ 562	\$ 68,737	\$ 1,762	\$ 72,044	\$ 1,526

Allowance for credit losses - The following is a summary of the activity in the ACL by segment and the ending balance of the ACL based on the Company's impairment methodology for and at the beginning and end of the periods presented. Net charge-offs during the nine months ended June 30, 2013 were \$1.3 million, of which \$378 thousand related to loans that were discharged in a prior fiscal year under Chapter 7 bankruptcy that must be, in accordance with OCC regulations, evaluated for collateral value loss, even if the loans are current. In January 2012, management implemented a loan charge-off policy as OCC Call Report requirements do not permit the use of specific valuation allowances ("SVAs"), which the Bank was previously utilizing for potential loan losses, as permitted by the Bank's previous regulator. As a result of the implementation of the charge-off policy change, \$3.5 million of SVAs were charged-off during the three months ended March 31, 2012, which are included in the charge-off amounts for the nine months ended June 30, 2012. These charge-offs did not impact the provision for credit losses, and therefore had no additional income statement impact, as the amounts were expensed in previous periods.

For the Three Months Ended June 30, 2013

	One- to Four- Family - Originated	One- to Four- Family - Purchased	One- to Four- Family - Total	Multi-family and Commercial	Consumer	Total
	(Dollars in thousands)					
Beginning balance	\$ 6,002	\$ 3,495	\$ 9,497	\$ 208	\$ 367	\$ 10,072
Charge-offs	(60)	--	(60)	--	(111)	(171)
Recoveries	13	118	131	--	7	138
Provision for credit losses	(202)	(677)	(879)	(34)	113	(800)
Ending balance	\$ 5,753	\$ 2,936	\$ 8,689	\$ 174	\$ 376	\$ 9,239

For the Nine Months Ended June 30, 2013

	One- to Four- Family - Originated	One- to Four- Family - Purchased	One- to Four- Family - Total	Multi-family and Commercial	Consumer	Total
	(Dollars in thousands)					
Beginning balance	\$ 6,074	\$ 4,453	\$ 10,527	\$ 219	\$ 354	\$ 11,100
Charge-offs	(563)	(685)	(1,248)	--	(246)	(1,494)
Recoveries	13	160	173	--	27	200
Provision for credit losses	229	(992)	(763)	(45)	241	(567)
Ending balance	\$ 5,753	\$ 2,936	\$ 8,689	\$ 174	\$ 376	\$ 9,239

For the Three Months Ended June 30, 2012

	One- to Four- Family - Originated	One- to Four- Family - Purchased	One- to Four- Family - Total	Multi-family and Commercial	Consumer	Total
	(Dollars in thousands)					
Beginning balance	\$ 4,792	\$ 7,492	\$ 12,284	\$ 82	\$ 193	\$ 12,559
Charge-offs	(227)	(498)	(725)	--	(65)	(790)
Recoveries	--	6	6	--	2	8
Provision for credit losses	1,495	(1,810)	(315)	106	209	--
Ending balance	\$ 6,060	\$ 5,190	\$ 11,250	\$ 188	\$ 339	\$ 11,777

	For the Nine Months Ended June 30, 2012					
	One- to Four- Family - Originated	One- to Four- Family - Purchased	One- to Four- Family - Total	Multi-family and Commercial	Consumer	Total
	(Dollars in thousands)					
Beginning balance	\$ 4,915	\$ 9,901	\$ 14,816	\$ 254	\$ 395	\$ 15,465
Charge-offs	(814)	(4,652)	(5,466)	--	(270)	(5,736)
Recoveries	--	6	6	--	2	8
Provision for credit losses	1,959	(65)	1,894	(66)	212	2,040
Ending balance	\$ 6,060	\$ 5,190	\$ 11,250	\$ 188	\$ 339	\$ 11,777

The following is a summary of the loan portfolio and related ACL balances, at the dates presented, by loan portfolio segment disaggregated by the Company's impairment method. There was no ACL for loans individually evaluated for impairment at either date, as all potential losses were charged-off.

