Capitol Federal Financial Inc
Form 10-K
November 29, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2012

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC
(Title of Class)	(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

(do not check if smaller reporting company)

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the average of the closing bid and asked price of such stock on the NASDAQ Stock Market as of March 31, 2012, was $1.93 billion.

As of November 16, 2012, there were issued and outstanding 152,907,557 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part II of Form 10-K - Portions of the Annual Report to Stockholders for the year ended September 30, 2012.   Part III of Form 10-K - Portions of the proxy statement for the Annual Meeting of Stockholders for the year ended September 30, 2012.

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PRIVATE SECURITIES LITIGATION REFORM ACT—SAFE HARBOR STATEMENT

Capitol Federal Financial, Inc. (the "Company"), and Capitol Federal Savings Bank ("Capitol Federal Savings" or the "Bank"), 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 Securities and Exchange Commission ("SEC"). These forward-looking statements may be included in this Annual Report on Form 10-K and the exhibits attached to it, in the Company's reports to stockholders, in the Company's press releases, and in other communications by the Company, which are made in good faith by us pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

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

- our ability to continue to maintain overhead costs at reasonable levels;
- our ability to continue to originate a significant volume of one- to four-family mortgage loans in our market areas or to purchase loans through correspondents;
- our ability to acquire funds from or 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 policies;
- 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 write-offs, changes in property values, and changes in estimates of the adequacy of the allowance for credit losses ("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 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

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PART I

As used in this Form 10-K, 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.

Item 1. Business

General

The Company is a Maryland corporation that was incorporated in April 2010 to be the successor corporation upon completion of its conversion from a mutual holding company form of organization to a stock form of organization. The Bank is a wholly-owned subsidiary of the Company. The Company's common stock is traded on the Global Select tier of the NASDAQ Stock Market under the symbol "CFFN."

In December 2010, Capitol Federal Financial completed its conversion from a mutual holding company form of organization to a stock form of organization ("the corporate reorganization"). Capitol Federal Financial, which owned 100% of the Bank, was succeeded by Capitol Federal Financial, Inc. As part of the corporate reorganization, Capitol Federal Savings Bank MHC's ("MHC") ownership interest of Capitol Federal Financial was sold in a public stock offering. Capitol Federal Financial, Inc. sold 118,150,000 shares of common stock at $10.00 per share in the stock offering. In addition, the publicly held shares of Capitol Federal Financial were exchanged for new shares of common stock of Capitol Federal Financial, Inc. The exchange ratio was 2.2637 and ensured that immediately after the corporate reorganization the public stockholders of Capitol Federal Financial (meaning those stockholders other than MHC) owned the same aggregate percentage of Capitol Federal Financial, Inc. common stock that they owned of Capitol Federal Financial common stock immediately prior to that time. In lieu of fractional shares, Capitol Federal Financial stockholders were paid in cash. Gross proceeds from the offering were $1.18 billion and related offering expenses were $46.7 million, of which $6.0 million were incurred and deferred in fiscal year 2010. The net proceeds from the stock offering were $1.13 billion, of which 50%, or $567.4 million, was contributed to the Bank as a capital contribution, as required by the regulations of the Office of Thrift Supervision (the "OTS"), which was succeeded as the Bank's primary regulator by the Office of the Comptroller of the Currency (the "OCC") effective July 21, 2011. The other 50%, or $567.4 million, remained at Capitol Federal Financial, Inc., of which $40.0 million was contributed to the Bank's charitable foundation, Capitol Federal Foundation, and $47.3 million was loaned to the Employee Stock Ownership Plan ("ESOP") for its purchase of Capitol Federal Financial, Inc. shares in the stock offering. In April 2011, the Company redeemed the outstanding Junior Subordinated Deferrable Interest Debentures (the "Debentures") of $53.6 million using a portion of the offering proceeds from the corporate reorganization.

The Bank is a federally chartered and insured savings bank headquartered in Topeka, Kansas. The Bank is examined and regulated by the OCC, its primary regulator, and its deposits are insured up to applicable limits by the Deposit Insurance Fund ("DIF"), which is administered by the Federal Deposit Insurance Corporation ("FDIC"). We primarily serve the metropolitan areas of Topeka, Wichita, Lawrence, Manhattan, Emporia and Salina, Kansas and a portion of the metropolitan area of greater Kansas City through 36 traditional and 10 in-store branches. The Company is

examined and regulated by the FRB.

