TFS Financial CORP
Form 10-Q
February 07, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended December 31, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For transition period from to
Commission File Number 001-33390

TFS FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

United States of America	52-2054948
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
7007 Broadway Avenue Cleveland, Ohio	44105
(Address of Principal Executive Offices)	(Zip Code)

(216) 441-6000
Registrant’s telephone number, including area code:
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller Reporting Company	¨

Emerging Growth Company o
If an emerging company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of February 5, 2019, there were 280,083,345 shares of the Registrant's common stock, par value $0.01 per share, outstanding, of which 227,119,132 shares, or 81.1% of the Registrant's common stock, were held by Third Federal Savings and Loan Association of Cleveland, MHC, the Registrant's mutual holding company.

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GLOSSARY OF TERMS

TFS Financial Corporation provides the following list of acronyms and defined terms as a tool for the reader. The acronyms and defined terms identified below are used throughout the document.

ACT: Tax Cuts and Jobs Act
AOCI: Accumulated Other Comprehensive Income
ARM: Adjustable Rate Mortgage
ASC: Accounting Standards Codification
ASU: Accounting Standards Update
Association: Third Federal Savings and Loan Association of Cleveland
BOLI: Bank Owned Life Insurance
CDs: Certificates of Deposit
CFPB: Consumer Financial Protection Bureau
CLTV: Combined Loan-to-Value
Company: TFS Financial Corporation and its subsidiaries
DFA: Dodd-Frank Wall Street Reform and Consumer Protection Act
EaR: Earnings at Risk
EPS: Earnings per Share
ESOP: Third Federal Employee (Associate) Stock Ownership Plan
EVE: Economic Value of Equity
Fannie Mae: Federal National Mortgage Association
FASB: Financial Accounting Standards Board
FDIC: Federal Deposit Insurance Corporation
FHFA: Federal Housing Finance Agency
FHLB: Federal Home Loan Bank
FICO: Financing Corporation
FRB-Cleveland: Federal Reserve Bank of Cleveland
Freddie Mac: Federal Home Loan Mortgage Corporation
FRS: Board of Governors of the Federal Reserve System
GAAP: Generally Accepted Accounting Principles
Ginnie Mae: Government National Mortgage Association
GVA: General Valuation Allowances
HARP: Home Affordable Refinance Program
HPI: Home Price Index
IRR: Interest Rate Risk
IRS: Internal Revenue Service
IVA: Individual Valuation Allowance
LIHTC: Low Income Housing Tax Credit
LIP: Loans-in-Process
LTV: Loan-to-Value
MGIC: Mortgage Guaranty Insurance Corporation
OCC: Office of the Comptroller of the Currency
OCI: Other Comprehensive Income
OTS: Office of Thrift Supervision
PMI: Private Mortgage Insurance
PMIC: PMI Mortgage Insurance Co.
QTL: Qualified Thrift Lender
REMICs: Real Estate Mortgage Investment Conduits
SEC: United States Securities and Exchange Commission
TDR: Troubled Debt Restructuring
Third Federal Savings, MHC: Third Federal Savings and Loan Association of Cleveland, MHC

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Item 1. Financial Statements
TFS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION (unaudited)
(In thousands, except share data)

	December 31, 2018	September 30, 2018
ASSETS		
Cash and due from banks	$42,528	$29,056
Interest-earning cash equivalents	244,091	240,719
Cash and cash equivalents	286,619	269,775
Investment securities available for sale (amortized cost $575,273 and $549,211, respectively)	564,479	531,965
Mortgage loans held for sale, at lower of cost or market (none measured at fair value)	755	659
Loans held for investment, net:		
Mortgage loans	12,918,938	12,872,125
Other consumer loans	3,000	3,021
Deferred loan expenses, net	39,526	38,566
Allowance for loan losses	(41,938)	(42,418)
Loans, net	12,919,526	12,871,294
Mortgage loan servicing rights, net	8,643	8,840
Federal Home Loan Bank stock, at cost	93,544	93,544
Real estate owned	2,888	2,794
Premises, equipment, and software, net	62,829	63,399
Accrued interest receivable	39,446	38,696
Bank owned life insurance contracts	213,568	212,021
Other assets	46,381	44,344
TOTAL ASSETS	$14,238,678	$14,137,331
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$8,597,179	$8,491,583
Borrowed funds	3,734,329	3,721,699
Borrowers' advances for insurance and taxes	96,451	103,005
Principal, interest, and related escrow owed on loans serviced	30,577	31,490
Accrued expenses and other liabilities	36,362	31,150
Total liabilities	12,494,898	12,378,927
Commitments and contingent liabilities		
Preferred stock, $0.01 par value, 100,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $0.01 par value, 700,000,000 shares authorized; 332,318,750 shares issued; 280,135,164 and 280,311,070 outstanding at December 31, 2018 and September 30, 2018, respectively	3,323	3,323
Paid-in capital	1,727,909	1,726,992
Treasury stock, at cost; 52,183,586 and 52,007,680 shares at December 31, 2018 and September 30, 2018, respectively	(757,464)	(754,272)
Unallocated ESOP shares	(47,667)	(48,751)
Retained earnings—substantially restricted	815,918	807,890
Accumulated other comprehensive income	1,761	23,222
Total shareholders' equity	1,743,780	1,758,404
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$14,238,678	$14,137,331

See accompanying notes to unaudited interim consolidated financial statements.