	June 30, 2013						
	One- to Four- Family - Originated	One- to Four- Family - Purchased	One- to Four- Family - Total	Multi-family and Commercial	Consumer	Total	
	(Dollars in thousands)						
Recorded investment in loans collectively evaluated for impairment	\$ 4,906,362	\$ 675,464	\$ 5,581,826	\$ 53,748	\$ 140,095	\$ 5,775,669	
Recorded investment in loans individually evaluated for impairment	11,212	14,414	25,626	--	564	26,190	
	\$ 4,917,574	\$ 689,878	\$ 5,607,452	\$ 53,748	\$ 140,659	\$ 5,801,859	
ACL for loans collectively evaluated for impairment	\$ 5,753	\$ 2,936	\$ 8,689	\$ 174	\$ 376	\$ 9,239	

September 30, 2012

Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

	One- to Four- Family - Originated (Dollars in thousands)	One- to Four- Family - Purchased	One- to Four- Family - Total	Multi-family and Commercial	Consumer	Total
Recorded investment in loans collectively evaluated for impairment	\$ 4,602,969	\$ 774,734	\$ 5,377,703	\$ 59,562	\$ 154,940	\$ 5,592,205
Recorded investment in loans individually evaluated for impairment	10,729	15,339	26,068	--	910	26,978
	\$ 4,613,698	\$ 790,073	\$ 5,403,771	\$ 59,562	\$ 155,850	\$ 5,619,183
ACL for loans collectively evaluated for impairment	\$ 6,074	\$ 4,453	\$ 10,527	\$ 219	\$ 354	\$ 11,100

As previously noted, the Bank has a loan concentration in residential first mortgage loans. Declines in residential real estate values could adversely impact the property used as collateral for the Bank's loans. Adverse changes in economic conditions and increasing unemployment rates may have a negative effect on the ability of the Bank's borrowers to make timely loan payments, which would likely increase delinquencies and have an adverse impact on the Bank's earnings. Further increases in delinquencies would decrease interest income on loans receivable and would likely adversely impact the Bank's loan loss experience, resulting in an increase in the Bank's ACL and provision for credit losses. Although management believes the ACL was at a level adequate to absorb inherent losses in the loan portfolio at June 30, 2013, the level of the ACL remains an estimate that is subject to significant judgment and short-term changes.

## 5. Fair Value of Financial Instruments

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

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The Company did not have any liabilities that were measured at fair value at June 30, 2013 or September 30, 2012. The Company's AFS securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets or liabilities on a non-recurring basis, such as OREO and loans individually evaluated for impairment. These non-recurring fair value adjustments involve the application of lower-of-cost-or-fair value accounting or write-downs of individual assets.

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

- Level 1 — Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 — Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 — Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

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

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

AFS Securities - The Company's AFS securities portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as AOCI in stockholders' equity. The majority of the securities within the AFS portfolio are issued by U.S. GSEs. The Company primarily uses prices obtained from third party pricing services and recent trades to determine the fair value of securities. The Company's major security types based on the nature and risks of the securities are:

- GSE Debentures – Estimated fair values are based on a discounted cash flow method. Cash flows are determined by taking any embedded options into consideration and are discounted using current market yields for similar securities. On a quarterly basis, management corroborates a sample of the prices obtained from the pricing service by comparing them to another independent source. (Level 2)
- MBS – Estimated fair values are based on a discounted cash flow method. Cash flows are determined based on prepayment projections of the underlying mortgages and are discounted using current market yields for benchmark securities. On a quarterly basis, management corroborates a sample of the prices obtained from the pricing service by comparing them to another independent source. (Level 2)

- Municipal Bonds – Estimated fair values are based on a discounted cash flow method. Cash flows are determined by taking any embedded options into consideration and are discounted using current market yields for securities with similar credit profiles. On a quarterly basis, management corroborates a sample of the prices obtained from the pricing service by comparing them to another independent source. (Level 2)
- Trust Preferred Securities – Estimated fair values are based on a discounted cash flow method. Cash flows are determined by taking prepayment and underlying credit considerations into account. The discount rates are derived from secondary trades and bid/offer prices. (Level 3)

The following table provides the level of valuation assumption used to determine the carrying value of the Company's assets which consists of AFS securities, at the dates presented.