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

Our revenues are derived principally from interest on loans, MBS and investment securities. Our primary sources of funds are retail deposits, borrowings, repayments on and maturities of loans and MBS, calls and maturities of investment securities, and funds generated by operations.

We offer a variety of deposit accounts having a wide range of interest rates and terms, which generally include savings accounts, money market accounts, interest-bearing and non-interest-bearing checking accounts, and certificates of deposit with terms ranging from 91 days to 96 months.

Our executive offices are located at 700 South Kansas Avenue, Topeka, Kansas 66603, and our telephone number at that address is (785) 235-1341.

Available Information

Our Internet website address is www.capfed.com. Financial information, including our 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 website. These reports are available on our website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. These reports are also available on the SEC's website at http://www.sec.gov.

Market Area and Competition

Our corporate office is located in Topeka, Kansas. We currently have a network of 46 branches (36 traditional branches and 10 in-store branches) located in nine counties throughout the state of Kansas and two counties in Missouri. We primarily serve the metropolitan areas of Topeka, Wichita, Lawrence, Manhattan, Emporia, and Salina, Kansas and a portion of the metropolitan area of greater Kansas City. In addition to providing full service banking offices, we also provide our customers telephone and internet banking capabilities.

The Bank ranked first in deposit market share, at 7.77%, in the state of Kansas as reported in the FDIC "Summary of Deposits - Market Share Report" dated June 30, 2012. This is an increase from our ranking and deposit market share at June 30, 2011, which was second with a deposit market share of 7.66%. Deposit market share is measured by total deposits, without consideration for type of deposit. We do not offer commercial deposit accounts, while many of our competitors have both commercial and retail deposits in their total deposit base. Some of our competitors also offer products and services that we do not, such as trust services and private banking, that add to their total deposits. Consumers also have the ability to utilize online financial institutions and investment brokerages that are not confined to any specific market area. Management considers our well-established retail banking network together with our reputation for financial strength and customer service to be major factors in our success at attracting and retaining customers in our market areas.

The Bank is consistently one of the top one- to four-family lenders with regard to loan origination volume in the state of Kansas. Through our strong relationships with real estate agents and marketing efforts which reflect our reputation and pricing, we attract mortgage loan business from walk-in customers, customers that apply online, and existing customers. Competition in originating one- to four-family mortgage loans primarily comes from other savings institutions, commercial banks, credit unions, and mortgage bankers. Other savings institutions, commercial banks, credit unions, and finance companies provide vigorous competition in consumer lending.

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

Lending Practices and Underwriting Standards

General. Originating and purchasing loans secured by one- to four-family residential properties is the Bank's primary business, resulting in a loan concentration in residential first mortgage loans. One- to four-family loans are purchased on a loan-by-loan basis and in bulk loan packages from correspondent lenders located in our market areas and generally in the central and southern United States. As a result of originating loans in our branches, along with the correspondent lenders in our local markets, the Bank has a concentration of loans secured by real property located in Kansas and Missouri. Additionally, the Bank purchases whole one- to four-family loans in bulk packages from nationwide lenders. The Bank also makes consumer loans, construction loans secured by residential or commercial properties, and real estate loans secured by multi-family or commercial properties.

For a discussion of our market risk associated with loans see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosure about Market Risk” in the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K.

Loans over $500 thousand must be underwritten by two of our highest class of underwriters. Any loan greater than $750 thousand must be approved by the Asset and Liability Management Committee (“ALCO”) and loans over $1.5 million must be approved by the Board of Directors. For loans requiring ALCO and/or Board of Directors’ approval, lending management is responsible for presenting to ALCO and/or the Board of Directors information about the creditworthiness of the borrower and the value of the subject property. Information pertaining to the creditworthiness of the borrower generally consists of a summary of the borrower’s credit history, employment stability, sources of income, assets, net worth, and debt ratios. The value of the property must be supported by an independent appraisal report prepared in accordance with our appraisal policy. Loans over $500 thousand are priced above the standard mortgage rate.

