Capitol Federal Financial Inc
Form 10-Q
February 04, 2014

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 December 31, 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	27-2631712
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 Kansas Avenue, Topeka, Kansas	66603
(Address of principal executive offices)	(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 January 24, 2014, there were 145,169,388 shares of Capitol Federal Financial, Inc. common stock outstanding.

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PART I -- FINANCIAL INFORMATION
Item 1. Financial Statements

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

	December 31, 2013	September 30, 2013
ASSETS:		
Cash and cash equivalents (includes interest-earning deposits of $63,466 and $99,735)	$ 88,665	$ 113,886
Securities:		
Available-for-sale (“AFS”) at estimated fair value (amortized cost of $986,251 and $1,058,283)	993,593	1,069,967
Held-to-maturity (“HTM”) at amortized cost (estimated fair value of $1,670,097 and $1,741,846)	1,668,484	1,718,023
Loans receivable, net (of allowance for credit losses (“ACL”) of $8,919 and $8,822)	6,024,589	5,958,868
Bank-owned life insurance (“BOLI”)	59,832	59,495
Capital stock of Federal Home Loan Bank (“FHLB”), at cost	129,095	128,530
Accrued interest receivable	22,823	23,596
Premises and equipment, net	71,477	70,112
Other real estate owned (“OREO”)	3,645	3,882
Other assets	48,851	40,090
TOTAL ASSETS	$ 9,111,054	$ 9,186,449
LIABILITIES:		
Deposits	$ 4,620,908	$ 4,611,446
FHLB borrowings	2,515,618	2,513,538
Repurchase agreements	320,000	320,000
Advance payments by borrowers for taxes and insurance	23,930	57,392
Income taxes payable	7,577	108
Deferred income tax liabilities, net	19,586	20,437
Accounts payable and accrued expenses	33,972	31,402
Total liabilities	7,541,591	7,554,323
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; 147,313,188 and 147,840,268 shares issued and outstanding as of December 31, 2013 and September 30, 2013, respectively	1,473	1,478
Additional paid-in capital	1,232,059	1,235,781
Unearned compensation, Employee Stock Ownership Plan ("ESOP")	(44,190)	(44,603)
Retained earnings	375,554	432,203
Accumulated other comprehensive income ("AOCI"), net of tax	4,567	7,267
Total stockholders' equity	1,569,463	1,632,126
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 9,111,054	$ 9,186,449

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 December 31,	
	2013	2012
INTEREST AND DIVIDEND INCOME:		
Loans receivable	$ 56,948	$ 58,467
Mortgage-backed securities (“MBS”)	11,962	15,183
Investment securities	2,066	2,865
Capital stock of FHLB	1,196	1,128
Cash and cash equivalents	62	33
Total interest and dividend income	72,234	77,676
INTEREST EXPENSE:		
FHLB borrowings	16,863	18,628
Deposits	8,323	9,849
Repurchase agreements	2,803	3,569
Total interest expense	27,989	32,046
NET INTEREST INCOME	44,245	45,630
PROVISION FOR CREDIT LOSSES	515	233
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	43,730	45,397
NON-INTEREST INCOME:		
Retail fees and charges	3,810	3,992
Insurance commissions	558	571
Loan fees	450	467
Income from BOLI	338	382
Other non-interest income	344	356
Total non-interest income	5,500	5,768

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

	For the Three Months Ended December 31,	
	2013	2012
NON-INTEREST EXPENSE:		
Salaries and employee benefits	$ 10,726	$ 12,181
Occupancy	2,549	2,318
Information technology and communications	2,292	2,198
Regulatory and outside services	1,396	1,765
Deposit and loan transaction costs	1,387	1,526
Federal insurance premium	1,083	1,114
Advertising and promotional	1,006	1,032
Other non-interest expense	2,348	2,607
Total non-interest expense	22,787	24,741
INCOME BEFORE INCOME TAX EXPENSE	26,443	26,424
INCOME TAX EXPENSE	8,630	8,861
NET INCOME	$ 17,813	$ 17,563
Basic earnings per share	$ 0.12	$ 0.12
Diluted earnings per share	$ 0.12	$ 0.12
Dividends declared per share	$ 0.51	$ 0.78
Basic weighted average common shares	142,881,977	147,882,707
Diluted weighted average common shares	142,883,041	147,882,809

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 December 31,	
	2013	2012
Net income	$ 17,813	$ 17,563
Other comprehensive income, net of tax:		
Changes in unrealized holding gains/losses on AFS securities, net of deferred income taxes of $1,642 and $2,313 for the three months ended December 31, 2013 and 2012, respectively	(2,700)	(3,805)
Comprehensive income	$ 15,113	$ 13,758

See accompanying notes to consolidated financial statements.

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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, 2013	$ 1,478	$ 1,235,781	$ (44,603)	$ 432,203	$ 7,267	$ 1,632,126
Net income				17,813		17,813
Other comprehensive income, net of tax					(2,700)	(2,700)
ESOP activity, net		97	413			510
Restricted stock activity, net		75				75
Stock-based compensation		548				548
Repurchase of common stock	(6)	(4,840)		(2,183)		(7,029)
Stock options exercised	1	398				399
Dividends on common stock to stockholders ($0.51 per share)				(72,279)		(72,279)
Balance at December 31, 2013	$ 1,473	$ 1,232,059	$ (44,190)	$ 375,554	$ 4,567	$ 1,569,463