	June 30, 2013			
	Carrying Value (Dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) <sup>(1)</sup>
AFS Securities:				
GSE debentures	\$ 764,429	\$ --	\$ 764,429	\$ --
MBS	398,811	--	398,811	--
Trust preferred securities	2,441	--	--	2,441
Municipal bonds	1,362	--	1,362	--
	\$ 1,167,043	\$ --	\$ 1,164,602	\$ 2,441

	September 30, 2012			
	Carrying Value (Dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) <sup>(2)</sup>
AFS Securities:				
GSE debentures	\$ 861,724	\$ --	\$ 861,724	\$ --
MBS	540,306	--	540,306	--
Municipal bonds	2,516	--	2,516	--
Trust preferred securities	2,298	--	--	2,298
	\$ 1,406,844	\$ --	\$ 1,404,546	\$ 2,298



- (1) The Company's Level 3 AFS securities had no activity from September 30, 2012 to June 30, 2013, except for principal repayments of \$401 thousand and reductions in net unrealized losses recognized in other comprehensive income. Reductions in net unrealized losses included in other comprehensive income for the nine months ended June 30, 2013 were \$279 thousand.
- (2) The Company's Level 3 AFS securities had no activity from September 30, 2011 to September 30, 2012, except for principal repayments of \$996 thousand and reductions in net unrealized losses recognized in other comprehensive income. Reductions of net unrealized losses included in other comprehensive income for the year ended September 30, 2012 were \$78 thousand.

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

Loans Receivable - The balance of loans individually evaluated for impairment at June 30, 2013 and September 30, 2012 was \$26.1 million and \$26.9 million, respectively. Substantially all of these loans were secured by residential real estate and were individually evaluated to ensure that the carrying value of the loan was not in excess of the fair value of the collateral, less estimated selling costs. Fair values were estimated through current appraisals or listing prices. Fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. Based on this evaluation, the Bank charged-off any loss amounts at June 30, 2013 and September 30, 2012; therefore there was no ACL related to these loans.

OREO - OREO primarily represents real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at lower-of-cost or fair value. Fair value is estimated through current appraisals or listing prices. As these properties are actively marketed, estimated fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. The fair value of OREO at June 30, 2013 and September 30, 2012 was \$5.5 million and \$8.0 million, respectively.

The following table provides the level of valuation assumption used to determine the carrying value of the Company's assets measured at fair value on a non-recurring basis at the dates presented.

	June 30, 2013			
	Quoted	Significant	Significant	
	Prices	Other	Other	
	in Active	Observable	Observable	
	Markets		Unobservable	
	for		Inputs	
	Identical		(Level 3)	
	Carrying	Assets	Inputs	Inputs
	Value	(Level 1)	(Level 2)	(Level 3)
	(Dollars in thousands)			
Loans individually evaluated for impairment	\$ 26,081	\$ --	\$ --	\$ 26,081
OREO	5,499	--	--	5,499
	\$ 31,580	\$ --	\$ --	\$ 31,580

	September 30, 2012			
	Quoted	Significant	Significant	
	Prices	Other	Other	
	in Active	Observable	Observable	
	Markets		Unobservable	
	for		Inputs	
	Identical		(Level 3)	
	Carrying	Assets	Inputs	Inputs
	Value	(Level 1)	(Level 2)	(Level 3)
	(Dollars in thousands)			
Loans individually evaluated for impairment	\$ 26,890	\$ --	\$ --	\$ 26,890
OREO	8,047	--	--	8,047
	\$ 34,937	\$ --	\$ --	\$ 34,937

Fair Value Disclosures - The Company determined estimated fair value amounts using available market information and from a variety of valuation methodologies. However, considerable judgment is required to interpret market data

to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amount the Company could realize in a current market exchange. The use of different market assumptions and estimation methodologies may have a material impact on the estimated fair value amounts. The fair value estimates presented herein were based on pertinent information available to management as of the dates presented.

The carrying amounts and estimated fair values of the Company's financial instruments at the dates presented were as follows:

	June 30, 2013		September 30, 2012	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	\$ 131,287	\$ 131,287	\$ 141,705	\$ 141,705
HTM securities	1,819,895	1,841,851	1,887,947	1,969,899
Loans receivable	5,792,620	5,988,719	5,608,083	5,978,872
BOLI	59,133	59,133	58,012	58,012
Capital stock of FHLB	134,222	134,222	132,971	132,971
Liabilities:				
Deposits	4,628,436	4,660,615	4,550,643	4,607,732
Borrowings from FHLB	2,611,480	2,692,819	2,530,322	2,701,142
Repurchase agreements	290,000	302,660	365,000	388,761

