WASHINGTON FEDERAL INC
Form 10-Q
February 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended December 31, 2015
or

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

For the transition period from to
Commission file number 001-34654
WASHINGTON FEDERAL, INC.
(Exact name of registrant as specified in its charter)

Washington	91-1661606
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

425 Pike Street Seattle, Washington 98101
(Address of principal executive offices and zip code)
(206) 624-7930
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
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 x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
APPLICABLE ONLY TO CORPORATE ISSUERS
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of class:	at February 3, 2016

Common stock, $1.00 par value	91,563,241

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I

Item 1. Financial Statements (Unaudited)

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

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)

	December 31, 2015	September 30, 2015
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$305,959	$284,049
Available-for-sale securities, at fair value	2,304,788	2,380,563
Held-to-maturity securities, at amortized cost	1,598,370	1,643,216
Loans receivable, net	9,402,730	9,170,634
Interest receivable	38,259	40,429
Premises and equipment, net	288,796	276,247
Real estate owned	42,098	61,098
FHLB and FRB stock	111,107	107,198
Bank owned life insurance	103,281	102,496
Intangible assets, including goodwill of $291,503	298,719	299,358
Federal and state income tax assets, net	716	14,513
Other assets	190,076	188,523
	$14,684,899	$14,568,324
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Customer accounts		
Transaction deposit accounts	$5,924,084	$5,820,878
Time deposit accounts	4,727,035	4,810,825
	10,651,119	10,631,703
FHLB advances	1,928,000	1,830,000
Advance payments by borrowers for taxes and insurance	21,747	50,224
Accrued expenses and other liabilities	113,793	100,718
	12,714,659	12,612,645
Stockholders' equity		
Common stock, $1.00 par value, 300,000,000 shares authorized; 134,100,924 and 133,695,803 shares issued; 92,918,434 and 92,936,395 shares outstanding	134,101	133,696
Paid-in capital	1,649,529	1,643,712
Accumulated other comprehensive income (loss), net of taxes	(4,432)	353
Treasury stock, at cost; 41,182,490 and 40,759,408 shares	(661,774)	(651,836)
Retained earnings	852,816	829,754
	1,970,240	1,955,679
	$14,684,899	$14,568,324

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Quarter Ended December 31,	
	2015	2014
	(In thousands, except per share data)	
INTEREST INCOME		
Loans	$112,863	$108,293
Mortgage-backed securities	16,987	19,175
Investment securities and cash equivalents	5,274	5,273
	135,124	132,741
INTEREST EXPENSE		
Customer accounts	12,717	13,445
FHLB advances and other borrowings	15,538	17,113
	28,255	30,558
Net interest income	106,869	102,183
Provision for (reversal of) allowance for loan losses	—	(5,500)
Net interest income after reversal of provision for loan losses	106,869	107,683
OTHER INCOME		
Loan fee income	1,517	2,065
Deposit fee income	5,917	5,977
Other income (expense)	3,201	(2,662)
	10,635	5,380
OTHER EXPENSE		
Compensation and benefits	29,699	29,160
Occupancy	8,592	8,135
FDIC insurance premiums	2,589	674
Product delivery	5,523	5,627
Information technology	8,710	4,030
Other expense	9,396	5,974
	64,509	53,600
Gain on real estate acquired through foreclosure, net	1,420	315
Income before income taxes	54,415	59,778
Income tax provision	19,317	21,371
NET INCOME	$35,098	$38,407
PER SHARE DATA		
Basic earnings	$0.38	$0.39
Diluted earnings	0.38	0.39
Dividends paid on common stock per share	0.13	0.15
Basic weighted average number of shares outstanding	92,986,358	98,147,939
Diluted weighted average number of shares outstanding	93,577,837	98,524,839

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Quarter Ended December 31,	
	2015	2014
	(In thousands)	
Net income	$35,098	$38,407
Other comprehensive income (loss) net of tax:		
Net unrealized gain (loss) on available-for-sale securities	(10,360)	8,560
Related tax benefit (expense)	3,807	(3,146)
	(6,553)	5,414
Net unrealized gain (loss) on long-term borrowing hedge	2,795	(4,249)
Related tax benefit (expense)	(1,027)	1,562
	1,768	(2,687)
Other comprehensive income (loss) net of tax	(4,785)	2,727
Comprehensive income	$30,313	$41,134

