TFS Financial CORP
Form 10-Q
May 07, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2015

or

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

For transition period from to

Commission File Number 001-33390

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	ý	Accelerated filer	¨

Non-accelerated filer ¨ (do not check if a smaller reporting company) 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 ý.
Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of the latest practicable date.
As of May 4, 2015 there were 295,239,131 shares of the Registrant's common stock, par value $0.01 per share, outstanding, of which 227,119,132 shares, or 76.9% of the Registrant's common stock, were held by Third Federal Savings and Loan Association of Cleveland, MHC, the Registrant's mutual holding company.

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GLOSSARY OF TERMS

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

AOCI: Accumulated Other Comprehensive Income
ARM: Adjustable Rate Mortgage
ASC: Accounting Standards Codification
ASU: Accounting Standards Update
Association: Third Federal Savings and Loan Association of Cleveland
BAAS: OCC Bank Accounting Advisory Series
CDs: Certificates of Deposit
CFPB: Consumer Financial Protection Bureau
CLTV: Combined Loan-to-Value
Company: TFS Financial Corporation and its subsidiaries
DFA: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DIF: Depository Insurance Fund
EaR: Earnings at Risk
ESOP: Third Federal Employee (Associate) Stock Ownership Plan
EVE: Economic Value of Equity
FASB: Financial Accounting Standards Board
FDIC: Federal Deposit Insurance Corporation
FHFA: Federal Housing Finance Agency
FHLB: Federal Home Loan Bank
Fannie Mae: Federal National Mortgage Association
FRB-Cleveland: Federal Reserve Bank of Cleveland
FRS: Board of Governors of the Federal Reserve System
GAAP: Generally Accepted Accounting Principles
GVA: General Valuation Allowances
HARP: Home Affordable Refinance Program
HPI: Home Price Index
IRR: Interest Rate Risk
IRS: Internal Revenue Service
IVA: Individual Valuation Allowance
LIHTC: Low Income Housing Tax Credit
LIP: Loans-in-Process
LTV: Loan-to-Value
MGIC: Mortgage Guaranty Insurance Corporation
MOU: Memorandum of Understanding
NOW: Negotiable Order of Withdrawal
OCC: Office of the Comptroller of the Currency
OCI: Other Comprehensive Income
OTS: Office of Thrift Supervision
PMI: Private Mortgage Insurance
PMIC: PMI Mortgage Insurance Co.
QTL: Qualified Thrift Lender
REMICs: Real Estate Mortgage Investment Conduits
REIT: Real Estate Investment Trust
SEC: United States Securities and Exchange Commission
TDR: Troubled Debt Restructuring
Third Federal Savings, MHC: Third Federal Savings and Loan Association of Cleveland, MHC

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

	March 31, 2015	September 30, 2014
ASSETS		
Cash and due from banks	$27,918	$26,886
Interest-earning cash equivalents	192,817	154,517
Cash and cash equivalents	220,735	181,403
Investment securities available for sale (amortized cost $581,155 and $570,549, respectively)	586,091	568,868
Mortgage loans held for sale, at lower of cost or market ($1,101 and $4,570 measured at fair value, respectively)	1,101	4,962
Loans held for investment, net:		
Mortgage loans	10,950,262	10,708,483
Other consumer loans	3,874	4,721
Deferred loan expenses (fees), net	4,525	(1,155)
Allowance for loan losses	(77,093)	(81,362)
Loans, net	10,881,568	10,630,687
Mortgage loan servicing rights, net	10,741	11,669
Federal Home Loan Bank stock, at cost	69,470	40,411
Real estate owned	20,278	21,768
Premises, equipment, and software, net	55,788	56,443
Accrued interest receivable	31,793	31,952
Bank owned life insurance contracts	193,083	190,152
Other assets	63,046	64,880
TOTAL ASSETS	$12,133,694	$11,803,195
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Deposits	$8,500,918	$8,653,878
Borrowed funds	1,667,753	1,138,639
Borrowers’ advances for insurance and taxes	71,422	76,266
Principal, interest, and related escrow owed on loans serviced	60,370	54,670
Accrued expenses and other liabilities	42,805	40,285
Total liabilities	10,343,268	9,963,738
Commitments and contingent liabilities		
Preferred stock, $0.01 par value, 100,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $0.01 par value, 700,000,000 shares authorized; 332,318,750 shares issued; 296,370,083 and 301,654,581 outstanding at March 31, 2015 and September 30, 2014, respectively	3,323	3,323
Paid-in capital	1,703,791	1,702,441
Treasury stock, at cost; 35,948,667 and 30,664,169 shares at March 31, 2015 and September 30, 2014, respectively	(457,861)	(379,109)
Unallocated ESOP shares	(63,918)	(66,084)
Retained earnings—substantially restricted	611,335	589,678
Accumulated other comprehensive loss	(6,244)	(10,792)
Total shareholders’ equity	1,790,426	1,839,457

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$12,133,694	$11,803,195

See accompanying notes to unaudited interim consolidated financial statements.