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

**Cash and Cash Equivalents** - The carrying amounts of cash and cash equivalents are considered to approximate their fair value due to the nature of the financial asset. (Level 1)

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

**Loans Receivable** - The fair value of one- to four-family mortgages and home equity loans are generally estimated using the present value of expected future cash flows, assuming future prepayments and using discount factors determined by prices obtained from securitization markets, less a discount for the cost of servicing and lack of liquidity. The estimated fair value of the Bank's multi-family and consumer loans are based on the expected future cash flows assuming future prepayments and discount factors based on current offering rates. (Level 3)

**BOLI** - The carrying value of BOLI is considered to approximate its fair value due to the nature of the financial asset. (Level 1)

**Capital Stock of FHLB** - The carrying value and estimated fair value of FHLB stock equals cost, which is based on redemption at par value. (Level 1)

**Deposits** - The estimated fair value of demand deposits, savings and money market accounts is the amount payable on demand at the reporting date. The estimated fair value of these deposits at June 30, 2013 and September 30, 2012 was \$2.09 billion and \$1.98 billion, respectively. (Level 1) The fair value of certificates of deposit is estimated by discounting future cash flows using current LIBOR rates. The estimated fair value of certificates of deposit at June 30, 2013 and September 30, 2012 was \$2.57 billion and \$2.63 billion, respectively. (Level 2)

**Borrowings from FHLB and Repurchase Agreements** - The fair value of fixed-maturity borrowed funds is estimated by discounting estimated future cash flows using currently offered rates. (Level 2) The carrying value of FHLB line of credit is considered to approximate its fair value due to the nature of the financial liability. (Level 1)

## 6. Subsequent Events

In preparing these financial statements, management has evaluated events occurring subsequent to June 30, 2013, for potential recognition and disclosure. There have been no material events or transactions which would require adjustments to the consolidated financial statements at June 30, 2013.



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

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

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

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

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

As used in this Form 10-Q, unless we specify otherwise, “the Company,” “we,” “us,” and “our” refer to Capitol Federal Financial, Inc., a Maryland corporation. “Capitol Federal Savings,” and “the Bank,” refer to Capitol Federal Savings Bank, a federal savings bank and the wholly-owned subsidiary of Capitol Federal Financial, Inc.

30

---

The following discussion and analysis is intended to assist in understanding the financial condition, results of operations, liquidity and capital resources of the Company. It should be read in conjunction with the consolidated financial statements and notes presented in this report. The discussion includes comments relating to the Bank, since the Bank is wholly-owned by the Company and comprises the majority of its assets and is the principal source of income for the Company. This discussion and analysis should be read in conjunction with management's discussion and analysis included in the Company's 2012 Annual Report on Form 10-K filed with the SEC.

#### Executive Summary

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

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

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

The Federal Open Market Committee of the Federal Reserve (the "FOMC") noted in their June 2013 statement and minutes that economic activity has been expanding at a moderate pace. Although the unemployment rate remains elevated, labor market conditions have shown further signs of improvement in recent months. The FOMC stated that household spending and business fixed investment have advanced, and that the housing sector continued to strengthen, but fiscal policy is restraining economic growth. For the most part, inflation has been running somewhat below the FOMC's longer-run objective and longer-term inflationary expectations have remained stable. The FOMC decided to continue its existing policy of reinvesting principal payments from its holdings of agency debt and agency MBS in agency MBS and will continue to purchase additional longer-term Treasury securities at a pace of \$45 billion per month and agency MBS at a pace of \$40 billion per month. The FOMC believes that these actions, taken together, should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative. The FOMC stated that it will closely monitor incoming information on economic and financial developments in coming months and is prepared to increase or reduce the pace



of its purchases to maintain appropriate policy accommodation as the outlook for the labor market or inflation changes. Following the release of the FOMC statements, markets reacted by increasing yields on MBS and Treasury securities. The Chairman of the FOMC believes that recent increases in interest rates are being fueled not only by FOMC communications, but also by improved economic news. The FOMC remarked that it will continue to maintain the overnight lending rate at zero to 0.25% as long as the unemployment rate remains above 6.5%, inflation between one and two years ahead is projected to be no more than a half percentage point above the FOMC's 2% longer-run goal, and longer-term inflation expectations continue to be well anchored.