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

(in thousands)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at October 1, 2015	$133,696	$1,643,712	$829,754	$353	$(651,836)	$1,955,679
Net income			35,098			35,098
Other comprehensive income (loss)				(4,785)		(4,785)
Dividends on common stock			(12,036)			(12,036)
Compensation expense related to common stock options		300				300
Proceeds from exercise of common stock options	227	4,815				5,042
Restricted stock expense	178	702				880
Treasury stock acquired					(9,938)	(9,938)
Balance at December 31, 2015	$134,101	$1,649,529	$852,816	$(4,432)	$(661,774)	$1,970,240

(in thousands)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at October 1, 2014	$133,323	$1,638,211	$706,149	$20,708	$(525,108)	$1,973,283
Net income			38,407			38,407
Other comprehensive income (loss)				2,727		2,727
Dividends on common stock			(10,159)			(10,159)
Compensation expense related to common stock options		300				300
Proceeds from exercise of common stock options	18	248				266
Restricted stock expense	250	591				841
Treasury stock acquired					(24,326)	(24,326)
Balance at December 31, 2014	$133,591	$1,639,350	$734,397	$23,435	$(549,434)	$1,981,339

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Quarter Ended December 31, 2015	2014
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$35,098	$38,407
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	2,934	5,299
Cash received from (paid to) FDIC under loss share	1,975	(431)
Stock option compensation expense	300	300
Reversal of provision for loan losses	—	(5,500)
Gain on investment securities and real estate held for sale	(2,310)	(9,606)
Decrease in accrued interest receivable	2,170	11,280
Decrease in federal and state income tax receivable	16,577	19,208
Increase in cash surrender value of bank owned life insurance	(785)	(216)
Increase in other assets	(3,754)	(14,552)
Increase (decrease) in accrued expenses and other liabilities	15,870	(25,890)
Net cash provided by operating activities	68,075	18,299
CASH FLOWS FROM INVESTING ACTIVITIES		
Origination of loans and principal repayments, net	(179,768)	(36,993)
Loans purchased	(51,646)	(46,831)
FHLB & FRB stock purchased	(6,809)	—
FHLB & FRB stock redemption	2,901	3,969
Available-for-sale securities purchased	(50,741)	(41,225)
Principal payments and maturities of available-for-sale securities	114,764	202,760
Principal payments and maturities of held-to-maturity securities	43,569	31,178
Proceeds from sales of real estate owned	26,664	17,909
Purchase of bank owned life insurance	—	(100,000)
Premises and equipment purchased and REO improvements	(17,183)	(2,019)
Net cash provided by (used in) investing activities	(118,249)	28,748
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in customer accounts	19,492	(137,999)
Proceeds from borrowings	204,000	—
Repayments of borrowings	(106,000)	(100,000)
Proceeds from exercise of common stock options and related tax benefit	5,042	266
Dividends paid on common stock	(12,036)	(14,359)
Treasury stock purchased	(9,938)	(24,326)
Decrease in advance payments by borrowers for taxes and insurance	(28,476)	(9,703)
Net cash provided by (used in) financing activities	72,084	(286,121)
Increase (decrease) in cash and cash equivalents	21,910	(239,074)
Cash and cash equivalents at beginning of period	284,049	781,843
Cash and cash equivalents at end of period	$305,959	$542,769

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Quarter Ended December 31,	
	2015	2014
	(In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities		
Real estate acquired through foreclosure	$5,308	$8,852
Covered real estate acquired through foreclosure	—	51
Cash paid during the period for		
Interest	29,195	34,653
Income taxes	8	23

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies
Nature of Operations - Washington Federal, Inc. is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through a federally-insured national bank subsidiary. The Bank is principally engaged in the business of attracting deposits from the general public and investing these funds, together with borrowings and other funds, in one-to-four family residential mortgage and construction loans, home equity loans, lines of credit, commercial and industrial loans, multi-family and other forms of real estate loans. As used throughout this document, the terms "Washington Federal" or the "Company" refer to Washington Federal, Inc. and its consolidated subsidiaries and the term "Bank" refers to the operating subsidiary Washington Federal, National Association.
Basis of Presentation - The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal. All intercompany transactions and accounts have been eliminated in consolidation. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2015 Consolidated Statement of Financial Condition was derived from audited financial statements.
The information included in this Form 10-Q should be read in conjunction with the financial statements and related notes in the Company's 2015 Annual Report on Form 10-K (“2015 Form 10-K”). Interim results are not necessarily indicative of results for a full year.
Summary of Significant Accounting Policies - The significant accounting policies used in preparation of the Company's consolidated financial statements are disclosed in its 2015 Form10-K. There have not been any material changes in our significant accounting policies compared to those contained in our 2015 Form 10-K disclosure for the year ended September 30, 2015.
Off-Balance-Sheet Credit Exposures – The only material off-balance-sheet credit exposures are loans in process and unused lines of credit, which had a combined balance of $923,891,000 and $816,014,000 at December 31, 2015 and September 30, 2015, respectively. The Company estimates losses on off-balance-sheet credit exposures by allocating a loss percentage derived from historical loss factors for each asset class.