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TFS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (unaudited)
(In thousands, except share and per share data)

	For the Three Months Ended December 31,	
	2018	2017
INTEREST AND DIVIDEND INCOME:		
Loans, including fees	$112,491	$ 102,626
Investment securities available for sale	3,124	2,589
Other interest and dividend earning assets	2,673	2,014
Total interest and dividend income	118,288	107,229
INTEREST EXPENSE:		
Deposits	32,762	22,994
Borrowed funds	17,714	14,247
Total interest expense	50,476	37,241
NET INTEREST INCOME	67,812	69,988
PROVISION (CREDIT) FOR LOAN LOSSES	(2,000)	(3,000)
NET INTEREST INCOME AFTER PROVISION (CREDIT) FOR LOAN LOSSES	69,812	72,988
NON-INTEREST INCOME:		
Fees and service charges, net of amortization	1,776	1,760
Net gain on the sale of loans	111	478
Increase in and death benefits from bank owned life insurance contracts	1,547	1,554
Other	1,242	1,052
Total non-interest income	4,676	4,844
NON-INTEREST EXPENSE:		
Salaries and employee benefits	25,364	23,253
Marketing services	4,797	5,038
Office property, equipment and software	6,986	6,651
Federal insurance premium and assessments	2,766	2,718
State franchise tax	1,262	1,126
Other expenses	6,805	6,990
Total non-interest expense	47,980	45,776
INCOME BEFORE INCOME TAXES	26,508	32,056
INCOME TAX EXPENSE	6,175	12,443
NET INCOME	$20,333	$ 19,613
Earnings per share - basic and diluted	$0.07	$ 0.07
Weighted average shares outstanding		
Basic	275,376,254	275,816,329
Diluted	277,073,317	277,624,291

See accompanying notes to unaudited interim consolidated financial statements.

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TFS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)
(In thousands)

	For the Three Months Ended December 31,	
	2018	2017
Net income	$20,333	$19,613
Other comprehensive income (loss), net of tax:		
Net change in unrealized loss on securities available for sale	5,097	(4,270)
Net change in cash flow hedges	(26,822)	12,585
Change in pension obligation	264	(2,817)
Total other comprehensive income (loss)	(21,461)	5,498
Total comprehensive income (loss)	$(1,128)	$25,111

See accompanying notes to unaudited interim consolidated financial statements.

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TFS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)
(In thousands, except share and per share data)

	Common stock	Paid-in capital	Treasury stock	Unallocated common stock held by ESOP	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at September 30, 2017	$ 3,323	$ 1,722,672	$ (735,530)	$ (53,084)	$ 760,070	$ (7,492)	$ 1,689,959
Net income	—	—	—	—	19,613	—	19,613
Other comprehensive income, net of tax	—	—	—	—	42	5,498	5,540
ESOP shares allocated or committed to be released	—	567	—	1,083	—	—	1,650
Compensation costs for stock-based plans	—	878	—	—	—	—	878
Purchase of treasury stock (492,000 shares)	—	—	(7,542)	—	—	—	(7,542)
Treasury stock allocated to restricted stock plan	—	(3,050)	2,038	—	—	—	(1,012)
Dividends paid to common shareholders ($0.17 per common share)	—	—	—	—	(8,408)	—	(8,408)
Balance at December 31, 2017	$ 3,323	$ 1,721,067	$ (741,034)	$ (52,001)	$ 771,317	$ (1,994)	$ 1,700,678
Balance at September 30, 2018	$ 3,323	$ 1,726,992	$ (754,272)	$ (48,751)	$ 807,890	$ 23,222	$ 1,758,404
Net income	—	—	—	—	20,333	—	20,333
Other comprehensive income (loss), net of tax	—	—	—	—	—	(21,461)	(21,461)
ESOP shares allocated or committed to be released	—	581	—	1,084	—	—	1,665
Compensation costs for stock-based plans	—	1,081	—	—	—	—	1,081
Purchase of treasury stock (242,500 shares)	—	—	(3,776)	—	—	—	(3,776)
Treasury stock allocated to restricted stock plan	—	(745)	584	—	—	—	(161)
Dividends paid to common shareholders ($0.25 per common share)	—	—	—	—	(12,305)	—	(12,305)
Balance at December 31, 2018	$ 3,323	$ 1,727,909	$ (757,464)	$ (47,667)	$ 815,918	$ 1,761	$ 1,743,780

See accompanying notes to unaudited interim consolidated financial statements.

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TFS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) (in thousands

	For the Three Months Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$20,333	$19,613
Adjustments to reconcile net income to net cash provided by operating activities:		
ESOP and stock-based compensation expense	2,746	2,528
Depreciation and amortization	5,406	5,394
Deferred income taxes	434	4,785
Provision (credit) for loan losses	(2,000)	(3,000)
Net gain on the sale of loans	(111)	(478)
Other net losses (gains)	(293)	69
Principal repayments on and proceeds from sales of loans held for sale	7,068	3,654
Loans originated for sale	(7,287)	(4,523)
Increase in bank owned life insurance contracts	(1,551)	(1,543)
Cash collateral received from (provided to) derivative counterparties	(35,319)	16,850
Net decrease in interest receivable and other assets	6,097	4,092
Net increase in accrued expenses and other liabilities	3,582	50,577
Net cash (used in) provided by operating activities	(895)	98,018
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans originated	(647,400)	(780,652)
Principal repayments on loans	583,980	603,929
Proceeds from principal repayments and maturities of:		
Securities available for sale	31,998	35,452
Proceeds from sale of:		
Loans	13,393	26,268
Real estate owned	1,423	2,547
Purchases of:		
FHLB stock	—	(2,121)
Securities available for sale	(59,052)	(42,786)
Premises and equipment	(917)	(3,802)
Other	(310)	(11)
Net cash used in investing activities	(76,885)	(161,176)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	105,596	55,726
Net decrease in borrowers' advances for insurance and taxes	(6,554)	(5,048)
Net decrease in principal and interest owed on loans serviced	(913)	(2,859)
Net increase in short-term borrowed funds	110,031	165,337
Proceeds from long-term borrowed funds	—	88
Repayment of long-term borrowed funds	(97,401)	(77,947)
Purchase of treasury shares	(3,669)	(7,372)
Acquisition of treasury shares through net settlement of stock benefit plans compensation	(161)	(1,012)
Dividends paid to common shareholders	(12,305)	(8,408)
Net cash provided by financing activities	94,624	118,505
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,844	55,347

CASH AND CASH EQUIVALENTS—Beginning of period	269,775	268,218
CASH AND CASH EQUIVALENTS—End of period	$286,619	$323,565
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest on deposits	$32,368	$22,268
Cash paid for interest on borrowed funds	16,450	12,726
Cash paid for income taxes	42	287
SUPPLEMENTAL SCHEDULES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of loans to real estate owned	1,295	1,293
Transfer of loans from held for investment to held for sale	13,382	26,141
Treasury stock issued for stock benefit plans	746	3,050

See accompanying notes to unaudited interim consolidated financial statements.