Economic conditions in the Bank's local market areas have a significant impact on the ability of borrowers to repay loans and the value of the collateral securing these loans. As of June 2013, the unemployment rate was 5.8% for Kansas and 6.9% for Missouri, compared to the national average of 7.6% based on information from the Bureau of Economic Analysis. The unemployment rate remains relatively low in our market areas, compared to the national average, due to diversified industries within our market areas, primarily in the Kansas City metropolitan statistical area, but it is higher than the historical average. Our Kansas City market area, which comprises the largest segment of our loan portfolio and deposit base, has an average household income of approximately \$79 thousand per annum, based on 2012 estimates from the American Community Survey, which is a statistical survey by the U.S. Census

Bureau. The average household income in our combined market areas is approximately \$68 thousand per annum, with 92% of the population at or above the poverty level, also based on the 2012 estimates from the American Community Survey. The Federal Housing Finance Agency (“FHFA”) price index for Kansas and Missouri has not experienced significant fluctuations during the past 10 years, unlike other market areas of the United States, which indicates relative stability historically in property values in our local market areas.

Total assets decreased \$138.5 million, from \$9.38 billion at September 30, 2012 to \$9.24 billion at June 30, 2013, due primarily to a \$307.9 million decrease in the securities portfolio, partially offset by a \$184.5 million increase in the loan portfolio. The net increase in the loan portfolio was due primarily to correspondent one- to four-family loan purchases outpacing principal repayments between periods. The overall performance of our loan portfolio continued to improve during the current fiscal year. Loans 30 to 89 days delinquent decreased \$2.7 million, or 11.6%, from \$23.3 million at September 30, 2012 to \$20.6 million at June 30, 2013. Non-performing loans decreased \$5.4 million, or 17.0%, from \$31.8 million at September 30, 2012 to \$26.4 million at June 30, 2013. Net charge-offs during the current nine month period were \$1.3 million, of which \$378 thousand related to loans that were discharged in a prior fiscal year under Chapter 7 bankruptcy that had to be, in accordance with OCC regulations, evaluated for collateral value loss, even if the loan was current.

Total liabilities increased \$43.4 million, from \$7.57 billion at September 30, 2012, to \$7.62 billion at June 30, 2013 due primarily to an \$81.2 million increase in FHLB borrowings and a \$77.8 million increase in deposits, partially offset by the maturity of \$75.0 million of repurchase agreements between period ends. Stockholders’ equity decreased \$182.0 million, from \$1.81 billion at September 30, 2012 to \$1.62 billion at June 30, 2013. The decrease was due primarily to the payment of \$136.1 million of dividends and the repurchase of \$89.4 million of stock, partially offset by net income of \$53.3 million.

Net income for the quarter ended June 30, 2013 was \$18.0 million, compared to \$18.7 million for the quarter ended June 30, 2012. The \$678 thousand, or 3.6%, decrease in net income was due primarily to a decrease in net interest income and an increase in non-interest expenses, partially offset by a decrease in income tax expense and a negative provision for credit losses during the current quarter. The net interest margin decreased four basis points, from 2.00% for the prior year quarter to 1.96% for the current quarter, primarily as a result of continued downward pressure on loan and security yields.

Net income for the nine months ended June 30, 2013 was \$53.3 million, compared to net income of \$56.8 million for the nine months ended June 30, 2012. The \$3.5 million, or 6.2%, decrease in net income was due primarily to a decrease in net interest income and an increase in non-interest expense, partially offset by a decrease in income tax expense and provision for credit losses. The net interest margin decreased three basis points, from 2.01% for the prior year nine month period to 1.98% for the current nine month period, primarily as a result of a decrease in loan and security yields which more than offset the benefit received from a decrease in the cost of funds between the two periods.

The Bank currently expects to open one new branch in calendar year 2013. The branch will be located in our Kansas City market area. Management continues to consider expansion opportunities in all of our market areas.

Effective September 30, 2013, Executive Vice President for Retail Operations, R. Joe Aleshire, will retire from the Bank. A member of senior management has been identified to assume Mr. Aleshire’s position.

#### Available Information

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

#### Critical Accounting Policies

Our most critical accounting policies are the methodologies used to determine the ACL and fair value measurements. These policies are important to the presentation of our financial condition and results of operations, involve a high degree of complexity, and require management to make difficult and subjective judgments that may require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions, and estimates could cause reported results to differ materially. These critical accounting policies and their application are reviewed at least annually by our audit committee. For a full discussion of our critical accounting policies, see Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies” in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

## Financial Condition

The following table presents selected balance sheet information for the dates presented.