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, the maximum amount which we could have loaned to any one borrower and the borrower’s related entities at September 30, 2012 was $204.9 million. Our largest lending relationship to a single borrower or a group of related borrowers at September 30, 2012 consisted of 11 multi-family real estate projects located in Kansas, one single-family loan located in Colorado and one single-family loan located in Kansas, and five commercial real estate projects with three located in Kansas, one located in Colorado, and one located in Texas. Additionally, during fiscal year 2012, the Bank committed to purchasing a commercial participation in the amount of $3.9 million for a construction-to-permanent project secured by commercial real estate located in Louisiana. Total commitments and loans outstanding to this group of related borrowers was $47.9 million as of September 30, 2012. We have over 30 years of experience with this group of borrowers. Each of the loans to this group of borrowers was current at September 30, 2012.

The second largest lending relationship at September 30, 2012, consisted of 9 loans totaling $10.0 million. Five loans are secured by one- to four-family real estate and four loans are secured by multi-family real estate units. We have over 30 years of experience with the borrowers. Each of the loans to this group of borrowers was current at September 30, 2012.

One- to Four-Family Residential Real Estate Lending. The Bank originates and services conventional mortgage loans, or loans not insured or guaranteed by a government agency. The Bank also originates Federal Housing Administration (“FHA”) insured loan products which are generally sold, along with the servicing of these loans. New loans are originated through referrals from real estate brokers and builders, our marketing efforts, and our existing and walk-in customers. While the Bank originates both adjustable and fixed-rate loans, our ability to originate loans is dependent upon customer demand for loans in our market areas. Demand is affected by the local housing market, competition, and the interest rate environment. During the 2012 and 2011 fiscal years, the Bank originated and refinanced $688.5 million and $652.3 million of one- to four-family fixed-rate mortgage loans, and $117.9 million and $107.4 million of one- to four-family adjustable-rate mortgage (“ARM”) loans, respectively.

Repayment

The Bank's one- to four-family loans are primarily fully amortizing fixed-rate or ARM loans. The contractual maturities for fixed-rate loans can be up to 30 years and the contractual maturities for ARM loans can be up to 40 years. Our one- to four-family loans are generally not assumable and do not contain prepayment penalties. A "due on sale" clause, allowing the Bank to declare the unpaid principal balance due and payable upon the sale of the secured property, is generally included in the security instrument.

Pricing

Our pricing strategy for first mortgage loan products includes setting interest rates based on secondary market prices and competitor pricing within our local lending markets. ARM loans are offered with either a three-year, five-year, or seven-year term to the initial repricing date. After the initial period, the interest rate for each ARM loan generally adjusts annually for the remainder of the term of the loan. Several different indices are used to reprice our ARM loans.

Adjustable-rate loans

Current adjustable-rate one- to four-family conventional mortgage loans originated by the Bank generally provide for a specified rate limit or cap on the periodic adjustment to the interest rate, as well as a specified maximum lifetime cap and minimum rate, or floor. As a consequence of using caps, the interest rates on these loans may not be as rate sensitive as our cost of funds. Negative amortization of principal is not allowed. For three or five year ARM loans, borrowers are qualified based on the principal, interest, taxes and insurance payments at the initial rate plus the life of

loan cap and the initial rate plus the first period cap, respectively. For seven year ARM loans, borrowers are qualified based on the principal, interest, taxes and insurance payments at either the initial rate or the fully indexed accrual rate, whichever is greater. After the initial three, five, or seven year period, the interest rate is repriced annually and the new principal and interest payment is based on the new interest rate, remaining unpaid principal balance, and term of the ARM loan. Our ARM loans are not automatically convertible into fixed-rate loans; however, we do allow borrowers to pay an endorsement fee to convert an ARM loan to a fixed-rate loan. ARM loans can pose different credit risks than fixed-rate loans, primarily because as interest rates rise, the borrower's payment also rises, increasing the potential for default. This specific risk type is known as repricing risk.