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 17,813	$ 17,563
Adjustments to reconcile net income to net cash provided by operating activities:		
FHLB stock dividends	(1,196)	(1,128)
Provision for credit losses	515	233
Originations of loans receivable held-for-sale (“LHFS”)	(906)	(1,364)
Proceeds from sales of LHFS	1,453	1,320
Amortization and accretion of premiums and discounts on securities	1,511	2,294
Depreciation and amortization of premises and equipment	1,539	1,257
Amortization of deferred amounts related to FHLB advances, net	2,080	2,171
Common stock committed to be released for allocation - ESOP	510	1,636
Stock-based compensation	548	909
Changes in:		
Prepaid federal insurance premium	--	987
Accrued interest receivable	773	1,773
Other assets, net	78	(3,379)
Income taxes payable/receivable	8,335	8,848
Accounts payable and accrued expenses	(7,950)	(11,865)
Net cash provided by operating activities	25,103	21,255
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of AFS securities	(24,768)	(204,142)
Purchase of HTM securities	(30,896)	(193,191)
Proceeds from calls, maturities and principal reductions of AFS securities	96,656	345,298
Proceeds from calls, maturities and principal reductions of HTM securities	79,068	176,794
Proceeds from the redemption of capital stock of FHLB	3,350	3,315
Purchases of capital stock of FHLB	(2,719)	--
Net increase in loans receivable	(66,776)	(33,926)
Purchases of premises and equipment	(2,510)	(2,118)
Proceeds from sales of OREO	1,180	3,430
Net cash provided by investing activities	52,585	95,460

(Continued)

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

	For the Three Months Ended December 31,	
	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	$ (72,279)	$ (114,302)
Deposits, net of withdrawals	9,462	31,520
Proceeds from borrowings	250,000	334,150
Repayments on borrowings	(250,000)	(334,150)
Change in advance payments by borrowers for taxes and insurance	(33,462)	(31,824)
Repurchase of common stock	(7,029)	(38,657)
Stock options exercised	399	--
Net cash used in financing activities	(102,909)	(153,263)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(25,221)	(36,548)
CASH AND CASH EQUIVALENTS:		
Beginning of period	113,886	141,705
End of period	$ 88,665	$ 105,157
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income tax payments	$ 296	$ 12
Interest payments	$ 26,738	$ 30,601

(Concluded)

See accompanying notes to consolidated financial statements.

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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, 2013, filed with the Securities and Exchange Commission (“SEC”). Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Capitol Federal Savings Bank (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.

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 the Bank. 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.

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 situations generally involving 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.

The Office of the Comptroller of the Currency ("OCC") requires loans that had been discharged under Chapter 7 bankruptcy proceedings where the borrower has not reaffirmed the debt owed to the lender ("Chapter 7 loans") to be reported as TDRs, regardless of their delinquency status ("Chapter 7 TDRs"). 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 Chapter 7 TDRs. 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 Chapter 7 TDRs.

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, Chapter 7 loans, 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 or in foreclosure. 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 is 180 days or more

delinquent or in foreclosure. 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, home equity and 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 and 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 individually evaluated for loss 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 considering several other data elements when evaluating the adequacy of the ACL. Such data elements include the trend and composition of delinquent loans, trends in foreclosed property and short sale transactions and charge-off activity, 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, loan portfolio growth and concentrations, and certain ACL ratios such as ACL to loans receivable, net and annualized historical losses to ACL. 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 qualitative 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 December 2011, the Financial Accounting Standards Board ("FASB") issued 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The Accounting Standards Update ("ASU") requires new disclosures regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new disclosures are designed to make GAAP financial statements more comparable to those prepared under International Financial Reporting Standards. The new disclosures entail presenting information about both gross and net exposures. The new disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, which was October 1, 2013 for the Company, and interim periods therein; retrospective application is required. The adoption of this ASU was disclosure-related and therefore did not have an impact on the Company's consolidated financial condition or results of operations when adopted on October 1, 2013.

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 was October 1, 2013 for the Company. The standards are disclosure-related and therefore, their adoption did not have an impact on the Company's consolidated financial condition or results of operations when adopted on October 1, 2013.

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 was October 1, 2013 for the Company, and should be applied prospectively. The adoption of this ASU is disclosure-related and therefore did not have an impact on the Company's consolidated financial condition or results of operations when adopted on October 1, 2013.

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

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. Unvested shares awarded pursuant to the Company's restricted stock benefit plans are 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.

	For the Three Months Ended December 31,	
	2013	2012
	(Dollars in thousands, except per share data)	
Net income	$ 17,813	$ 17,563
Income allocated to participating securities	(50)	(60)
Net income available to common stockholders	$ 17,763	$ 17,503
Average common shares outstanding	142,881,528	147,881,207
Average committed ESOP shares outstanding	449	1,500
Total basic average common shares outstanding	142,881,977	147,882,707
Effect of dilutive stock options	1,064	102
Total diluted average common shares outstanding	142,883,041	147,882,809
Net earnings per share:		
Basic	$ 0.12	$ 0.12
Diluted	$ 0.12	$ 0.12

Antidilutive stock options, excluded from the diluted average common shares outstanding calculation	2,403,917	2,471,473

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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 securities portfolios are composed of securities issued by U.S. government-sponsored enterprises ("GSEs").

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$ 658,834	$ 483	$ 11,155	$ 648,162
MBS	323,720	18,146	--	341,866
Trust preferred securities	2,579	--	170	2,409
Municipal bonds	1,118	38	--	1,156
	986,251	18,667	11,325	993,593
HTM:				
MBS	1,633,298	30,192	29,421	1,634,069
Municipal bonds	35,186	863	21	36,028
	1,668,484	31,055	29,442	1,670,097
	$ 2,654,735	$ 49,722	$ 40,767	$ 2,663,690

	September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$ 709,118	$ 996	$ 7,886	$ 702,228
MBS	345,263	18,701	--	363,964
Trust preferred securities	2,594	--	171	2,423
Municipal bonds	1,308	44	--	1,352
	1,058,283	19,741	8,057	1,069,967
HTM:				
MBS	1,683,744	39,878	16,984	1,706,638
Municipal bonds	34,279	943	14	35,208
	1,718,023	40,821	16,998	1,741,846
	$ 2,776,306	$ 60,562	$ 25,055	$ 2,811,813

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 less than 12 months and equal to or greater than 12 months as of the dates presented.