	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012					
	(Dollars in thousands)									
Total assets	\$ 9,239,764	\$ 9,393,718	\$ 9,238,786	\$ 9,378,304	\$ 9,420,614					
Cash and cash equivalents	131,287	48,574	105,157	141,705	172,948					
AFS securities	1,167,043	1,245,443	1,259,392	1,406,844	1,632,297					
HTM securities	1,819,895	1,953,779	1,902,228	1,887,947	2,073,951					
Loans receivable, net	5,792,620	5,715,273	5,640,077	5,608,083	5,209,990					
Capital stock of FHLB	134,222	130,680	130,784	132,971	131,437					
Deposits	4,628,436	4,693,573	4,582,163	4,550,643	4,592,437					
Borrowings from FHLB	2,611,480	2,634,465	2,532,493	2,530,322	2,527,903					
Repurchase agreements	290,000	315,000	365,000	365,000	365,000					
Stockholders' equity	1,624,502	1,643,007	1,669,951	1,806,458	1,832,858					
Equity to total assets at end of period	17.6	%	17.5	%	18.1	%	19.3	%	19.5	%

**Assets.** Total assets decreased \$138.5 million, from \$9.38 billion at September 30, 2012 to \$9.24 billion at June 30, 2013, due primarily to a \$307.9 million decrease in the securities portfolio, partially offset by a \$184.5 million increase in the loan portfolio. Of the \$307.9 million decrease in the securities portfolio, \$60.0 million related to securities held at the holding company level, the proceeds from which were used to pay dividends to stockholders and repurchase stock. The remaining cash flows from the securities portfolio which were not reinvested in the securities portfolio were used, in part, to fund loan growth as we continued our strategy of expanding our network of correspondent lending relationships. The net increase in the loan portfolio was due primarily to correspondent one- to four-family loan purchases outpacing principal repayments between periods.

**Loans Receivable.** The loans receivable portfolio increased \$184.5 million, or at an annualized rate of 4.4%, to \$5.79 billion at June 30, 2013, from \$5.61 billion at September 30, 2012. During the nine months ended June 30, 2013, the Bank purchased \$395.9 million of one- to four-family loans from correspondent lenders, originated \$361.4 million of one- to four-family loans, and refinanced \$251.2 million of Bank customer one- to four-family loans. As of June 30, 2013, the Bank had 26 active correspondent lending relationships operating in 23 states.

As a portfolio lender focused on delivering outstanding customer service while acquiring quality assets, our borrowers' ability to repay has always been paramount in our business model. Although we continue to evaluate the "qualified mortgage" rules issued by the Consumer Financial Protection Bureau, we currently anticipate that the impact to our overall book of business will generally be minimal.

33

---

The following table presents characteristics of our loan portfolio at the dates presented. The weighted average rate of the loan portfolio decreased 29 basis points from 4.15% at September 30, 2012 to 3.86% at June 30, 2013. The decrease in the weighted average portfolio rate was due primarily to the endorsement and refinancing of loans at current market rates, as well as to the origination and purchase of loans between periods with rates less than the average rate of the existing portfolio. Within the one- to four-family loan portfolio at June 30, 2013, 69% of the loans had a balance at origination of less than \$417 thousand.

	June 30, 2013		September 30, 2012	
	Amount	Average Rate	Amount	Average Rate
	(Dollars in thousands)			
Real Estate Loans:				
One- to four-family	\$ 5,587,622	3.82 %	\$ 5,392,429	4.10 %
Multi-family and commercial	37,834	5.71	48,623	5.64
Construction	73,746	3.81	52,254	4.08
Total real estate loans	5,699,202	3.83	5,493,306	4.11
Consumer Loans:				
Home equity	134,919	5.31	149,321	5.42
Other	5,740	4.50	6,529	4.77
Total consumer loans	140,659	5.28	155,850	5.39
Total loans receivable	5,839,861	3.86 %	5,649,156	4.15 %
Less:				
Undisbursed loan funds	34,675		22,874	
ACL	9,239		11,100	
Discounts/unearned loan fees	22,282		21,468	
Premiums/deferred costs	(18,955)		(14,369)	
Total loans receivable, net	\$ 5,792,620		\$ 5,608,083	