NOTE B – New Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The new guidance clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. ASU 2014-04 is effective for annual and interim reporting periods within those annual periods, beginning after December 15, 2014. The Company's adoption of this guidance did not have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. These amendments are effective for interim and annual periods beginning after December 15, 2015 and early adoption is permitted. ASU

2015-03 may be applied retrospectively in previously issued financial statements for one or more years with a cumulative-effect adjustment to retained earnings. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update was to be effective for interim and annual periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, which delayed the effective date of ASU 2014-09 by one year and permits companies to voluntarily adopt the new standard as of the original effective date. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

On April 15, 2015, the FASB issued ASU 2015-05, Customer’s Accounting for Fees Paid in Cloud Computing Arrangement. The ASU was issued to clarify a customer's accounting for fees paid in a cloud computing arrangement. The amendments provide guidance to customers in determining whether a cloud computing arrangement includes a software license that should be accounted for as internal-use software. If the arrangement does not contain a software license, it would be accounted for as a service contract. The guidance in this ASU are effective for interim and annual periods beginning after December 15, 2015 and can be adopted either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

On September 25, 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. the amendments in ASU 2015-16 require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period’s financial statements, the effect on earnings as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in ASU 2015-16 are effective for years beginning after December 15, 2015. Early adoption is permitted for reporting periods for which financial statements have not been issued. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

NOTE C – Dividends and Share Repurchases

On January 20, 2016, the Company announced its 132nd consecutive quarterly cash dividend on common stock of $0.14 per share. The current dividend will be paid on February 12, 2016, to common shareholders of record on February 1, 2016. Dividends per share were $0.13 and $0.15 for the quarters ended December 31, 2015 and 2014, respectively. For the three months ended December 31, 2015, the Company repurchased 423,082 shares at an average price of $23.49. For the three months ended December 31, 2014, the Company repurchased 1,116,147 shares at an average price of $21.79. There are 3,778,148 remaining shares that can be repurchased under the current Board approved program.

NOTE D – Loans Receivable

The following table is a summary of loans receivable (including LIP, net of charge offs.)

	December 31, 2015 (In thousands)			September 30, 2015 (In thousands)		
Non-Acquired loans						
Single-family residential	$5,629,715	55.7	%	$5,651,845	57.5	%
Construction	660,238	6.5		200,509	2.0	
Construction - custom	404,849	4.0		396,307	4.0	
Land - acquisition & development	97,025	1.0		94,208	1.0	
Land - consumer lot loans	102,376	1.0		103,989	1.1	
Multi-family	997,696	9.9		1,125,722	11.5	
Commercial real estate	839,157	8.3		986,270	10.0	
Commercial & industrial	751,073	7.4		612,836	6.2	
HELOC	127,919	1.3		127,646	1.3	
Consumer	181,142	1.8		194,655	2.0	
Total non-acquired loans	9,791,190	96.9	%	9,493,987	96.6	%
Acquired loans	164,380	1.6		166,293	1.7	
Credit impaired acquired loans	116,030	1.1		87,081	0.9	
Covered loans	38,584	0.4		75,909	0.8	
Total gross loans	10,110,184	100.0	%	9,823,270	100.0	%
Less:						
Allowance for probable losses	107,901			106,829		
Loans in process	535,850			476,796		
Discount on acquired loans	25,040			30,095		
Deferred net origination fees	38,663			38,916		
Total loan contra accounts	707,454			652,636		
Net Loans	$9,402,730			$9,170,634		

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The following table sets forth information regarding non-accrual loans.