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

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2015	2014	2015	2014
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	$92,040	$90,545	$183,875	$180,946
Investment securities available for sale	2,548	2,305	5,103	4,405
Other interest and dividend earning assets	1,059	495	2,405	1,013
Total interest and dividend income	95,647	93,345	191,383	186,364
INTEREST EXPENSE:				
Deposits	23,422	21,962	47,898	45,224
Borrowed funds	4,803	2,349	8,927	4,311
Total interest expense	28,225	24,311	56,825	49,535
NET INTEREST INCOME	67,422	69,034	134,558	136,829
PROVISION FOR LOAN LOSSES	1,000	5,000	3,000	11,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	66,422	64,034	131,558	125,829
NON-INTEREST INCOME:				
Fees and service charges, net of amortization	1,979	2,393	4,137	4,682
Net gain on the sale of loans	1,144	533	1,842	872
Increase in and death benefits from bank owned life insurance contracts	1,599	1,583	3,500	3,196
Other	1,173	1,025	2,369	1,862
Total non-interest income	5,895	5,534	11,848	10,612
NON-INTEREST EXPENSE:				
Salaries and employee benefits	24,304	23,325	47,869	45,407
Marketing services	5,685	3,360	10,185	6,613
Office property, equipment and software	5,658	5,283	11,051	10,272
Federal insurance premium and assessments	2,888	2,547	5,349	5,094
State franchise tax	1,548	1,731	2,951	3,418
Real estate owned expense, net	2,635	3,008	5,335	4,953
Other operating expenses	6,111	5,677	12,062	12,033
Total non-interest expense	48,829	44,931	94,802	87,790
INCOME BEFORE INCOME TAXES	23,488	24,637	48,604	48,651
INCOME TAX EXPENSE	7,822	8,252	16,294	16,242
NET INCOME	$15,666	$16,385	$32,310	$32,409
Earnings per share—basic and diluted	$0.05	$0.05	$0.11	$0.11
Weighted average shares outstanding				
Basic	291,377,147	300,261,921	292,600,384	300,450,112
Diluted	293,342,875	301,529,980	294,744,776	301,697,091

See accompanying notes to unaudited interim consolidated financial statements.

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

	For the Three Months Ended		For the Six Months Ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Net income	$ 15,666	$ 16,385	$ 32,310	$ 32,409
Other comprehensive income (loss), net of tax:				
Change in net unrealized income (loss) on securities available for sale	3,868	1,773	4,301	(174)
Change in pension obligation	123	48	247	96
Total other comprehensive income (loss)	3,991	1,821	4,548	(78)
Total comprehensive income	$ 19,657	$ 18,206	$ 36,858	$ 32,331

See accompanying notes to unaudited interim consolidated financial statements.

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TFS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)
(In thousands)

	Common stock	Paid-in capital	Treasury stock	Unallocated common stock held by ESOP	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance at September 30, 2013	$ 3,323	$ 1,696,370	$ (278,215)	$ (70,418)	$ 529,021	$ (8,604)	$ 1,871,477
Net income	—	—	—	—	32,409	—	32,409
Other comprehensive loss, net of tax	—	—	—	—	—	(78)	(78)
ESOP shares allocated or committed to be released	—	416	—	2,167	—	—	2,583
Compensation costs for stock-based plans	—	3,591	—	—	—	—	3,591
Excess tax effect from stock-based compensation	—	43	—	—	—	—	43
Purchase of treasury stock (2,156,250 shares)	—	—	(26,058)	—	—	—	(26,058)
Treasury stock allocated to restricted stock plan	—	(1,092)	1,550	—	(297)	—	161
Balance at March 31, 2014	$ 3,323	$ 1,699,328	$ (302,723)	$ (68,251)	$ 561,133	$ (8,682)	$ 1,884,128
Balance at September 30, 2014	$ 3,323	$ 1,702,441	$ (379,109)	$ (66,084)	$ 589,678	$ (10,792)	$ 1,839,457
Net income	—	—	—	—	32,310	—	32,310
Other comprehensive income, net of tax	—	—	—	—	—	4,548	4,548
ESOP shares allocated or committed to be released	—	988	—	2,166	—	—	3,154
Compensation costs for stock-based plans	—	3,854	—	—	—	—	3,854
Excess tax effect from stock-based compensation	—	1,095	—	—	—	—	1,095
Purchase of treasury stock (5,622,500 shares)	—	—	(82,042)	—	—	—	(82,042)
Treasury stock allocated to restricted stock plan	—	(4,587)	3,290	—	(1,399)	—	(2,696)
Dividends paid to common shareholders ($0.14 per common share)	—	—	—	—	(9,254)	—	(9,254)
Balance at March 31, 2015	$ 3,323	$ 1,703,791	$ (457,861)	$ (63,918)	$ 611,335	$ (6,244)	$ 1,790,426

See accompanying notes to unaudited interim consolidated financial statements.