Included in the loan portfolio at June 30, 2013 were \$118.9 million, or 2.1% of the total net loan portfolio, of adjustable-rate mortgage (“ARM”) loans that were originated as interest-only. Of these interest-only loans, \$99.5 million were purchased in bulk loan packages from nationwide lenders, primarily during fiscal year 2005. Interest-only ARM loans do not typically require principal payments during their initial term, and have initial interest-only terms of either five or 10 years. The \$99.5 million of purchased interest-only ARM loans held at June 30, 2013, had a weighted average credit score of 724 and a weighted average LTV ratio of 71% as of June 30, 2013. At June 30, 2013, \$62.2 million, or 52%, of the interest-only loans were still in their interest-only payment term and \$4.5 million, or 17% of non-performing loans, were interest-only ARMs.



The following table presents the balance, percentage of total one- to four-family loans, weighted average credit score, LTV ratio, and average balance per loan for our one- to four-family loans as of the dates presented. Credit scores are updated at least semiannually, with the last update in March 2013, and obtained from a nationally recognized consumer rating agency. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent bank appraisal, if available. In most cases, the most recent appraisal was obtained at the time of origination.

	June 30, 2013			September 30, 2012			Credit Score	LTV	Average Balance	
	Balance	% of Total	Credit Score	Average Balance	Balance	% of Total				
	(Dollars in thousands)									
Originated	\$ 4,014,857	71.8 %	763	65 %	\$ 126	\$ 4,032,581	74.8 %	763	65 %	\$ 124
Correspondent purchased	887,462	15.9	762	66	345	575,502	10.7	761	65	326
Bulk purchased	685,303	12.3	748	67	317	784,346	14.5	749	67	316
	\$ 5,587,622	100.0 %	761	65 %	\$ 152	\$ 5,392,429	100.0 %	761	65 %	\$ 147

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

	June 30, 2013			March 31, 2013			June 30, 2012		
	Amount	Rate	WAL	Amount	Rate	WAL	Amount	Rate	WAL
	(Dollars in thousands)								
Fixed-rate one- to four-family:									
<= 15 years	\$ 1,140,820	3.59 %	4.3	\$ 1,125,356	3.70 %	3.5	\$ 1,037,746	4.15 %	2.4
> 15 years	3,328,375	4.20	7.4	3,237,793	4.29	5.4	3,122,790	4.64	3.4
All other fixed-rate loans	111,481	5.28	3.8	118,288	5.37	3.3	110,052	6.14	1.5
	4,580,676	4.07	6.6	4,481,437	4.17	4.8	4,270,588	4.56	3.1



Total fixed-rate  
loans

Adjustable-rate  
one- to  
four-family:

<= 36 months	428,973	2.63	3.9	443,269	2.68	3.7	121,113	3.45	3.0
> 36 months	689,454	3.09	4.0	702,034	3.15	3.2	714,191	3.33	2.8
All other adjustable-rate loans	140,758	4.61	0.4	136,315	4.69	0.3	150,911	4.66	1.5 (1)
Total adjustable-rate loans	1,259,185	3.10	3.6	1,281,618	3.15	3.0	986,215	3.55	2.6
Total loans receivable	\$ 5,839,861	3.86 %	5.9	\$ 5,763,055	3.94 %	4.4	\$ 5,256,803	4.37 %	3.0

(1) The 1.5 years presented at June 30, 2012 is for all other fixed-rate and adjustable-rate loans combined as the individual WAL for each category was not available.

35

---

The following tables present the annualized prepayment speeds of our one- to four-family loan portfolio for the quarter ended June 30, 2013, by interest rate tier. The balances represent unpaid principal balances, excluding charge-offs, and including undispersed loan funds, construction loans and non-performing loans. The terms presented in the tables below represent the contractual terms for our fixed-rate one-to four-family loans, and current terms to repricing for our adjustable-rate one- to four-family loans. Loan endorsements and refinances are considered prepayments and therefore are included in the prepayment speeds below. During the quarter ended June 30, 2013, \$2.6 million of adjustable-rate one- to four-family loans were endorsed to fixed-rate loans. The annualized prepayment speeds are presented with and without endorsements. Additionally, annualized prepayment speeds for our originated, correspondent purchased and bulk purchased portfolios for the quarter ended June 30, 2013, is also presented below.