	December 31, 2013					
	Less Than 12 Months			Equal to or Greater Than 12 Months		
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
AFS:						
GSE debentures	21	$ 484,635	$ 9,601	2	$ 37,596	$ 1,554
Trust preferred securities	--	--	--	1	2,409	170
	21	$ 484,635	$ 9,601	3	$ 40,005	$ 1,724
HTM:						
MBS	46	$ 806,066	$ 27,862	3	$ 22,741	$ 1,559
Municipal bonds	8	4,728	21	--	--	--
	54	$ 810,794	$ 27,883	3	$ 22,741	$ 1,559

	September 30, 2013					
	Less Than 12 Months			Equal to or Greater Than 12 Months		
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
AFS:						
GSE debentures	19	$ 426,482	$ 7,213	1	$ 24,327	$ 673
Trust preferred securities	--	--	--	1	2,423	171
	19	$ 426,482	$ 7,213	2	$ 26,750	$ 844
HTM:						
MBS	40	$ 710,291	$ 16,984	--	$ --	$ --
Municipal bonds	3	1,299	14	--	--	--
	43	$ 711,590	$ 16,998	--	$ --	$ --

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 December 31, 2013 and September 30, 2013, excluding the trust preferred security discussed below, 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, management does not believe any other-than-temporary impairments existed at December 31, 2013 or September 30, 2013.

The unrealized losses related to the trust preferred security held by the Bank at December 31, 2013 and September 30, 2013 were primarily a result of a decrease in the security's credit rating. Management reviews the underlying cash flows of this security on a quarterly basis. As of December 31, 2013 and September 30, 2013, the cash flow analysis indicated the present value of future expected cash flows are adequate to recover the entire amortized cost. On January 14, 2014, five federal agencies, including the OCC and the SEC, approved an interim final rule permitting banking entities to retain interests in certain collateralized debt obligations backed primarily by trust preferred securities from the investment prohibitions of section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Volcker Rule"). The federal banking agencies also released a non-exclusive list of issuers that meet the requirements of the interim final rule and are therefore not prohibited under the Volcker Rule. The Bank's trust preferred security is included on that list and therefore is exempt from the provisions of the Volcker Rule. As a result, 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. As a result of the analysis, management does not believe any other-than-temporary impairments existed related to the trust preferred security at December 31, 2013 or September 30, 2013.

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 December 31, 2013, the amortized cost of the securities in our portfolio which are callable or have pre-refunding dates within one year totaled $493.9 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 December 31, 2013 are shown below.

	AFS		HTM	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
One year or less	$ 201	$ 205	$ 6,732	$ 6,803
One year through five years	610,941	603,278	60,583	63,560
Five years through ten years	149,405	153,498	403,933	400,427
Ten years and thereafter	225,704	236,612	1,197,236	1,199,307
	$ 986,251	$ 993,593	$ 1,668,484	$ 1,670,097

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

	December 31, 2013	September 30, 2013
	(Dollars in thousands)	

Federal National Mortgage Association (“FNMA”)	$ 1,193,334	$ 1,250,948
Federal Home Loan Mortgage Corporation (“FHLMC”)	622,975	629,216
Government National Mortgage Association	158,855	167,544
	$ 1,975,164	$ 2,047,708

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 December 31,	
	2013	2012
	(Dollars in thousands)	
Taxable	$ 1,807	$ 2,539
Non-taxable	259	326
	$ 2,066	$ 2,865

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

	December 31, 2013		September 30, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
Repurchase agreements	$ 347,507	$ 354,409	$ 353,648	$ 364,593
Public unit deposits	286,953	286,896	272,016	274,917
Federal Reserve Bank	31,677	32,549	34,261	35,477
	$ 666,137	$ 673,854	$ 659,925	$ 674,987

4. Loans Receivable and Allowance for Credit Losses

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

	December 31, 2013	September 30, 2013
	(Dollars in thousands)	
Real estate loans:		
One- to four-family	$ 5,811,216	$ 5,743,047
Multi-family and commercial	41,745	50,358
Construction	101,638	77,743
Total real estate loans	5,954,599	5,871,148
Consumer loans:		
Home equity	135,023	135,028
Other	5,467	5,623
Total consumer loans	140,490	140,651
Total loans receivable	6,095,089	6,011,799
Less:		
Undisbursed loan funds	61,480	42,807
ACL	8,919	8,822

Discounts/unearned loan fees	23,540	23,057
Premiums/deferred costs	(23,439)	(21,755)
	$ 6,024,589	$ 5,958,868

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 in 24 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, commercial and multi-family real estate loans, and construction loans secured by residential, multi-family or commercial real estate. As a result of our one- to four-family lending activities, 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 performed primarily by the Bank's underwriters, but some are underwritten by a third party, independent of the correspondent lender, to ensure general consistency to the Bank's underwriting standards. 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 ratios, property appraisals, and other underwriting related documentation. For the tables within this Note, 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, commercial real estate and commercial construction 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 and/or guarantor. At the time of origination, LTV ratios on multi-family, commercial real estate and commercial construction 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 in excess of 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 for which the Bank also has the first mortgage or there is no first mortgage.

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.