The Bank no longer offers an interest-only ARM product; however it still holds in its portfolio originated and purchased interest-only ARM loans. At the time of origination, these loans did not require principal payments for a period of up to ten years. Borrowers were qualified based on a fully amortizing payment at the initial loan rate. The Bank was more restrictive on debt-to-income ratios and credit scores on interest-only ARM loans than on other ARM loans to offset the potential risk of payment shock at the time the loan rate reprices and/or the principal and interest payments begin. At September 30, 2012, $67.0 million, or approximately 1% of our one- to four-family loan portfolio, consisted of non-amortizing interest-only ARM loans. The majority of these loans were purchased from nationwide lenders during fiscal year 2005.

Underwriting

One- to four-family loans are underwritten manually or by using an internal loan origination auto-underwriting method. This method closely resembles the Bank's manual underwriting standards which are generally in accordance with Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA") manual underwriting guidelines. This method includes, but is not limited to, an emphasis on credit scoring, qualifying ratios reflecting the applicant's ability to repay, asset reserves, loan-to-value ("LTV") ratio, property, and occupancy type. 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. Loans that do not meet the automated underwriting standards are referred to a staff underwriter for manual underwriting. 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 have been approved by the Board of Directors.

Mortgage Insurance

For a conventional mortgage with an LTV ratio in excess of 80% at the time of origination, private mortgage insurance ("PMI") is required in order to reduce the Bank's loss exposure to 80% of either the appraised value or the purchase price of the property, whichever is less. The Bank will lend up to 97% of the lesser of the appraised value or purchase price for conventional one- to four-family loans, provided PMI is obtained. Management continuously monitors the claim-paying ability of our PMI counterparties. While the mortgage insurance industry as a whole has been weakened, we believe that our PMI counterparties have the ability to meet potential claim obligations we may file in the foreseeable future, with the exception of Republic Mortgage Insurance Company ("RMIC") who is currently paying 50% of the claims filed and approved as required by its regulator. The amount of loans in our portfolio covered by PMI provided by RMIC as of September 30, 2012 was $98.0 million, of which $97.5 million was current.

FHA loans have mortgage insurance provided by the federal government. The loans are up to 96.5% LTV, prior to including the FHA insuring premium, which is calculated using the lesser of the appraised value or purchase price. The loans are originated and underwritten manually according to private investor and FHA guidelines. The Bank offers FHA loans to accommodate customers who may not qualify for a conventional mortgage loan. FHA loans are originated by the Bank with the intention of selling the loans on a flow basis to a private investor, with servicing released.

Purchased loans

The Bank purchases conventional one- to four-family loans and the related servicing rights, on a loan-by-loan basis, from correspondent lenders located in our market areas and generally in the central and southern United States. At September 30, 2012, the Bank had 26 correspondent lending relationships. The loan products offered by our correspondent lenders are underwritten by the Bank's underwriters to standards that are at least as restrictive as the Bank's underwriting standards. During fiscal years 2012 and 2011, the Bank purchased $267.5 million and $92.8 million, respectively, of one- to four-family loans from correspondent lenders. We pay a premium of 0.50% to 1.0% of the loan balance and we pay 1.0% of the loan balance to purchase the servicing of these loans.

During fiscal year 2011, the Bank entered into an agreement with a mortgage sub-servicer to provide loan servicing for loans originated by the Bank's correspondent lenders in certain states. The sub-servicer has experience servicing loans

in the market areas in which we purchase loans and will service 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.

The Bank also purchases conventional one- to four-family loans from correspondent and nationwide lenders in bulk loan packages. The servicing rights are generally retained by the lender/seller for the loans purchased from nationwide lenders; however, our sub-servicer services bulk loan packages purchased from nationwide lenders and certain correspondent lenders, when economically feasible. The servicing with nationwide lenders is governed by a servicing agreement, which outlines collection policies and procedures, as well as oversight requirements, such as servicer certifications attesting to and providing proof of compliance with the servicing agreement. Each loan in a bulk loan package is evaluated on criteria such as loan amount, credit scores, LTV ratios, geographic location, and debt ratios, and is required to be comparable to loans originated according to the Bank's internal underwriting standards. Before committing to purchase a bulk loan package, the Bank's Chief Lending Officer or Secondary Marketing Manager reviews specific underwriting criteria of each loan in the package, and if a loan does not meet the Bank's underwriting standards without sufficient compensating factors, it will be removed from the package. Once the review of the specific criteria is complete and loans not meeting the Bank's standards are removed from the package, changes are sent back to the lender/seller for acceptance and pricing. Before the package is funded, an internal Bank underwriter or a third party reviews at least 25% of the loan files to confirm loan terms, credit scores, debt service ratios, property appraisals, and other underwriting-related documentation. Our standard contractual agreement with the lender/seller includes recourse options for any breach of representation or warranty with respect to the loans purchased. The Bank did not request any lenders/sellers to repurchase loans for breach of representation during fiscal year 2012.