	December 31, 2015			September 30, 2015		
	(In thousands)					
Non-accrual loans:						
Single-family residential	$43,856	77.3	%	$59,074	87.1	%
Construction	—	—		754	1.1	%
Construction - custom	2,518	4.4		732	1.1	%
Land - acquisition & development	509	0.9		—	—	%
Land - consumer lot loans	939	1.7		1,273	1.9	%
Multi-family	1,538	2.7		2,558	3.8	%
Commercial real estate	6,681	11.8		2,176	3.2	%
Commercial & industrial	115	0.2		—	—	%
HELOC	473	0.8		563	0.8	%
Consumer	119	0.2		680	1.0	%
Total non-accrual loans	$56,748	100	%	$67,810	100	%

The Company recognized interest income on nonaccrual loans of approximately $1,257,000 in the three months ended December 31, 2015. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately $687,000 for the three months ended December 31, 2015. The recognized interest income includes more than three months of interest for some of the loans that were brought current.
The following tables provide details regarding delinquent loans.

December 31, 2015	Amount of Loans	Days Delinquent Based on $ Amount of Loans					% based	
Type of Loan	Net of LIP & Chg.-Offs	Current	30	60	90	Total	on $	
	(In thousands)							
Non-acquired loans								
Single-Family Residential	$5,644,009	$5,576,774	$17,285	$9,939	$40,010	$67,234	1.19	%
Construction	325,485	324,619	560	306	—	866	0.27	
Construction - Custom	221,327	218,773	28	9	2,518	2,554	1.15	
Land - Acquisition & Development	85,830	84,805	387	—	638	1,025	1.19	
Land - Consumer Lot Loans	102,887	100,224	828	897	938	2,663	2.59	
Multi-Family	966,921	965,110	1,196	—	615	1,811	0.19	
Commercial Real Estate	929,495	920,582	841	1,933	6,139	8,913	0.96	
Commercial & Industrial	756,831	754,611	2,219	1	—	2,220	0.29	
HELOC	125,479	124,883	19	19	558	595	0.47	
Consumer	181,431	179,977	882	352	221	1,454	0.80	
	9,339,695	9,250,358	24,245	13,456	51,637	89,335	0.96	
Acquired loans	140,995	140,137	193	16	649	858	0.61	
Credit impaired acquired loans	55,060	52,806	854	—	1,400	2,254	4.09	
Covered loans	38,584	37,062	501	295	726	1,522	3.94	
Total Loans	$9,574,334	$9,480,363	$25,793	$13,767	$54,412	$93,969	0.98	%

Delinquency %	99.02%	0.27%	0.14%	0.57%	0.98%

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September 30, 2015	Amount of Loans	Days Delinquent Based on $ Amount of Loans					% based	
Type of Loan	Net of LIP & Chg.-Offs (In thousands)	Current	30	60	90	Total	on $	
Non-acquired loans								
Single-Family Residential	$5,655,928	$5,590,673	$17,305	$7,757	$40,193	$65,255	1.15	%
Construction	130,121	130,121	—	—	—	—	—	
Construction - Custom	205,692	204,168	791	270	463	1,524	0.74	
Land - Acquisition & Development	75,661	74,737	406	—	518	924	1.22	
Land - Consumer Lot Loans	104,494	102,045	689	399	1,361	2,449	2.34	
Multi-Family	1,068,038	1,065,667	259	454	1,658	2,371	0.22	
Commercial Real Estate	893,072	892,180	131	—	761	892	0.10	
Commercial & Industrial	617,545	616,602	93	27	823	943	0.15	
HELOC	127,648	127,196	174	27	251	452	0.35	
Consumer	194,977	194,259	493	170	55	718	0.37	
	9,073,176	8,997,648	20,341	9,104	46,083	75,528	0.83	
Acquired loans	57,682	56,559	356	—	767	1,123	1.95	
Credit impaired acquired loans	139,726	138,940	243	4	539	786	0.56	
Covered loans	75,890	70,729	272	90	4,799	5,161	6.80	
Total Loans	$9,346,474	$9,263,876	$21,212	$9,198	$52,188	$82,598	0.88	%
Delinquency %		99.12%	0.23%	0.10%	0.56%	0.88%		

The percentage of total delinquent loans increased from 0.88% as of September 30, 2015 to 0.98% as of December 31, 2015.

The following table provides information related to loans that were restructured in at TDR during the periods presented:

	Quarter Ended December 31,					
	2015			2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:						
Single-family residential	3	$729	$ 729	35	$9,600	$ 9,600
Construction	—	—	—	2	718	718
Land - consumer lot loans	—	—	—	2	532	532
Commercial real estate	5	965	965	—	—	—
Consumer	—	—	—	1	85	85
	8	$1,694	$ 1,694	40	$10,935	$ 10,935

The following table provides information on payment defaults occurring during the periods presented where the loan had been modified in a TDR within 12 months of the payment default.