The following tables present the recorded investment, by class, in loans 30 to 89 days delinquent, loans 90 or more days delinquent or in foreclosure, total delinquent loans, total current loans, and total recorded investment at the dates presented. The recorded investment in loans is defined as the unpaid principal balance of a loan (net of unadvanced funds related to loans in process), less charge-offs and inclusive of unearned loan fees and deferred costs. At December 31, 2013 and September 30, 2013, all loans 90 or more days delinquent were on nonaccrual status. In addition to loans 90 or more days delinquent, the Bank also had $6.1 million and $6.7 million of originated loan TDRs classified as nonaccrual at December 31, 2013 and September 30, 2013, respectively, as well as $392 thousand and $280 thousand of purchased loan TDRs classified as nonaccrual at December 31, 2013 and September 30, 2013, respectively, as required by the OCC. Of the loans required to be reported as nonaccrual pursuant to OCC reporting requirements, $5.4 million and $5.9 million were current at December 31, 2013 and September 30, 2013, respectively. At December 31, 2013 and September 30, 2013, the balance of loans on nonaccrual status was $27.7 million and $26.4 million, respectively.

	December 31, 2013				
	30 to 89 Days Delinquent	90 or More Days Delinquent or in Foreclosure	Total Delinquent Loans	Current Loans	Total Recorded Investment
	(Dollars in thousands)				
One- to four-family loans - originated	$ 19,183	$ 10,541	$ 29,724	$ 5,191,936	$ 5,221,660
One- to four-family loans - purchased	7,959	10,215	18,174	605,955	624,129
Multi-family and commercial loans	--	--	--	47,229	47,229
Consumer - home equity	721	477	1,198	133,825	135,023
Consumer - other	100	11	111	5,356	5,467
	$ 27,963	$ 21,244	$ 49,207	$ 5,984,301	$ 6,033,508

	September 30, 2013				
	30 to 89 Days Delinquent	90 or More Days Delinquent or in Foreclosure	Total Delinquent Loans	Current Loans	Total Recorded Investment
	(Dollars in thousands)				
One- to four-family loans - originated	$ 18,889	$ 9,379	$ 28,268	$ 5,092,581	$ 5,120,849
One- to four-family loans - purchased	7,842	9,695	17,537	631,050	648,587
Multi-family and commercial loans	--	--	--	57,603	57,603
Consumer - home equity	848	485	1,333	133,695	135,028
Consumer - other	35	5	40	5,583	5,623
	$ 27,614	$ 19,564	$ 47,178	$ 5,920,512	$ 5,967,690

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.

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

	December 31, 2013		September 30, 2013	
	Special Mention	Substandard	Special Mention	Substandard
	(Dollars in thousands)			
One- to four-family - originated	$ 24,631	$ 28,634	$ 29,359	$ 27,761
One- to four-family - purchased	1,665	14,635	1,871	14,195
Multi-family and commercial	1,865	--	1,976	--
Consumer - home equity	81	953	87	819
Consumer - other	--	18	--	13
	$ 28,242	$ 44,240	$ 33,293	$ 42,788

The following table shows the weighted average credit score and weighted average LTV 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 September 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.

	December 31, 2013		September 30, 2013	
	Weighted Average		Weighted Average	
	Credit Score	LTV	Credit Score	LTV
One- to four-family - originated	762	65 %	762	65 %
One- to four-family - purchased	748	67	747	67
Consumer - home equity	747	19	746	19
	760	64	760	64

TDRs - The following tables present the recorded investment prior to restructuring and immediately after restructuring for all loans restructured during the periods presented. 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 December 31, 2013		
	Number of Contracts	Pre-Restructured Outstanding	Post-Restructured Outstanding
	(Dollars in thousands)		
One- to four-family loans - originated	38	$ 3,825	$ 3,853
One- to four-family loans - purchased	2	198	198
Multi-family and commercial loans	--	--	--
Consumer - home equity	4	65	66
Consumer - other	--	--	--
	44	$ 4,088	$ 4,117

	For the Three Months Ended December 31, 2012		
	Number of Contracts	Pre-Restructured Outstanding	Post-Restructured Outstanding
	(Dollars in thousands)		
One- to four-family loans - originated	55	$ 12,578	$ 12,650
One- to four-family loans - purchased	2	555	598
Multi-family and commercial loans	2	82	79
Consumer - home equity	3	80	80
Consumer - other	--	--	--
	62	$ 13,295	$ 13,407

The following table provides information on TDRs restructured within the last 12 months that became delinquent during the periods presented.

For the Three Months Ended	
December 31, 2013	December 31, 2012

	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
One- to four-family loans - originated	11	$ 816	6	$ 405
One- to four-family loans - purchased	2	338	1	47
Multi-family and commercial loans	--	--	--	--
Consumer - home equity	--	--	1	2
Consumer - other	--	--	--	--
	13	$ 1,154	8	$ 454

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

	December 31, 2013			September 30, 2013		
	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	$ 14,730	$ 15,304	$ --	$ 12,950	$ 13,543	$ --
One- to four-family - purchased	13,857	16,916	--	13,882	16,645	--
Multi-family and commercial	--	--	--	--	--	--
Consumer - home equity	677	1,063	--	577	980	--
Consumer - other	5	9	--	2	7	--
	29,269	33,292	--	27,411	31,175	--
With an allowance recorded						
One- to four-family - originated	27,738	27,851	165	35,520	35,619	209
One- to four-family - purchased	2,572	2,541	54	2,034	2,015	29
Multi-family and commercial	--	--	--	73	74	2
Consumer - home equity	551	551	75	492	492	78
Consumer - other	14	14	2	11	11	1
	30,875	30,957	296	38,130	38,211	319
Total						
One- to four-family - originated	42,468	43,155	165	48,470	49,162	209
One- to four-family - purchased	16,429	19,457	54	15,916	18,660	29
Multi-family and commercial	--	--	--	73	74	2
Consumer - home equity	1,228	1,614	75	1,069	1,472	78
Consumer - other	19	23	2	13	18	1
	$ 60,144	$ 64,249	$ 296	$ 65,541	$ 69,386	$ 319

The following is a summary of information pertaining to impaired loans by class for the periods presented.