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TFS FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands unless otherwise indicated)

1. BASIS OF PRESENTATION

TFS Financial Corporation, a federally chartered stock holding company, conducts its principal activities through its wholly owned subsidiaries. The principal line of business of the Company is retail consumer banking, including mortgage lending, deposit gathering, and, to a much lesser extent, other financial services. As of December 31, 2018, approximately 81% of the Company’s outstanding shares were owned by a federally chartered mutual holding company, Third Federal Savings and Loan Association of Cleveland, MHC. The thrift subsidiary of TFS Financial Corporation is Third Federal Savings and Loan Association of Cleveland.

The accounting and reporting policies followed by the Company conform in all material respects to U.S. GAAP and to general practices in the financial services industry. The preparation of financial statements in conformity with U.S. GAAP requires management 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. Actual results could differ from those estimates. The allowance for loan losses, the valuation of deferred tax assets, and the determination of pension obligations are particularly subject to change.

The unaudited interim consolidated financial statements were prepared without an audit and reflect all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly the consolidated financial condition of the Company at December 31, 2018, and its results of operations and cash flows for the periods presented. Such adjustments are the only adjustments reflected in the unaudited interim financial statements.

In accordance with SEC Regulation S-X for interim financial information, these statements do not include certain information and footnote disclosures required for complete audited financial statements. The Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2018 contains audited consolidated financial statements and related notes, which should be read in conjunction with the accompanying interim consolidated financial statements. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2019 or for any other period.

2. EARNINGS PER SHARE

Basic earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period. Diluted earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares. For purposes of computing earnings per share amounts, outstanding shares include shares held by the public, shares held by the ESOP that have been allocated to participants or committed to be released for allocation to participants, the 227,119,132 shares held by Third Federal Savings, MHC, and, for purposes of computing dilutive earnings per share, stock options and restricted and performance stock units with a dilutive impact. Unvested shares awarded pursuant to the Company's restricted stock plans are treated as participating securities in the computation of EPS pursuant to the two-class method as they contain nonforfeitable rights to dividends. The two-class method is an earnings allocation that determines EPS for each class of common stock and participating security. At December 31, 2018 and 2017, respectively, the ESOP held 4,766,736 and 5,200,076 shares, respectively, that were neither allocated to participants nor committed to be released to participants.

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The following is a summary of the Company's earnings per share calculations.

	For the Three Months Ended December 31,					
	2018			2017		
	Income	Shares	Per share amount	Income	Shares	Per share amount
	(Dollars in thousands, except per share data)					
Net income	$20,333			$19,613		
Less: income allocated to restricted stock units	372			244		
Basic earnings per share:						
Income available to common shareholders	$19,961	275,376,254	$ 0.07	$19,369	275,816,329	$ 0.07
Diluted earnings per share:						
Effect of dilutive potential common shares		1,697,063			1,807,962	
Income available to common shareholders	$19,961	277,073,317	$ 0.07	$19,369	277,624,291	$ 0.07

The following is a summary of outstanding stock options and restricted and performance stock units that are excluded from the computation of diluted earnings per share because their inclusion would be anti-dilutive.

	For the Three Months Ended December 31,	
	2018	2017
Options to purchase shares	1,885,600	1,104,640
Restricted and performance stock units	131,500	—

3. INVESTMENT SECURITIES

Investments available for sale are summarized as follows:

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
REMICs	$563,554	$500	$(11,445)	$552,609
Fannie Mae certificates	7,736	235	(80)	7,891
U.S. government and agency obligations	3,983	—	(4)	3,979
Total	$575,273	$735	$(11,529)	$564,479

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
REMICs	$537,330	$7	$(17,338)	$519,999
Fannie Mae certificates	7,906	237	(145)	7,998
U.S. government and agency obligations	3,975	—	(7)	3,968
Total	$549,211	$244	$(17,490)	$531,965

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Gross unrealized losses on available for sale securities and the estimated fair value of the related securities, aggregated by the length of time the securities have been in a continuous loss position, at December 31, 2018 and September 30, 2018, were as follows:

	December 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Available for sale—						
REMICs	$53,829	$ 172	$410,322	$ 11,273	$464,151	$ 11,445
Fannie Mae certificates	—	—	4,369	80	4,369	80
U.S. government and agency obligations	3,979	4	—	—	3,979	4
Total	$57,808	$ 176	$414,691	$ 11,353	$472,499	$ 11,529

	September 30, 2018					
	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Available for sale—						
REMICs	$113,111	$ 1,799	$400,558	$ 15,539	$513,669	$ 17,338
Fannie Mae certificates	—	—	4,337	145	4,337	145
U.S. government and agency obligations	3,968	7	—	—	3,968	7
Total	$117,079	$ 1,806	$404,895	$ 15,684	$521,974	$ 17,490

We believe the unrealized losses on investment securities were attributable to interest rate increases. The contractual terms of U.S. government and agency obligations do not permit the issuer to settle the security at a price less than the par value of the investment. The contractual cash flows of mortgage-backed securities are guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. REMICs are issued by or backed by securities issued by these governmental agencies. It is expected that the securities would not be settled at a price substantially less than the amortized cost of the investment. The U.S. Treasury Department established financing agreements in 2008 to ensure Fannie Mae and Freddie Mac meet their obligations to holders of mortgage-backed securities that they have issued or guaranteed. Since the decline in value is attributable to changes in interest rates and not credit quality and because the Company has neither the intent to sell the securities nor is it more likely than not the Company will be required to sell the securities for the time periods necessary to recover the amortized cost, these investments are not considered other-than-temporarily impaired. At December 31, 2018, the amortized cost and fair value of U.S. government obligations, categorized as due in more than one year but less than five years, are $3,983 and $3,979, respectively.