During fiscal year 2012, the Bank completed bulk loan purchases of $362.7 million of one- to four-family loans, compared to $89.2 million in fiscal year 2011. The primary reason for the increase in bulk loan purchases between years was due to a $342.5 million purchase in August 2012. The Bank has full recourse from the seller if a loan in this package goes 60 days delinquent at any point during the life of the loan. If such an event occurs, the seller will either replace or buy the loan from the Bank.

Bulk loan purchases enable the Bank to attain some geographic diversification in the loan portfolio. We have experienced some performance issues and losses on some of the loans purchased prior to fiscal year 2008, the majority of which were originated between calendar years 2004 and 2006. These loans met our underwriting standards at the time of purchase; however, as a result of the continued elevated levels of unemployment and the declines in real estate values, we have experienced an increase in non-performing purchased loans and charge-offs/losses related to those loans, as compared to historical levels. See additional discussion regarding non-performing purchased loans in "Asset Quality – Loans and Other Real Estate Owned."

Loan endorsement program

In an effort to offset the impact of repayments and to retain our customers, the Bank offers existing loan customers, including customers whose loan was purchased from a correspondent lender, whose loans have not been sold to third parties and have not been delinquent on their contractual loan payments during the previous 12 months the

opportunity, for a fee, to endorse their original or existing loan terms to current loan terms being offered. Effective during the June 30, 2012 quarter, the Bank no longer offers the option to advance the fee to endorse a loan. The Bank does not solicit customers for this program, but considers it a valuable opportunity to retain customers who, due to our initial underwriting criteria, could likely obtain similar financing elsewhere. During fiscal years 2012 and 2011, we endorsed $886.9 million and $965.1 million of loans, respectively, the majority of which were one- to four-family loans.

Loan sales

Conventional one- to four-family loans may be sold on a bulk basis for portfolio restructuring or on a flow basis as loans are originated to reduce interest rate risk and/or maintain a certain liquidity position. The Bank generally retains the servicing on these loans. ALCO determines the criteria upon which conventional one- to four-family loans are to be originated as held-for-sale or held-for-investment. Conventional one- to four-family loans originated as held-for-sale are to be sold in accordance with policies set forth by ALCO. Conventional one- to four-family loans originated as held-for-investment are generally not eligible for sale unless a specific segment of the portfolio is identified for asset restructuring purposes. Generally, the Bank will continue to service these loans. The Bank did not sell any conventional one- to four-family loans during fiscal year 2012, compared to $5.1 million of conventional one- to four-family loan sales during fiscal year 2011. In April 2011, we discontinued originating conventional loans for sale under the program that we sold loans under during fiscal year 2011.

As noted above, FHA loans are originated with the intention of selling the loans on a flow basis with servicing released. The Bank sold $6.3 million and $8.1 million of FHA loans during fiscal years 2012 and 2011, respectively.

Construction Lending. The Bank also originates construction-to-permanent loans primarily secured by one- to four-family residential real estate. Bank policy permits a limited amount of construction loans secured by multi-family dwellings and commercial real estate. Multi-family dwelling and commercial real estate underwriting details are presented in the "Multi-family and Commercial Real Estate Lending" below. At September 30, 2012, we had $52.3 million in construction-to-permanent loans outstanding, including undisbursed loan funds, representing almost 1% of our total loan portfolio. Of the $52.3 million in construction-to-permanent loans outstanding at September 30, 2012, $38.3 million, or approximately 73%, related to 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 primarily 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.