	For the Three Months Ended			
	December 31, 2013		December 31, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
With no related allowance recorded				
One- to four-family - originated	$ 12,872	$ 97	$ 8,935	$ 46
One- to four-family - purchased	13,636	45	15,267	46
Multi-family and commercial	--	--	--	--
Consumer - home equity	569	8	695	6
Consumer - other	3	--	36	--
	27,080	150	24,933	98
With an allowance recorded				
One- to four-family - originated	33,212	319	42,421	433
One- to four-family - purchased	2,858	16	2,191	17
Multi-family and commercial	54	1	40	1
Consumer - home equity	613	5	423	5
Consumer - other	15	--	27	--
	36,752	341	45,102	456
Total				
One- to four-family - originated	46,084	416	51,356	479
One- to four-family - purchased	16,494	61	17,458	63
Multi-family and commercial	54	1	40	1
Consumer - home equity	1,182	13	1,118	11
Consumer - other	18	--	63	--
	$ 63,832	$ 491	$ 70,035	$ 554

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. Of the $856 thousand of net charge-offs during the three months ended December 31, 2012, $369 thousand related to loans that were primarily discharged in a prior fiscal year under Chapter 7 bankruptcy, that had to be, pursuant to OCC reporting requirements, evaluated for collateral loss, even if they were current.

	For the Three Months Ended December 31, 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	$ 5,771	$ 2,486	$ 8,257	$ 185	$ 380	$ 8,822
Charge-offs	(88)	(327)	(415)	--	(10)	(425)
Recoveries	1	--	1	--	6	7
Provision for credit losses	155	354	509	(3)	9	515
Ending balance	$ 5,839	$ 2,513	$ 8,352	$ 182	$ 385	$ 8,919

	For the Three Months Ended December 31, 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	$ 6,074	$ 4,453	$ 10,527	$ 219	$ 354	$ 11,100
Charge-offs	(219)	(532)	(751)	--	(115)	(866)
Recoveries	--	--	--	--	10	10
Provision for credit losses	(216)	369	153	(18)	98	233
Ending balance	$ 5,639	$ 4,290	$ 9,929	$ 201	$ 347	$ 10,477

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.

	December 31, 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	$ 5,206,930	$ 610,272	$ 5,817,202	$ 47,229	$ 139,808	$ 6,004,239
Recorded investment in loans individually evaluated for impairment	14,730	13,857	28,587	--	682	29,269
	$ 5,221,660	$ 624,129	$ 5,845,789	$ 47,229	$ 140,490	$ 6,033,508
ACL for loans collectively evaluated for impairment	$ 5,839	$ 2,513	$ 8,352	$ 182	$ 385	$ 8,919

	September 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	$ 5,107,899	$ 634,705	$ 5,742,604	$ 57,603	$ 140,072	$ 5,940,279
Recorded investment in loans individually evaluated for impairment	12,950	13,882	26,832	--	579	27,411
	$ 5,120,849	$ 648,587	$ 5,769,436	$ 57,603	$ 140,651	$ 5,967,690
ACL for loans collectively evaluated for impairment	$ 5,771	$ 2,486	$ 8,257	$ 185	$ 380	$ 8,822

As previously discussed, 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 December 31, 2013, the level of the ACL remains an estimate that is subject to significant judgment.

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5. Fair Value of Financial Instruments

Fair Value Measurements - The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures in accordance with Accounting Standard Codification ("ASC") 820 and ASC 825. The Company did not have any liabilities that were measured at fair value at December 31, 2013 or September 30, 2013. 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.

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. 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 tables provide the level of valuation assumption used to determine the carrying value of the Company's assets m
which consists of AFS securities, at the dates presented.

	December 31, 2013			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)(1)
	(Dollars in thousands)			
AFS Securities:				
GSE debentures	$ 648,162	$ --	$ 648,162	$ --
MBS	341,866	--	341,866	--
Trust preferred securities	2,409	--	--	2,409
Municipal bonds	1,156	--	1,156	--
	$ 993,593	$ --	$ 991,184	$ 2,409

	September 30, 2013			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)(2)
	(Dollars in thousands)			
AFS Securities:				
GSE debentures	$ 702,228	$ --	$ 702,228	$ --
MBS	363,964	--	363,964	--
Municipal bonds	1,352	--	1,352	--
Trust preferred securities	2,423	--	--	2,423
	$ 1,069,967	$ --	$ 1,067,544	$ 2,423

(1) The Company's Level 3 AFS securities had no activity during the three months ended December 31, 2013, except for principal repayments of $25 thousand and reductions in net unrealized losses recognized in other comprehensive income. Reductions in net unrealized losses included in other comprehensive income for the three months ended December 31, 2013 were $1 thousand.
(2) The Company's Level 3 AFS securities had no activity during fiscal year 2013, except for principal repayments of $424 thousand and reductions in net unrealized losses recognized in other comprehensive income. Reductions in

net unrealized losses included in other comprehensive income for the year ended September 30, 2013 were $276 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 December 31, 2013 and September 30, 2013 was $29.2 million and $27.3 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. When no impairment is indicated, the carrying amount is considered to approximate fair value. 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 December 31, 2013 and September 30, 2013; 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, less estimated selling costs. 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 December 31, 2013 and September 30, 2013 was $3.6 million and $3.9 million, respectively.

The following tables provide 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.