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4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans held for investment consist of the following:

	December 31, 2018	September 30, 2018
Real estate loans:		
Residential Core	$10,903,831	$10,930,811
Residential Home Today	92,570	94,933
Home equity loans and lines of credit	1,898,185	1,818,918
Construction	59,185	64,012
Real estate loans	12,953,771	12,908,674
Other consumer loans	3,000	3,021
Add (deduct):		
Deferred loan expenses, net	39,526	38,566
Loans in process ("LIP")	(34,833)	(36,549)
Allowance for loan losses	(41,938)	(42,418)
Loans held for investment, net	$12,919,526	$12,871,294

At December 31, 2018 and September 30, 2018, respectively, $755 and $659 of loans were classified as mortgage loans held for sale.

A large concentration of the Company’s lending is in Ohio and Florida. As of December 31, 2018 and September 30, 2018, the percentage of aggregate Residential Core, Home Today and Construction loans held in Ohio was 56% as of both dates and the percentage held in Florida was 16% as of both dates. As of December 31, 2018 and September 30, 2018, home equity loans and lines of credit were concentrated in Ohio (35% and 36%), Florida (20% as of both dates), and California (15% as of both dates).

Home Today was an affordable housing program targeted to benefit low- and moderate-income home buyers and most loans under the program were originated prior to 2009. No new loans were originated under the Home Today program after September 30, 2016. Through this program the Association provided the majority of loans to borrowers who would not otherwise qualify for the Association’s loan products, generally because of low credit scores. Although the credit profiles of borrowers in the Home Today program might be described as sub-prime, Home Today loans generally contained the same features as loans offered to our Residential Core borrowers. Borrowers with a Home Today loan completed financial management education and counseling and were referred to the Association by a sponsoring organization with which the Association partnered as part of the program. Because the Association applied less stringent underwriting and credit standards to the majority of Home Today loans, loans originated under the program have greater credit risk than its traditional residential real estate mortgage loans in the Residential Core portfolio. As of December 31, 2018 and September 30, 2018, the principal balance of Home Today loans originated prior to March 27, 2009 was $89,417 and $91,805, respectively. Since loans are no longer originated under the Home Today program, the Home Today portfolio will continue to decline in balance due to contractual amortization. To supplant the Home Today product and to continue to meet the credit needs of customers and the communities served, since fiscal 2016 the Association has offered Fannie Mae eligible, Home Ready loans. These loans are originated in accordance with Fannie Mae's underwriting standards. While the Association retains the servicing to these loans, the loans, along with the credit risk associated therewith, are securitized/sold to Fannie Mae. The Association does not offer, and has not offered, loan products frequently considered to be designed to target sub-prime borrowers containing features such as higher fees or higher rates, negative amortization, a LTV ratio greater than 100%, or pay-option adjustable-rate mortgages.

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An age analysis of the recorded investment in loan receivables that are past due at December 31, 2018 and September 30, 2018 is summarized in the following tables. When a loan is more than one month past due on its scheduled payments, the loan is considered 30 days or more past due. Balances are adjusted for deferred loan fees, expenses and any applicable loans-in-process.

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
December 31, 2018						
Real estate loans:						
Residential Core	$8,701	$2,124	$10,814	$21,639	$10,898,316	$10,919,955
Residential Home Today	3,980	1,495	4,234	9,709	82,611	92,320
Home equity loans and lines of credit	3,575	2,001	6,758	12,334	1,909,874	1,922,208
Construction	—	—	—	—	23,981	23,981
Total real estate loans	16,256	5,620	21,806	43,682	12,914,782	12,958,464
Other consumer loans	—	—	—	—	3,000	3,000
Total	$16,256	$5,620	$21,806	$43,682	$12,917,782	$12,961,464

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
September 30, 2018						
Real estate loans:						
Residential Core	$7,539	$2,335	$10,807	$20,681	$10,926,294	$10,946,975
Residential Home Today	2,787	1,765	3,814	8,366	86,383	94,749
Home equity loans and lines of credit	4,152	2,315	5,933	12,400	1,829,427	1,841,827
Construction	—	—	—	—	27,140	27,140
Total real estate loans	14,478	6,415	20,554	41,447	12,869,244	12,910,691
Other consumer loans	—	—	—	—	3,021	3,021
Total	$14,478	$6,415	$20,554	$41,447	$12,872,265	$12,913,712

At December 31, 2018 and September 30, 2018, real estate loans include $9,565 and $8,501, respectively, of loans that were in the process of foreclosure.

Loans are placed in non-accrual status when they are contractually 90 days or more past due. Loans with a partial charge-off are placed in non-accrual and will remain in non-accrual status until, at a minimum, the impairment is recovered. Loans restructured in TDRs that were in non-accrual status prior to the restructurings remain in non-accrual status for a minimum of six months after restructuring. Loans restructured in TDRs with a high debt-to-income ratio at the time of modification are placed in non-accrual status for a minimum of twelve months. Additionally, home equity loans and lines of credit where the customer has a severely delinquent first mortgage loan and loans in Chapter 7 bankruptcy status where all borrowers have filed, and not reaffirmed or been dismissed, are placed in non-accrual status.

The recorded investment of loan receivables in non-accrual status is summarized in the following table. Balances are adjusted for deferred loan fees and expenses.

	December 31, 2018	September 30, 2018
Real estate loans:		
Residential Core	$ 41,011	$ 41,628

Residential Home Today	14,438	14,641
Home equity loans and lines of credit	21,523	21,483
Total non-accrual loans	$ 76,972	$ 77,752

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At December 31, 2018 and September 30, 2018, respectively, the recorded investment in non-accrual loans includes $55,166 and $57,197, which are performing according to the terms of their agreement, of which $28,099 and $29,439 are loans in Chapter 7 bankruptcy status, primarily where all borrowers have filed, and have not reaffirmed or been dismissed.