The Bank's one- to four-family construction-to-permanent loan program combines the construction loan and the permanent loan into one loan allowing the borrower to secure the same interest rate throughout the construction period and the permanent loan. The interest rate and loan products offered on the one- to four-family construction-to-permanent loan program are the same as what is offered for non-construction-to-permanent one- to four-family loans. The loan term is longer than the non-construction one- to four-family loans due to consideration for the construction period, which is generally between 12 and 18 months.

Construction draw requests and the supporting documentation are reviewed and approved by management prior to funding. 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. The Bank charges a 1% fee at closing, based on the loan amount, for these administrative requirements. Interest is billed and collected monthly based on the amount of funds disbursed. Once the construction period is complete, the payment method is changed from interest-only to an amortized principal and interest payment for the remaining term of the loan.

Consumer Lending. 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. All consumer loans are originated in the Bank's market areas. At September 30, 2012, our consumer loan portfolio totaled $155.9 million, or approximately 3% of our total loan portfolio.

The majority of the consumer loan portfolio is comprised of home equity lines of credit, which have interest rates that can adjust monthly based upon changes in the Prime rate, to a maximum of 18%. Home equity lines originated after June 2010 may be originated in amounts, together with the existing first mortgage, of up to 90% of the value of the property. Home equity lines originated prior to June 2010 may have been originated in amounts, together with the amount of the existing first mortgage, of up to 100% of the value of the collateral. Approximately 84% of our home equity lines were originated prior to June 2010. Home equity lines of credit originated after June 2010 have a seven year draw period with a 10 year repayment term and generally require a payment of 1.5% of the outstanding loan balance per month during the draw period, with an amortizing payment during the repayment period. The majority of home equity lines of credit originated prior to June 2010 generally require a payment of 1.5% of the outstanding loan balance per month, but have no stated term-to-maturity and no repayment period. Interest-only home equity lines of credit have a maximum term of 12 months, monthly payments of accrued interest, and a balloon payment at maturity. For home equity lines of credit, repaid principal may be re-advanced at any time, not to exceed the original credit limit of the loan. Closed-end home equity loans may be originated up to 95% of the value of the property securing the loans, taking into consideration the existing first mortgage. The term-to-maturity of closed-end home equity loans may be up to 20 years. Other consumer loan terms vary according to the type of collateral and the length of the contract. Home equity loans, including lines of credit and closed-end loans, comprised approximately 96% of our consumer loan portfolio, or $149.3 million, at September 30, 2012. As of September 30, 2012, 79% of the home equity loan portfolio was adjustable-rate.

The underwriting standards for consumer loans include a determination of the applicant's credit history and an assessment of their 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.

Consumer loans generally have shorter terms to maturity or reprice more frequently, which reduces our exposure to credit risk and changes in interest rates, and usually carry higher rates of interest than do one- to four-family loans. However, consumer loans may entail greater credit risk than do one- to four-family loans, particularly in the case of consumer loans that are secured by rapidly depreciable assets, such as automobiles. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and state insolvency laws, may limit the amount which can be collected on these loans. Management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

Multi-family and Commercial Real Estate Lending. At September 30, 2012, multi-family and commercial real estate loans totaled $48.6 million, or approximately 1% of our total loan portfolio. The Bank's multi-family and commercial real estate loans are originated by the Bank or are in participation with a lead bank, and are secured primarily by multi-family dwellings and small commercial buildings. Approximately 5% of the multi-family and commercial real estate portfolio at September 30, 2012, or $2.2 million, represent participations with another bank.

Multi-family and commercial real estate loans are granted based on the income producing potential of the property and the financial strength of the borrower and guarantors. At the time of origination, LTV ratios on multi-family and commercial real estate loans cannot exceed 80% of the appraised value of the property securing the loans. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt at the time of origination. The Bank generally requires personal guarantees of the borrowers covering a portion of the debt in addition to the security property as collateral for these loans. Appraisals on properties securing these loans are performed by independent state certified fee appraisers approved by the Board of Directors. Our multi-family and commercial real estate loans are originated with either a fixed or adjustable interest rate. The interest rate on ARM loans is based on a variety of indices, generally determined through negotiation with the borrower. While maximum maturities may extend to 30 years, these loans frequently have shorter maturities and may not be fully amortizing, requiring balloon payments of unamortized principal at maturity.