	December 31, 2013			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Loans individually evaluated for impairment	$ 29,203	$ --	$ --	$ 29,203
OREO	3,645	--	--	3,645
	$ 32,848	$ --	$ --	$ 32,848

	September 30, 2013			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Loans individually evaluated for impairment	$ 27,327	$ --	$ --	$ 27,327
OREO	3,882	--	--	3,882
	$ 31,209	$ --	$ --	$ 31,209

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:

	December 31, 2013		September 30, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$ 88,665	$ 88,665	$ 113,886	$ 113,886
HTM securities	1,668,484	1,670,097	1,718,023	1,741,846
Loans receivable	6,024,589	6,119,980	5,958,868	6,132,239
BOLI	59,832	59,832	59,495	59,495
Capital stock of FHLB	129,095	129,095	128,530	128,530
Liabilities:				
Deposits	4,620,908	4,649,970	4,611,446	4,646,263
FHLB borrowings	2,515,618	2,588,703	2,513,538	2,599,749
Repurchase agreements	320,000	331,180	320,000	333,749

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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 December 31, 2013 and September 30, 2013 was $2.12 billion and $2.07 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 December 31, 2013 and September 30, 2013 was $2.53 billion and $2.58 billion, respectively. (Level 2)

FHLB borrowings 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)

6. Subsequent Events

In preparing these financial statements, management has evaluated events occurring subsequent to December 31, 2013, for potential recognition and disclosure. There have been no material events or transactions which would require adjustments to the consolidated financial statements at December 31, 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, which 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.

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 2013 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. The Bank also originates consumer loans primarily secured by first mortgages on one- to four-family residences, commercial and multi-family real estate loans, and construction loans secured by residential, multi-family, or commercial real estate. 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, participate in loans with other lenders that are secured by commercial or multi-family real estate, and invest in certain investment securities and MBS using funding from retail deposits, FHLB borrowings, 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 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's pricing strategy for first mortgage loan products includes setting interest rates based on secondary market prices and local competitor pricing for our local lending markets, and secondary market prices and national competitor pricing for our correspondent lending markets. 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 retail 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 January 2014 statement that economic activity has picked up in recent quarters. Although the unemployment rate remains elevated, labor market conditions have shown further signs of improvement. The FOMC stated that household spending and business fixed investment have advanced, but recovery in the housing sector slowed somewhat in recent months and fiscal policy is restraining economic growth, although the extent of restraint may be diminishing. Inflation has been running below the FOMC's longer-run objective, but longer-term inflationary expectations have remained stable. Given the cumulative progress made toward the FOMC's statutory mandate of maximum employment, as well as to the improvement in the outlook for labor market conditions, the FOMC decided to modestly reduce the pace of its asset purchases. The FOMC will 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, but at a pace of $35 billion per month and agency MBS at a pace of $30 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, which in turn should promote a stronger

economic recovery. The FOMC stated that it will closely monitor incoming information on economic and financial developments in coming months and will continue its asset purchases until the outlook for the labor market improves substantially in the context of price stability. If incoming information broadly supports the FOMC's expectation of continued improvement in labor market conditions and inflation approaches its longer-run objective, the pace of asset purchases will likely be further reduced. The FOMC insisted, however, that asset purchases are not on a preset course. The FOMC remarked that it will continue to maintain the federal funds 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, among other things. The FOMC continues to anticipate, based on an assessment of the preceding factors, that it will likely be appropriate to maintain the exceptionally low target range for the federal funds rate well past the time that unemployment recedes below 6.5%, especially if projected inflation continues to run below its 2% longer-run goal. When the FOMC decides to begin to remove policy accommodation, they stated they will take a balanced approach consistent with their longer-run goals of maximum employment and inflation of 2%.

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 December 2013, the unemployment rate was 4.9% for Kansas and 5.9% for Missouri, compared to the national average of 6.7% based on information from the Bureau of Economic Analysis. The unemployment rate remains lower in our market areas, relative to the national average, due to diversified industries within our market areas, primarily in the Kansas City metropolitan statistical area. Our Kansas City market area, which comprises the largest segment of our loan portfolio and deposit base, has an average household income of approximately $80 thousand per annum, based on 2013 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 $69 thousand per annum, with 91% of the population at or above the poverty level, also based on the 2013 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 in property values in our local market areas.

Total assets were $9.11 billion at December 31, 2013 compared to $9.19 billion at September 30, 2013. The $75.4 million decrease was due primarily to a $125.9 million decrease in the securities portfolio, partially offset by a $65.7 million increase in the loan portfolio. Loan growth during the current quarter was funded with cash flows from the securities portfolio as management continued the strategy of moving cash flows from the lower yielding securities portfolio to the higher yielding loan portfolio. During the current quarter, the Bank originated and refinanced $154.1 million of loans with a weighted average rate of 3.90%, purchased $123.3 million of loans from correspondent lenders with a weighted average rate of 3.73%, and participated in $16.8 million of commercial real estate loans with a weighted average rate of 4.18%.

Total liabilities were $7.54 billion at December 31, 2013 compared to $7.55 billion at September 30, 2013. The $12.7 million decrease was due primarily to a $33.5 million decrease in advance payments by borrowers for taxes and insurance resulting from the payment of real estate taxes and insurance on behalf of our borrowers, partially offset by a $9.5 million increase in the deposit portfolio.

Stockholders’ equity was $1.57 billion at December 31, 2013 compared to $1.63 billion at September 30, 2013. The $62.7 million decrease was due primarily to the payment of $72.3 million of dividends and the repurchase of $7.0 million of stock, partially offset by net income of $17.8 million. During the current quarter, the Company repurchased 578,880 shares of common stock at an average price of $12.14 per share, or $7.0 million. Subsequent to December 31, 2013 through January 17, 2014, the Company repurchased 2,143,600 shares at an average price of $11.99 per share, or $25.7 million.

For the quarter ended December 31, 2013, the Company recognized net income of $17.8 million, compared to net income of $17.6 million for the quarter ended December 31, 2012. The net interest margin decreased three basis points, from 2.01% for the prior year quarter to 1.98% for the current quarter. Decreases in the cost of funds and a shift in the mix of interest-earning assets from relatively lower yielding securities to higher yielding loans tempered the decrease in the net interest margin, but were not enough to fully offset the impact of decreasing asset yields.