Interest on loans in accrual status, including certain loans individually reviewed for impairment, is recognized in interest income as it accrues, on a daily basis. Accrued interest on loans in non-accrual status is reversed by a charge to interest income and income is subsequently recognized only to the extent cash payments are received. Cash payments on loans in non-accrual status are first applied to the oldest scheduled, unpaid payment first. Cash payments on loans with a partial charge-off are applied fully to principal, then to recovery of the charged off amount prior to interest income being recognized, except cash payments may be applied to interest capitalized in a restructuring when collection of remaining amounts due is considered probable. A non-accrual loan is generally returned to accrual status when contractual payments are less than 90 days past due. However, a loan may remain in non-accrual status when collectability is uncertain, such as a TDR that has not met minimum payment requirements, a loan with a partial charge-off, an equity loan or line of credit with a delinquent first mortgage greater than 90 days past due, or a loan in Chapter 7 bankruptcy status where all borrowers have filed, and have not reaffirmed or been dismissed. The number of days past due is determined by the number of scheduled payments that remain unpaid, assuming a period of 30 days between each scheduled payment.

The recorded investment in loan receivables at December 31, 2018 and September 30, 2018 is summarized in the following table. The table provides details of the recorded balances according to the method of evaluation used for determining the allowance for loan losses, distinguishing between determinations made by evaluating individual loans and determinations made by evaluating groups of loans not individually evaluated. Balances of recorded investments are adjusted for deferred loan fees, expenses and any applicable loans-in-process.

	December 31, 2018			September 30, 2018		
	Individually	Collectively	Total	Individually	Collectively	Total
Real estate loans:						
Residential Core	$91,392	$10,828,563	$10,919,955	$91,360	$10,855,615	$10,946,975
Residential Home Today	40,436	51,884	92,320	41,523	53,226	94,749
Home equity loans and lines of credit	48,864	1,873,344	1,922,208	47,911	1,793,916	1,841,827
Construction	—	23,981	23,981	—	27,140	27,140
Total real estate loans	180,692	12,777,772	12,958,464	180,794	12,729,897	12,910,691
Other consumer loans	—	3,000	3,000	—	3,021	3,021
Total	$180,692	$12,780,772	$12,961,464	$180,794	$12,732,918	$12,913,712

An analysis of the allowance for loan losses at December 31, 2018 and September 30, 2018 is summarized in the following table. The analysis provides details of the allowance for loan losses according to the method of evaluation, distinguishing between allowances for loan losses determined by evaluating individual loans and allowances for loan losses determined by evaluating groups of loans collectively.

	December 31, 2018			September 30, 2018		
	Individually	Collectively	Total	Individually	Collectively	Total
Real estate loans:						
Residential Core	$6,961	$ 12,204	$19,165	$6,934	$ 11,354	$18,288
Residential Home Today	2,269	1,479	3,748	2,139	1,065	3,204
Home equity loans and lines of credit	3,301	15,720	19,021	3,014	17,907	20,921
Construction	—	4	4	—	5	5
Total	$12,531	$ 29,407	$41,938	$12,087	$ 30,331	$42,418

At December 31, 2018 and September 30, 2018, individually evaluated loans that required an allowance were comprised only of loans evaluated for impairment based on the present value of cash flows, such as performing TDRs, and loans with a further deterioration in the fair value of collateral not yet identified as uncollectible. All other individually evaluated loans received a charge-off, if applicable.

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Because many variables are considered in determining the appropriate level of general valuation allowances, directional changes in individual considerations do not always align with the directional change in the balance of a particular component of the general valuation allowance. At December 31, 2018 and September 30, 2018, respectively, allowances on individually reviewed loans evaluated for impairment based on the present value of cash flows, such as performing TDRs, were $12,411 and $12,002; and allowances on loans with further deteriorations in the fair value of collateral not yet identified as uncollectible were $120 and $85.

Residential Core mortgage loans represent the largest portion of the residential real estate portfolio. The Company believes overall credit risk is low based on the nature, composition, collateral, products, lien position and performance of the portfolio. The portfolio does not include loan types or structures that have recently experienced severe performance problems at other financial institutions (sub-prime, no documentation or pay-option adjustable-rate mortgages). The portfolio contains adjustable-rate mortgage loans whereby the interest rate is locked initially for mainly three or five years then resets annually, subject to various re-lock options available to the borrower. The adjustable-rate feature may impact a borrower's ability to afford the higher payments upon rate reset during periods of rising interest rates. The principal amount of loans in the portfolio that are adjustable-rate mortgage loans was $5,155,558 and $5,166,282 at December 31, 2018 and September 30, 2018, respectively.

As described earlier in this footnote, Home Today loans have greater credit risk than traditional residential real estate mortgage loans. At December 31, 2018 and September 30, 2018, respectively, approximately 17% and 18% of Home Today loans include private mortgage insurance coverage. The majority of the coverage on these loans was provided by PMI Mortgage Insurance Co., which was seized by the Arizona Department of Insurance in 2011 and currently pays all claim payments at 72.5%. Appropriate adjustments have been made to the Association’s affected valuation allowances and charge-offs, and estimated loss severity factors were adjusted accordingly for loans evaluated collectively. The amount of loans in the Association's total owned residential portfolio covered by mortgage insurance provided by PMIC as of December 31, 2018 and September 30, 2018, respectively, was $36,580 and $39,367, of which $33,095 and $36,075 was current. The amount of loans in the Association's total owned residential portfolio covered by mortgage insurance provided by Mortgage Guaranty Insurance Corporation as of December 31, 2018 and September 30, 2018, respectively, was $19,730 and $20,912 of which $19,564 and $20,792 was current. As of December 31, 2018, MGIC's long-term debt rating, as published by the major credit rating agencies, did not meet the requirements to qualify as "high credit quality"; however, MGIC continues to make claims payments in accordance with its contractual obligations and the Association has not increased its estimated loss severity factors related to MGIC's claim paying ability. No other loans were covered by mortgage insurers that were deferring claim payments or which were assessed as being non-investment grade.

Home equity loans and lines of credit, which are comprised primarily of home equity lines of credit, represent a significant portion of the residential real estate portfolio. Post-origination deterioration in economic and housing market conditions may impact a borrower's ability to afford the higher payments required during the end of draw repayment period that follows the period of interest only payments on home equity lines of credit originated prior to 2012 or the ability to secure alternative financing. Beginning in February 2013, the terms on new home equity lines of credit included monthly principal and interest payments throughout the entire term to minimize the potential payment differential between the draw and after draw periods.