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
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(UNAUDITED)

	Quarter Ended December 31,			
	2015		2014	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(In thousands)		(In thousands)	
TDRs That Subsequently Defaulted:				
Single-family residential	5	$668	8	$1,431
Land - consumer lot loans	1	148	3	389
	6	$816	11	$1,820

Most loans restructured in troubled debt restructurings ("TDRs") are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. As of December 31, 2015, 96.6% of the Bank's $282,723,000 in TDRs were classified as performing. Each request is individually evaluated for merit and likelihood of success. The concession for these loans is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twelve months. Interest-only payments may also be approved during the modification period. Principal forgiveness is not an available option for restructured loans. As of December 31, 2015, single-family residential loans comprised 86.1% of TDRs.

The Company reserves for restructured loans within its allowance for loan loss methodology by taking into account the following performance indicators: 1) time since modification, 2) current payment status and 3) geographic area.

The following table shows the changes in accretable yield for acquired impaired loans and acquired non-impaired loans (including covered loans).

	Quarter Ended December 31, 2015				Fiscal Year Ended September 30, 2015			
	Acquired Impaired		Acquired Non-impaired		Acquired Impaired		Acquired Non-impaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
	(In thousands)				(In thousands)			
Beginning balance	$72,705	$111,300	$7,204	$187,080	$97,125	$135,826	$14,513	$275,862
Additions	—	—	—	—	—	—	—	—
Net reclassification from nonaccretable	—	—	—	—	6,307	—	346	—
Accretion	(5,526)	5,526	(857)	857	(30,727)	30,727	(7,655)	7,655
Transfers to REO	—	—	—	—	—	(2,975)	—	(150)
Payments received, net	—	(7,680)	—	(3,790)	—	(52,278)	—	(96,287)
Ending Balance	$67,179	$109,146	$6,347	$184,147	$72,705	$111,300	$7,204	$187,080

The excess of cash flows expected to be collected over the initial fair value of acquired impaired loans is referred to as the accretable yield and this amount is accreted into interest income over the estimated life of the acquired loans using the effective interest method. Other adjustments to the accretable yield include changes in the estimated remaining life of the acquired loans, changes in expected cash flows and changes in the respective indices for acquired loans with variable interest rates.

Additionally, as of December 31, 2015 the Company has $1,700,000 remaining in loans it acquired during fiscal 2013 as part of the South Valley Bank acquisition for which it was probable at acquisition that all contractually required payments would not be collected. The timing and amount of future cash flows cannot not be reasonably estimated; therefore, these loan are accounted for on a cash basis.

At December 31, 2015 and September 30, 2015, none of the acquired impaired or non-impaired loans were classified as non-performing assets. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

Covered loans were $38,584,000 at December 31, 2015 compared to $75,909,000 as of September 30, 2015, the decrease being attributable to FDIC loss share coverage on commercial loans from the former Home Valley Bank that expired after September 30, 2015. The FDIC loss share coverage for single family residential loans will continue for another five years. The remaining portfolio of covered loans is expected to continue to decline over time, absent another FDIC assisted transaction.

The following table shows activity for the FDIC indemnification asset:

	Three Months Ended December 31, 2015	Fiscal Year Ended September 30, 2015
	(In thousands)	
Balance at beginning of period	$16,275	$36,860
Additions	—	(1,795)
Payments received	(1,974)	(720)
Amortization	(287)	(18,588)
Accretion	62	518
Balance at end of period	$14,076	$16,275

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NOTE E – Allowance for Losses on Loans

The following tables summarize the activity in the allowance for loan losses.

Three Months Ended December 31, 2015	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$47,347	$(1,139)	$2,466	$(918)	$47,756
Construction	6,680	—	155	179	7,014
Construction - custom	990	(60)	—	132	1,062
Land - acquisition & development	5,781	—	35	962	6,778
Land - consumer lot loans	2,946	(408)	—	463	3,001
Multi-family	5,304	—	—	(257)	5,047
Commercial real estate	8,960	(23)	123	1,284	10,344
Commercial & industrial	24,980	(248)	1	(637)	24,096
HELOC	902	(1)	21	(102)	820
Consumer	2,939	(242)	392	(1,106)	1,983
	$106,829	$(2,121)	$3,193	$—	$107,901