Rate Range	Original Term 15 years or less				More than 15 years			
	Principal Balance	Prepayment Speed (annualized)		Principal Balance	Prepayment Speed (annualized)			
		Including Endorsements	Excluding Endorsements		Including Endorsements	Excluding Endorsements		
	(Dollars in thousands)							
<= 3.50%	\$ 693,296	9.2 %	7.9 %	\$ 831,722	7.1 %	5.8 %		
3.51 - 3.99%	170,871	34.2	24.5	768,449	12.9	8.1		
4.00 - 4.50%	89,609	34.7	23.4	927,027	27.0	15.0		
4.51 - 4.99%	74,180	43.3	36.1	163,474	46.8	25.0		
5.00 - 5.50%	81,316	26.3	20.9	412,009	42.1	26.1		
>= 5.51%	31,554	31.2	30.1	271,595	34.2	21.9		
	\$ 1,140,826	19.9 %	15.6 %	\$ 3,374,276	23.3 %	14.1 %		
Originated	\$ 933,532	19.0 %	15.0 %	\$ 2,800,276	23.6 %	14.6 %		
Correspondent purchased	185,935	16.8	10.2	533,558	19.8	8.5		
Bulk purchased	21,359	75.3	75.3	40,442	45.3	45.3		
	\$ 1,140,826	19.9 %	15.6 %	\$ 3,374,276	23.3 %	14.1 %		

Rate Range	Current Term to Repricing 36 months or less				More than 36 months			
	Principal Balance	Prepayment Speed (annualized)		Principal Balance	Prepayment Speed (annualized)			
		Including Endorsements	Excluding Endorsements		Including Endorsements	Excluding Endorsements		
	(Dollars in thousands)							
<= 2.50%	\$ 413,174	15.9 %	15.9 %	\$ 60,235	13.4 %	13.4 %		
2.51 - 2.99%	196,803	19.4	19.1	134,996	15.5	11.9		

Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

3.00 - 3.50%	89,227	23.6	22.9		77,455	23.2	18.5	
3.51 - 4.49%	36,630	34.4	20.4		20,472	14.0	14.0	
>= 4.50%	96,466	32.1	22.2		1,855	91.4	91.4	
	\$ 832,300	20.5 %	18.5	%	\$ 295,013	17.9 %	15.0	%
Originated	\$ 159,223	30.2 %	24.4	%	\$ 171,926	13.2 %	12.5	%
Correspondent purchased	51,005	29.8	21.4		118,541	19.1	14.5	
Bulk purchased	622,072	17.2	16.7		4,546	89.8	66.0	
	\$ 832,300	20.5 %	18.5	%	\$ 295,013	17.9 %	15.0	%

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

	For the Three Months Ended							
	June 30, 2013		March 31, 2013		December 31, 2012		September 30, 2012	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)							
Beginning balance	\$ 5,763,055	3.94 %	\$ 5,687,893	4.04 %	\$ 5,649,156	4.15 %	\$ 5,256,803	4.37 %
Originated and refinanced:								
Fixed	182,177	3.35	179,828	3.26	209,873	3.26	220,934	3.51
Adjustable	31,713	3.87	22,676	3.94	39,964	3.58	50,533	3.50
Purchased and participations:								
Fixed	132,391	3.36	119,334	3.22	88,763	3.45	90,939	3.62
Adjustable	23,499	2.77	19,145	2.64	21,434	2.70	360,463	2.49
Repayments	(292,110)		(262,865)		(318,332)		(327,972)	
Principal charge-offs, net	(33)		(405)		(856)		(677)	
Other <sup>(1)</sup>	(831)		(2,551)		(2,109)		(1,867)	
Ending balance	\$ 5,839,861	3.86 %	\$ 5,763,055	3.94 %	\$ 5,687,893	4.04 %	\$ 5,649,156	4.15 %

	For the Nine Months Ended			
	June 30, 2013		June 30, 2012	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Beginning balance	\$ 5,649,156	4.15 %	\$ 5,195,876	4.69 %
Originated and refinanced:				
Fixed	571,878	3.29	471,217	3.78
Adjustable	94,353	3.76	141,262	3.63
Purchased and participations:				