The Association originates construction loans to individuals for the construction of their personal single-family residence by a qualified builder (construction/permanent loans). The Association’s construction/permanent loans generally provide for disbursements to the builder or sub-contractors during the construction phase as work progresses. During the construction phase, the borrower only pays interest on the drawn balance. Upon completion of construction, the loan converts to a permanent amortizing loan without the expense of a second closing. The Association offers construction/permanent loans with fixed or adjustable-rates, and a current maximum loan-to-completed-appraised value ratio of 85%.

Other consumer loans are comprised of loans secured by certificate of deposit accounts, which are fully recoverable in the event of non-payment.

For all classes of loans, a loan is considered impaired when, based on current information and events, it is probable that the Association will be unable to collect the scheduled payments of principal and interest according to the contractual terms of the loan agreement. Factors considered in determining that a loan is impaired may include the deteriorating financial condition of the borrower indicated by missed or delinquent payments, a pending legal action, such as bankruptcy or foreclosure, or the absence of adequate security for the loan.

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The recorded investment and the unpaid principal balance of impaired loans, including those reported as TDRs, as of December 31, 2018 and September 30, 2018 are summarized as follows. Balances of recorded investments are adjusted for deferred loan fees and expenses.

	December 31, 2018			September 30, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related IVA recorded:						
Residential Core	$51,810	$70,116	$ —	$53,656	$69,516	$ —
Residential Home Today	15,517	41,124	—	16,006	35,532	—
Home equity loans and lines of credit	22,829	30,602	—	22,423	28,504	—
Total	$90,156	$141,842	$ —	$92,085	$133,552	$ —
With an IVA recorded:						
Residential Core	$39,582	$39,651	$ 6,961	$37,704	$37,774	$ 6,934
Residential Home Today	24,919	24,891	2,269	25,517	25,492	2,139
Home equity loans and lines of credit	26,035	26,034	3,301	25,488	25,519	3,014
Total	$90,536	$90,576	$ 12,531	$88,709	$88,785	$ 12,087
Total impaired loans:						
Residential Core	$91,392	$109,767	$ 6,961	$91,360	$107,290	$ 6,934
Residential Home Today	40,436	66,015	2,269	41,523	61,024	2,139
Home equity loans and lines of credit	48,864	56,636	3,301	47,911	54,023	3,014
Total	$180,692	$232,418	$ 12,531	$180,794	$222,337	$ 12,087

At December 31, 2018 and September 30, 2018, respectively, the recorded investment in impaired loans includes $165,850 and $165,391 of loans restructured in TDRs of which $10,713 and $10,468 were 90 days or more past due.

The average recorded investment in impaired loans and the amount of interest income recognized during the period that the loans were impaired are summarized below.

	For the Three Months Ended December 31,			
	2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related IVA recorded:				
Residential Core	$52,733	$ 460	$47,192	$ 386
Residential Home Today	15,762	72	18,110	116
Home equity loans and lines of credit	22,626	104	18,805	74
Total	$91,121	$ 636	$84,107	$ 576
With an IVA recorded:				
Residential Core	$38,643	$ 305	$46,616	$ 420
Residential Home Today	25,218	296	27,689	336
Home equity loans and lines of credit	25,762	158	20,683	131
Total	$89,623	$ 759	$94,988	$ 887
Total impaired loans:				
Residential Core	$91,376	$ 765	$93,808	$ 806
Residential Home Today	40,980	368	45,799	452
Home equity loans and lines of credit	48,388	262	39,488	205
Total	$180,744	$ 1,395	$179,095	$ 1,463

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Interest on loans in non-accrual status is recognized on a cash basis. The amount of interest income on impaired loans recognized using a cash basis method was $392 for the three months ended December 31, 2018 and $413 for the three months ended December 31, 2017. Cash payments on loans with a partial charge-off are applied fully to principal, then to recovery of the charged off amount prior to interest income being recognized, except cash payments may be applied to interest capitalized in a restructuring when collection of remaining amounts due is considered probable. Interest income on the remaining impaired loans is recognized on an accrual basis.

Charge-offs on residential mortgage loans, home equity loans and lines of credit, and construction loans are recognized when triggering events, such as foreclosure actions, short sales, or deeds accepted in lieu of repayment, result in less than full repayment of the recorded investment in the loans.

Partial or full charge-offs are also recognized for the amount of impairment on loans considered collateral dependent that meet the conditions described below.

- For residential mortgage loans, payments are greater than 180 days delinquent;
- For home equity lines of credit, equity loans, and residential loans restructured in a TDR, payments are greater than 90 days delinquent;
- For all classes of loans restructured in a TDR with a high debt-to-income ratio at time of modification;
- For all classes of loans, a sheriff sale is scheduled within 60 days to sell the collateral securing the loan;
- For all classes of loans, all borrowers have been discharged of their obligation through a Chapter 7 bankruptcy;
- For all classes of loans, within 60 days of notification, all borrowers obligated on the loan have filed Chapter 7 bankruptcy and have not reaffirmed or been dismissed;
- For all classes of loans, a borrower obligated on a loan has filed bankruptcy and the loan is greater than 30 days delinquent; and
- For all classes of loans, it becomes evident that a loss is probable.

Collateral dependent residential mortgage loans and construction loans are charged off to the extent the recorded investment in a loan, net of anticipated mortgage insurance claims, exceeds the fair value less costs to dispose of the underlying property. Management can determine the loan is uncollectible for reasons such as foreclosures exceeding a reasonable time frame and recommend a full charge-off. Home equity loans or lines of credit are charged off to the extent the recorded investment in the loan plus the balance of any senior liens exceeds the fair value less costs to dispose of the underlying property or management determines the collateral is not sufficient to satisfy the loan. A loan in any portfolio that is identified as collateral dependent will continue to be reported as impaired until it is no longer considered collateral dependent, is less than 30 days past due and does not have a prior charge-off. A loan in any portfolio that has a partial charge-off consequent to impairment evaluation will continue to be individually evaluated for impairment until, at a minimum, the impairment has been recovered.