Fiscal Year Ended September 30, 2015	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$62,763	$(5,524)	$13,403	$(23,295)	$47,347
Construction	6,742	(388)	$120	206	6,680
Construction - custom	1,695	—	—	(705)	990
Land - acquisition & development	5,592	(38)	207	20	5,781
Land - consumer lot loans	3,077	(459)	221	107	2,946
Multi-family	4,248	—	220	836	5,304
Commercial real estate	7,548	(1,711)	735	2,388	8,960
Commercial & industrial	16,527	(3,354)	1,374	10,433	24,980
HELOC	928	(66)	2	38	902
Consumer	3,227	(3,060)	3,688	(916)	2,939
Covered loans	2,244	—	—	(2,244)	—
	$114,591	$(14,600)	$19,970	$(13,132)	$106,829

There was no provision for loan losses recorded for the three months ended December 31, 2015, which compares to a reversal of provision of $5,500,000 for the three months ended December 31, 2014. The lack of provision for the quarter ended December 31, 2015 was a result of continued improvement in credit quality of the loan portfolio offset by net growth in the loan portfolio. The related improvement in the credit quality of the loan portfolio relates to the factors below.

The Company had recoveries, net of charge-offs, of $1,072,000 for the quarter ended December 31, 2015, compared with $842,000 of net recoveries for the same quarter one year ago. Non-performing assets amounted to $98,846,000, or 0.67%, of total assets at December 31, 2015, compared to $164,317,000, or 1.13% of total assets at December 31, 2014. Non-accrual loans decreased from $98,353,000 at December 31, 2014, to $56,748,000 at December 31, 2015, a 42.3% decrease. The percentage of delinquent loans decreased from 1.47% at December 31, 2014, to 0.98% at December 31, 2015.

The reserve for unfunded commitments was $3,085,000 as of December 31, 2015, which is unchanged since September 30, 2015.

Management believes the allowance for loan losses plus the reserve for unfunded commitments, totaling $110,986,000, or 1.10% of gross loans, is sufficient to absorb estimated losses inherent in the portfolio.

Acquired loans, including covered loans, are not usually classified as non-performing because at acquisition, the carrying value of these loans is recorded at fair value. As of December 31, 2015, $25,223,000 in acquired loans were subject to the general allowance as the discount related to these balances was no longer sufficient to absorb all of the expected losses.

The following tables show loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves.

December 31, 2015	Loans Collectively Evaluated for Impairment				Loans Individually Evaluated for Impairment			
	Allowance Allocation	Recorded Investment of Loans (1)	Ratio		Allowance Allocation	Recorded Investment of Loans (1)	Ratio	
	(In thousands)				(In thousands)			
Single-family residential	$47,625	$5,614,580	0.8	%	$130	$14,206	0.9	%
Construction	7,014	121,689	5.8		—	—	—	
Construction - custom	1,062	218,749	0.5		—	2,578	—	
Land - acquisition & development	6,778	77,223	8.8		—	6,649	—	
Land - consumer lot loans	3,001	91,664	3.3		—	10,658	—	
Multi-family	5,048	1,085,243	0.5		—	3,500	—	
Commercial real estate	10,344	939,248	1.1		—	9,811	—	
Commercial & industrial	24,096	776,240	3.1		—	27	—	
HELOC	820	126,596	0.6		—	1,310	—	
Consumer	1,983	180,814	1.1		—	328	—	
	$107,771	$9,232,046	1.2	%	$130	$49,067	0.3	%

(1) Excludes acquired loans with discounts sufficient to absorb potential losses and covered loans

September 30, 2015	Loans Collectively Evaluated for Impairment				Loans Individually Evaluated for Impairment			
	Allowance Allocation	Recorded Investment of Loans (1)	Ratio		Allowance Allocation	Recorded Investment of Loans (1)	Ratio	
	(In thousands)				(In thousands)			
Single-family residential	$47,073	$5,595,752	0.8	%	$275	$51,718	0.5	%
Construction	6,680	124,679	5.4		—	5,441	—	
Construction - custom	990	205,692	0.5		—	—	—	
Land - acquisition & development	5,781	72,602	8.0		—	2,198	—	
Land - consumer lot loans	2,946	93,103	3.2		—	10,824	—	
Multi-family	5,304	1,062,194	0.5		—	5,348	—	
Commercial real estate	8,960	844,691	1.1		—	8,826	—	
Commercial & industrial	24,980	643,577	3.9		—	—	—	
HELOC	902	126,594	0.7		—	1,072	—	
Consumer	2,938	194,569	1.5					