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.

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, 2013.

Financial Condition

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

	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
	(Dollars in thousands)				
Total assets	$ 9,111,054	$ 9,186,449	$ 9,239,764	$ 9,393,718	$ 9,238,786
Cash and cash equivalents	88,665	113,886	131,287	48,574	105,157
AFS securities	993,593	1,069,967	1,167,043	1,245,443	1,259,392
HTM securities	1,668,484	1,718,023	1,819,895	1,953,779	1,902,228
Loans receivable, net	6,024,589	5,958,868	5,792,620	5,715,273	5,640,077
Capital stock of FHLB	129,095	128,530	134,222	130,680	130,784
Deposits	4,620,908	4,611,446	4,628,436	4,693,573	4,582,163
FHLB borrowings	2,515,618	2,513,538	2,611,480	2,634,465	2,532,493
Repurchase agreements	320,000	320,000	290,000	315,000	365,000
Stockholders’ equity	1,569,463	1,632,126	1,624,502	1,643,007	1,669,951
Equity to total assets at end of period	17.2 %	17.8 %	17.6 %	17.5 %	18.1 %

Loans Receivable. The loans receivable portfolio, net, increased $65.7 million, or 1.1%, to $6.02 billion at December 31, 2013, from $5.96 billion at September 30, 2013. Loan growth during the current quarter was funded with cash flows from the securities portfolio as management continued the strategy of moving cash flows from the lower yielding securities portfolio to the higher yielding loan portfolio.

Our portfolio of correspondent purchased loans increased $100.0 million, or 9.6%, from September 30, 2013 to $1.14 billion at December 31, 2013, of which $830.5 million are serviced by the Bank and $313.6 million are serviced by our mortgage sub-servicer. The mortgage sub-servicer has experience servicing loans in the market areas in which we purchase loans and services the loans according to the Bank’s servicing standards, which is intended to allow the Bank greater control over servicing and help maintain a standard of loan performance. As of December 31, 2013, the Bank had 27 active correspondent lending relationships operating in 24 states.

Included in the loan portfolio at December 31, 2013 were $106.8 million, or 1.8% of the total loan portfolio, of adjustable-rate mortgage (“ARM”) loans that were originated as interest-only. Of these interest-only loans, $90.2 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 5 or 10 years. The $90.2 million of bulk purchased interest-only ARM loans held as of December 31, 2013, had a weighted average credit score of 726 and a weighted average LTV ratio of 71% at December 31, 2013. At December 31, 2013, $57.6 million, or 54%, of the interest-only loans were still in their

interest-only payment term and $4.4 million, or 16% of non-performing loans, were interest-only ARMs.

As a portfolio lender focused on delivering outstanding customer service while acquiring quality assets, the ability of our borrowers to repay has always been paramount in our business model. Our implementation of the "ability to repay" and "qualified mortgage" rules on January 10, 2014, as issued by the Consumer Financial Protection Bureau, is not anticipated to have a significant impact to our overall book of business.

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The following table presents information related to the composition of our loan portfolio at the dates presented. Within the one- to four-family loan portfolio at December 31, 2013, 68% of the loans had a balance at origination of less than $417 thousand.

	December 31, 2013		September 30, 2013	
	Amount	Average Rate	Amount	Average Rate
	(Dollars in thousands)			
Real Estate Loans:				
One- to four-family	$ 5,811,216	3.76 %	$ 5,743,047	3.77 %
Multi-family and commercial	41,745	5.00	50,358	5.22
Construction	101,638	3.71	77,743	3.63
Total real estate loans	5,954,599	3.77	5,871,148	3.78
Consumer Loans:				
Home equity	135,023	5.22	135,028	5.26
Other	5,467	4.31	5,623	4.41
Total consumer loans	140,490	5.19	140,651	5.23
Total loans receivable	6,095,089	3.80	6,011,799	3.82
Less:				
Undisbursed loan funds	61,480		42,807	
ACL	8,919		8,822	
Discounts/unearned loan fees	23,540		23,057	
Premiums/deferred costs	(23,439)		(21,755)	
Total loans receivable, net	$ 6,024,589		$ 5,958,868	

The following table presents, for our portfolio of one- to four-family loans, the balance, percentage of total, weighted average credit score, weighted average LTV ratio, and the average balance per loan at the dates presented. Credit scores are updated at least semiannually, with the last update in September 2013, 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. In most cases, the most recent appraisal was obtained at the time of origination.

	December 31, 2013					September 30, 2013				
	Balance	% of Total	Credit Score	LTV	Average Balance	Balance	% of Total	Credit Score	LTV	Average Balance
	(Dollars in thousands)									
Originated	$ 4,046,815	69.6 %	763	64 %	$ 127	$ 4,054,436	70.6 %	763	65 %	$ 127
Correspondent purchased	1,144,112	19.7	761	67	336	1,044,127	18.2	761	67	341

Bulk purchased	620,289	10.7	748	67	313	644,484	11.2	747	67	316
	$ 5,811,216	100.0 %	761	65	156	$ 5,743,047	100.0 %	761	65	155

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The following table presents the annualized prepayment speeds of our one- to four-family loan portfolio for the monthly and quarterly periods ended December 31, 2013. The balances represent the unpaid principal balance of one- to four-family loans, and the terms represent the contractual terms for our fixed-rate loans, and current terms to repricing for our adjustable-rate loans. Loan refinances are considered a prepayment and are included in the prepayment speeds presented below. The annualized prepayment speeds are presented with and without endorsements.