Loans restructured in TDRs that are not evaluated based on collateral are separately evaluated for impairment on a loan by loan basis at the time of restructuring and at each subsequent reporting date for as long as they are reported as TDRs. The impairment evaluation is based on the present value of expected future cash flows discounted at the effective interest rate of the original loan. Expected future cash flows include a discount factor representing a potential for default. Valuation allowances are recorded for the excess of the recorded investments over the result of the cash flow analysis. Loans discharged in Chapter 7 bankruptcy are reported as TDRs and also evaluated based on the present value of expected future cash flows unless evaluated based on collateral. We evaluate these loans using the expected future cash flows because we expect the borrower, not liquidation of the collateral, to be the source of repayment for the loan. Other consumer loans are not considered for restructuring. A loan restructured in a TDR is classified as an impaired loan for a minimum of one year. After one year, that loan may be reclassified out of the balance of impaired loans if the loan was restructured to yield a market rate for loans of similar credit risk at the time of restructuring and the loan is not impaired based on the terms of the restructuring agreement. No loans whose terms were restructured in TDRs were reclassified from impaired loans during the three months ended December 31, 2018 and December 31, 2017.

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The recorded investment in TDRs by type of concession as of December 31, 2018 and September 30, 2018 is shown in the tables below.

December 31, 2018	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
Residential Core	$ 8,528	$ 410	$ 11,014	$ 19,997	$ 23,253	$ 21,321	$84,523
Residential Home Today	3,959	45	4,567	9,463	17,863	3,666	39,563
Home equity loans and lines of credit	143	5,624	1,495	27,721	2,602	4,179	41,764
Total	$ 12,630	$ 6,079	$ 17,076	$ 57,181	$ 43,718	$ 29,166	$165,850

September 30, 2018	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
Residential Core	$ 9,019	$ 418	$ 10,203	$ 19,625	$ 23,116	$ 21,832	$84,213
Residential Home Today	4,051	47	4,671	9,474	18,483	3,683	40,409
Home equity loans and lines of credit	148	6,192	1,950	25,478	2,563	4,438	40,769
Total	$ 13,218	$ 6,657	$ 16,824	$ 54,577	$ 44,162	$ 29,953	$165,391

TDRs may be restructured more than once. Among other requirements, a subsequent restructuring may be available for a borrower upon the expiration of temporary restructuring terms if the borrower cannot return to regular loan payments. If the borrower is experiencing an income curtailment that temporarily has reduced his/her capacity to repay, such as loss of employment, reduction of hours, non-paid leave or short term disability, a temporary restructuring is considered. If the borrower lacks the capacity to repay the loan at the current terms due to a permanent condition, a permanent restructuring is considered. In evaluating the need for a subsequent restructuring, the borrower's ability to repay is generally assessed utilizing a debt to income and cash flow analysis. Loans discharged in Chapter 7 bankruptcy are classified as multiple restructurings if the loan's original terms had also been restructured by the Association.

For all loans restructured during the three months ended December 31, 2018 and December 31, 2017 (set forth in the tables below), the pre-restructured outstanding recorded investment was not materially different from the post-restructured outstanding recorded investment.

The following tables set forth the recorded investment in TDRs restructured during the periods presented, according to the types of concessions granted.

	For the Three Months Ended December 31, 2018						
	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
Residential Core	$—	$ —	$ 1,801	$ 965	$ 2	$ 922	$3,690
Residential Home Today	—	—	52	220	—	125	397
Home equity loans and lines of credit	—	78	156	3,300	—	200	3,734
Total	$—	$ 78	$ 2,009	$ 4,485	$ 2	$ 1,247	$7,821

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	For the Three Months Ended December 31, 2017						
	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
Residential Core	$164	$ —	$ 615	$ 556	$ 1,196	$ 663	$3,194
Residential Home Today	—	—	159	93	835	241	1,328
Home equity loans and lines of credit	—	243	—	1,673	191	90	2,197
Total	$164	$ 243	$ 774	$ 2,322	$ 2,222	$ 994	$6,719

Below summarizes the information on TDRs restructured within 12 months of each period presented for which there was a subsequent payment default, at least 30 days past due on one scheduled payment, during the period presented.

	For the Three Months Ended December 31,			
	2018		2017	
TDRs That Subsequently Defaulted	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Residential Core	10	$ 1,356	16	$ 977
Residential Home Today	18	875	18	879
Home equity loans and lines of credit	10	661	11	461
Total	38	$ 2,892	45	$ 2,317

Residential loans are internally assigned a grade that complies with the guidelines outlined in the OCC’s Handbook for Rating Credit Risk. Pass loans are assets well protected by the current paying capacity of the borrower. Special Mention loans have a potential weakness, as evaluated based on delinquency status, that the Association feels deserve management’s attention and may result in further deterioration in their repayment prospects and/or the Association’s credit position. Substandard loans are inadequately protected by the current payment capacity of the borrower or the collateral pledged with a defined weakness that jeopardizes the liquidation of the debt. Also included in Substandard are performing home equity loans and lines of credit where the customer has a severely delinquent first mortgage to which the performing home equity loan or line of credit is subordinate and loans in Chapter 7 bankruptcy status where all borrowers have filed, and have not reaffirmed or been dismissed. Loss loans are considered uncollectible and are charged off when identified.

The following tables provide information about the credit quality of residential loan receivables by an internally assigned grade. Balances are adjusted for deferred loan fees, expenses and any applicable LIP.