We generally do not maintain a tax or insurance escrow account for multi-family or commercial real estate loans. In order to monitor the adequacy of cash flows on income-producing properties with a principal balance of $1.5 million or more, the borrower is notified annually to provide financial information including rental rates and income, maintenance costs and an update of real estate property tax payments, as well as personal financial information.

Our multi-family and commercial real estate loans are generally large dollar loans and involve a greater degree of credit risk than one- to four-family loans. Such loans typically involve large balances to single borrowers or groups of related borrowers. Because payments on multi-family and commercial real estate loans are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the economy or the real estate market. If the cash flow from the project is reduced, or if leases are not obtained or renewed, the borrower's ability to repay the loan may be impaired.

Loan Portfolio. The following table presents the composition of our loan portfolio as of the dates indicated. Total loans receivable increased $453.3 million, from $5.20 billion at September 30, 2011 to $5.65 billion at September 30, 2012. The increase in the loan portfolio was due primarily to an increase in one- to four-family loans resulting largely from $630.2 million of bulk and correspondent loan purchases during the current fiscal year, which, in turn, increased premiums/deferred costs. In January 2012, management implemented a loan charge-off policy as OCC Call Report requirements do not permit the use of specific valuation allowances ("SVAs"), which the Bank was previously utilizing for potential loan losses, as permitted by our previous regulator. As a result of the implementation of the charge-off policy, $3.5 million of SVAs were charged-off during the March 31, 2012 quarter, which accounts for the majority of the $4.4 million decrease in ACL between September 30, 2011 and September 30, 2012.

	September 30, 2012		2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)							
Real Estate Loans:								
One- to four-family	$ 5,392,429	95.5 %	$ 4,918,778	94.7 %	$ 4,915,651	94.4 %	$ 5,321,935	94.2 %
Multi-family and commercial	48,623	0.9	57,965	1.1	66,476	1.3	80,493	1.4
Construction	52,254	0.9	47,368	0.9	33,168	0.6	39,535	0.7
Total real estate loans	5,493,306	97.3	5,024,111	96.7	5,015,295	96.3	5,441,963	96.3
Consumer Loans:								
Home equity	149,321	2.6	164,541	3.2	186,347	3.6	195,557	3.5
Other	6,529	0.1	7,224	0.1	7,671	0.1	9,430	0.2
Total consumer loans	155,850	2.7	171,765	3.3	194,018	3.7	204,987	3.7
Total loans receivable	5,649,156	100.0 %	5,195,876	100.0 %	5,209,313	100.0 %	5,646,950	100.0 %
Less:								
Undisbursed loan funds	22,874		22,531		15,489		20,649	
ACL	11,100		15,465		14,892		10,150	
Discounts/unearned loan fees	21,468		19,093		22,267		23,549	
Premiums/deferred costs	(14,369)		(10,947)		(11,537)		(11,363)	
Total loans receivable, net	$ 5,608,083		$ 5,149,734		$ 5,168,202		$ 5,603,965	

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The following table presents the contractual maturity of our loan portfolio at September 30, 2012. Loans which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract is due. The table does not reflect the effects of possible prepayments or enforcement of due on sale clauses.

	Real Estate						Consumer				Total	
	One- to Four-Family		Multi-family and Commercial		Construction and Development [2]		Home Equity [3]		Other			
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	We[illegible] Av[illegible] R[illegible]
	(Dollars in thousands)											
Amounts due:												
Within one year [1]	$ 3,447	5.27 %	$ 3,545	5.75 %	$ 32,507	4.39 %	$ 657	5.86 %	$ 769	4.65 %	$ 40,9[illegible]	[illegible]
After one year:												
Over one to two	3,181	5.63	--	0.00	19,747	3.55	285	5.94	1,167	5.92	24,38[illegible]	[illegible]
Over two to three	4,292	5.37	81	4.13	--	--	3,357	4.81	1,280	4.59	9,0[illegible]	[illegible]
Over three to five	40,978	5.30	3,543	5.08	--	--	3,052	5.87	2,945	4.25	50,51[illegible]	[illegible]
Over five to ten	294,133	4.53	29,405	5.75	--	--	13,410	6.09	368	6.17	33[illegible]	[illegible]