	December 31, 2013				
		Monthly Prepayment Speeds (annualized)		Quarterly Prepayment Speeds (annualized)	
Term	Unpaid Principal	Including Endorsements	Excluding Endorsements	Including Endorsements	Excluding Endorsements
	(Dollars in thousands)				
Fixed-rate one- to four-family:					
15 years or less:					
Originated	$ 924,494	8.0 %	7.4 %	7.5 %	7.2 %
Correspondent purchased	237,648	3.0	3.0	4.5	4.5
Bulk purchased	15,804	25.7	25.7	28.5	28.5
	1,177,946	7.2	6.8	7.2	7.0
More than 15 years:					
Originated	2,851,517	6.9	6.5	7.6	6.9
Correspondent purchased	681,046	4.1	3.3	4.9	4.6
Bulk purchased	34,503	18.4	18.4	22.5	22.5
	3,567,066	6.5	6.0	7.3	6.6
Total fixed-rate one- to four-family loans:	4,745,012	6.7	6.2	7.3	6.7
Adjustable-rate one- to four-family:					
36 months or less:					
Originated	165,670	22.0	20.6	18.0	14.5
Correspondent purchased	54,166	18.2	18.2	20.3	20.3
Bulk purchased	572,742	15.8	15.8	13.9	13.9
	792,578	17.2	16.9	15.1	14.4
More than 36 months:					
Originated	178,837	5.8	5.8	10.2	10.2
Correspondent purchased	173,835	18.8	18.8	7.9	7.9
Bulk purchased	413	0.7	0.7	1.0	1.0
	353,085	12.2	12.2	9.1	9.1
Total adjustable-rate one- to four-family loans:	1,145,663	15.7	15.5	13.3	12.8
Total one-to four-family loans	$ 5,890,675	8.4	8.0	8.4	7.9

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The following table summarizes activity in the loan portfolio, along with weighted average rates where applicable, for the periods indicated, excluding changes in undisbursed loan funds, ACL, discounts/unearned loan fees, and premiums/deferred costs. Loans that were paid-off as a result of refinances are included in repayments. Purchased loans include purchases from correspondent and nationwide lenders. 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. During the current quarter, the Bank endorsed $7.9 million of one-to four-family loans, reducing the average rate on those loans by 131 basis points. The endorsed balance and rate are, however, included in the ending loan portfolio balance and rate.

	For the Three Months Ended							
	December 31, 2013		September 30, 2013		June 30, 2013		March 31, 2013	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)							
Beginning balance	$ 6,011,799	3.82 %	$ 5,839,861	3.86 %	$ 5,763,055	3.94 %	$ 5,687,893	4.04 %
Originated and refinanced:								
Fixed	108,829	3.95	217,328	3.70	182,177	3.35	179,828	3.26
Adjustable	45,273	3.76	44,090	3.75	31,713	3.87	22,676	3.94
Purchased and participations:								
Fixed	94,535	4.00	167,490	3.61	132,391	3.36	119,334	3.22
Adjustable	45,541	3.34	41,479	2.75	23,499	2.77	19,145	2.64
Repayments	(209,931)		(297,318)		(292,110)		(262,865)	
Principal (charge-offs) recoveries, net	(418)		83		(33)		(405)	
Transfers	(539)		(1,214)		(831)		(2,551)	
Ending balance	$ 6,095,089	3.80	$ 6,011,799	3.82	$ 5,839,861	3.86	$ 5,763,055	3.94

The Bank's pricing strategy for first mortgage loan products includes setting interest rates based on secondary market prices and local competitor pricing for our local lending markets, and secondary market prices and national competitor pricing for our correspondent lending markets. During the quarter ended December 31, 2013, the average rate offered on the Bank's 30-year fixed-rate one- to four-family loans, with no points paid by the borrower, was approximately 160 basis points above the average 10-year Treasury rate, while the average rate offered on the Bank's 15-year fixed-rate one- to four-family loans was approximately 60 basis points above the average 10-year Treasury rate.

The following table presents loan origination, refinance, and purchase activity for the periods indicated, excluding endorsement activity, along with associated weighted average rates and percent of total. Loan originations, purchases and refinances are reported together. The fixed-rate one- to four-family loans less than or equal to 15 years have an original maturity at origination of less than or equal to 15 years, while fixed-rate one- to four-family loans greater than 15 years have an original maturity at origination of greater than 15 years. The adjustable-rate one- to four-family loans less than or equal to 36 months have a term to first reset of less than or equal to 36 months at origination and adjustable-rate one- to four-family loans greater than 36 months have a term to first reset of greater than 36 months at origination. Of the $134.2 million of one- to four-family loan originations and refinances during the current quarter, 77% had loan values of $417 thousand or less. Of the $123.3 million of one- to four-family correspondent loans purchased during the current quarter, 51% had loan values of $417 thousand or less.

	For the Three Months Ended					
	December 31, 2013			December 31, 2012		
	Amount	Rate	% of Total	Amount	Rate	% of Total
	(Dollars in thousands)					
Fixed-Rate:						
One- to four-family:						
<= 15 years	$ 51,403	3.32 %	17.5 %	$ 112,339	2.84 %	31.2 %
> 15 years	146,059	4.18	49.6	181,741	3.56	50.5
Multi-family and commercial real estate	5,000	4.00	1.7	3,850	5.00	1.1
Home equity	733	6.05	0.2	456	5.97	0.1
Other	169	11.08	0.1	250	8.01	0.1
Total fixed-rate	203,364	3.97	69.1	298,636	3.32	83.0
Adjustable-Rate:						
One- to four-family:						
<= 36 months	2,030	2.76	0.7	2,069	2.25	0.6
> 36 months	57,972	3.09	19.7	42,139	2.70	11.7
Multi-family and commercial real estate	11,763	4.25	4.0	--	--	--
Home equity	18,739	4.64	6.4	16,766	4.83	4.6
Other	310	2.88	0.1	424	2.88	