	Pass	Special Mention	Substandard	Loss	Total
December 31, 2018					
Real estate loans:					
Residential Core	$10,867,265	$4,531	$ 48,159	$ —	$10,919,955
Residential Home Today	75,906	—	16,414	—	92,320
Home equity loans and lines of credit	1,894,198	3,980	24,030	—	1,922,208
Construction	23,981	—	—	—	23,981
Total	$12,861,350	$8,511	$ 88,603	$ —	$12,958,464

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	Pass	Special Mention	Substandard	Loss	Total
September 30, 2018					
Real estate loans:					
Residential Core	$10,898,725	$—	$ 48,250	$ —	$10,946,975
Residential Home Today	78,180	—	16,569	—	94,749
Home equity loans and lines of credit	1,813,502	4,216	24,109	—	1,841,827
Construction	27,140	—	—	—	27,140
Total	$12,817,547	$ 4,216	$ 88,928	$ —	$12,910,691

At December 31, 2018 and September 30, 2018, respectively, the recorded investment of impaired loans includes $96,114 and $95,916 of TDRs individually evaluated for impairment that have adequately performed under the terms of the restructuring and are classified as Pass loans. At December 31, 2018 and September 30, 2018, respectively, there were $4,025 and $4,051 of loans classified Substandard and $8,511 and $4,216 of loans designated Special Mention that are not included in the recorded investment of impaired loans; rather, they are included in loans collectively evaluated for impairment. Of the $8,511 of loans classified Special Mention at December 31, 2018, $4,531 are residential mortgage loans purchased during the quarter ended December 31, 2018. The purchased loans were current and performing at the time of purchase, but are classified Special Mention due to the absence of MI coverage and potentially weaker repayment prospects when compared with the Company's originated residential core portfolio.

Other consumer loans are internally assigned a grade of nonperforming when they become 90 days or more past due. At December 31, 2018 and September 30, 2018, no consumer loans were graded as nonperforming.

Activity in the allowance for loan losses is summarized as follows:

	For the Three Months Ended December 31, 2018				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential Core	$18,288	$ 909	$ (243)	$ 211	$19,165
Residential Home Today	3,204	317	(241)	468	3,748
Home equity loans and lines of credit	20,921	(3,225)	(843)	2,168	19,021
Construction	5	(1)	—	—	4
Total	$42,418	$ (2,000)	$ (1,327)	$ 2,847	$41,938

	For the Three Months Ended December 31, 2017				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential Core	$14,186	$ (841)	$ (392)	$ 593	$13,546
Residential Home Today	4,508	(101)	(675)	402	4,134
Home equity loans and lines of credit	30,249	(2,057)	(1,536)	1,589	28,245
Construction	5	(1)	—	—	4
Total	$48,948	$ (3,000)	$ (2,603)	$ 2,584	$45,929

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5. DEPOSITS

Deposit account balances are summarized as follows:

	December 31, 2018	September 30, 2018
Checking accounts	$ 916,235	$ 913,525
Savings accounts	1,346,560	1,256,054
Certificates of deposit	6,330,266	6,318,281
	8,593,061	8,487,860
Accrued interest	4,118	3,723
Total deposits	$ 8,597,179	$ 8,491,583

Brokered certificates of deposit (exclusive of acquisition costs and subsequent amortization), which are used as a cost effective funding alternative, totaled $576,400 at December 31, 2018 and $670,081 at September 30, 2018. The FDIC places restrictions on banks with regard to issuing brokered deposits based on the bank's capital classification. As a well-capitalized institution at December 31, 2018 and September 30, 2018, the Association may accept brokered deposits without FDIC restrictions.

6. BORROWED FUNDS

Federal Home Loan Bank borrowings at December 31, 2018 are summarized in the table below. The amount and weighted average rates of certain FHLB Advances maturing in 36 months or less reflect the net impact of deferred penalties discussed below:

	Amount	Weighted Average Rate	
Maturing in:			
12 months or less	$3,462,773	2.38	%
13 to 24 months	219,603	1.81	%
25 to 36 months	926	1.47	%
37 to 48 months	2,707	0.94	%
49 to 60 months	15,000	2.99	%
Over 60 months	25,481	1.67	%
Total FHLB Advances	3,726,490	2.34	%
Accrued interest	7,839		
Total	$3,734,329		

Through the use of interest rate swaps discussed in Note 13. Derivative Instruments, $1,950,000 of FHLB advances included in the table above as maturing in 12 months or less, have effective maturities, assuming no early terminations of the swap contracts, as shown below:

	Amount	Swap Adjusted Weighted Average Rate	
Effective maturity:			
13 to 24 months	$125,000	1.25	%
25 to 36 months	550,000	1.27	%
37 to 48 months	875,000	1.94	%
49 to 60 months	175,000	2.66	%
Over 60 months	225,000	3.03	%
Total FHLB Advances under swap contracts	$1,950,000	1.90	%

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During fiscal year 2016, $150,000 fixed-rate FHLB advances with remaining terms of approximately four years were prepaid and replaced with new four- and five-year interest rate swap arrangements. The deferred repayment penalties of $2,408 related to the $150,000 of restructuring are being recognized in interest expense over the remaining term of the swap contracts.

7. OTHER COMPREHENSIVE INCOME (LOSS)

The change in accumulated other comprehensive income (loss) by component is as follows:

	For the Three Months Ended December 31, 2018				For the Three Months Ended December 31, 2017			
	Unrealized Gains (Losses) on Securities Available for Sale	Cash flow hedges	Defined Benefit Plan	Total	Unrealized Gains (Losses) on Securities Available for Sale	Cash flow hedges	Defined Benefit Plan	Total
Accumulated other comprehensive income (loss) at beginning of period	$(13,624)	$51,914	$(15,068)	$23,222	$(2,915)	$10,249	$(14,826)	$(7,492)
Other comprehensive income (loss) before reclassifications, net of tax expense (benefit) of $(5,158) and $3,809	5,097	(24,500)	—	(19,403)	(4,270)	11,790	(3,134)	4,386
Amounts reclassified, net of tax expense (benefit) of $547 and $(361)	—	(2,322)	264	(2,058)	—	795	317	1,112
Other comprehensive income (loss)	5,097	(26,822)	264	(21,461)	(4,270)	12,585	(2,817)	5,498
Balance at end of period	$(8,527)	$25,092	$(14,804)	$1,761	$(7,185)	$22,834	$(17,643)	$(1,994)

The following table presents the reclassification adjustment out of accumulated other comprehensive income included in net income and the corresponding line item on the consolidated statements of income for the periods indicated:

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income For the Three Months Ended December 31, 2018	2017	Line Item in the Statement of Income