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

	For the Six Months Ended March 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$32,310	$32,409
Adjustments to reconcile net income to net cash provided by operating activities:		
ESOP and stock-based compensation expense	7,008	6,335
Depreciation and amortization	7,874	5,976
Provision for loan losses	3,000	11,000
Net gain on the sale of loans	(1,842)	(872)
Other net losses	1,618	1,626
Principal repayments on and proceeds from sales of loans held for sale	11,083	16,513
Loans originated for sale	(11,537)	(13,480)
Increase in bank owned life insurance contracts	(3,227)	(3,202)
Net increase in interest receivable and other assets	(526)	(538)
Net increase in accrued expenses and other liabilities	2,431	5,083
Other	181	245
Net cash provided by operating activities	48,373	61,095
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans originated	(1,199,858)	(1,155,941)
Principal repayments on loans	892,238	836,092
Proceeds from principal repayments and maturities of:		
Securities available for sale	69,853	59,947
Proceeds from sale of:		
Loans	45,726	24,738
Real estate owned	11,907	12,708
Purchases of:		
FHLB stock	(29,059)	(4,785)
Securities available for sale	(83,011)	(71,292)
Premises and equipment	(1,728)	(2,230)
Other	295	18
Net cash used in investing activities	(293,637)	(300,745)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposits	(152,960)	(49,009)
Net decrease in borrowers' advances for insurance and taxes	(4,844)	(6,159)
Net increase (decrease) in principal and interest owed on loans serviced	5,700	(22,333)
Net increase in short term borrowed funds	239,482	128,344
Proceeds from long term borrowed funds	300,294	230,000
Repayment of long term borrowed funds	(10,662)	(33,329)
Purchase of treasury shares	(81,559)	(26,058)
Excess tax benefit related to stock-based compensation	1,095	—
Acquisition of treasury shares through net settlement of stock benefit plans compensation	(2,696)	—
Dividends paid to common shareholders	(9,254)	—
Net cash provided by financing activities	284,596	221,456

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	39,332	(18,194)
CASH AND CASH EQUIVALENTS—Beginning of period	181,403	285,996
CASH AND CASH EQUIVALENTS—End of period	$220,735	$267,802
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest on deposits	$47,780	$44,943
Cash paid for interest on borrowed funds	8,445	3,968
Cash paid for income taxes	9,279	6,000
SUPPLEMENTAL SCHEDULES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of loans to real estate owned	12,110	11,230
Transfer of loans from held for investment to held for sale	40,351	24,619
Treasury stock issued for stock benefit plans	5,986	—

See accompanying notes to unaudited interim consolidated financial statements.

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

1. BASIS OF PRESENTATION

TFS Financial Corporation, a federally chartered stock holding company, conducts its principal activities through its wholly owned subsidiaries. The principal line of business of the Company is retail consumer banking, including mortgage lending, deposit gathering, and, to a much lesser extent, other financial services. On March 31, 2015, approximately 77% of the Company’s outstanding shares were owned by a federally chartered mutual holding company, Third Federal Savings and Loan Association of Cleveland, MHC. The thrift subsidiary of TFS Financial Corporation is Third Federal Savings and Loan Association of Cleveland.

The accounting and reporting policies followed by the Company conform in all material respects to accounting principles generally accepted in the United States of America and to general practices in the financial services industry. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for loan losses, the valuation of mortgage loan servicing rights, the valuation of deferred tax assets, and the determination of pension obligations and stock-based compensation are particularly subject to change.

The unaudited interim consolidated financial statements were prepared without an audit and reflect all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly the consolidated financial condition of the Company at March 31, 2015, and its results of operations and cash flows for the periods presented. Such adjustments are the only adjustments reflected in the unaudited interim financial statements. In accordance with Regulation S-X for interim financial information, these statements do not include certain information and footnote disclosures required for complete audited financial statements. The Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2014 contains consolidated financial statements and related notes, which should be read in conjunction with the accompanying interim consolidated financial statements. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2015 or for any other period.

2. EARNINGS PER SHARE

Basic earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period. Diluted earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares. For purposes of computing earnings per share amounts, outstanding shares include shares held by the public, shares held by the ESOP that have been allocated to participants or committed to be released for allocation to participants, the 227,119,132 shares held by Third Federal Savings, MHC, and, for purposes of computing dilutive earnings per share, stock options and restricted stock units with a dilutive impact. At March 31, 2015 and 2014, respectively, the ESOP held 6,391,761 and 6,825,100 shares that were neither allocated to participants nor committed to be released to participants.

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

	For the Three Months Ended March 31,					
	2015			2014		
	Income	Shares	Per share amount	Income	Shares	Per share amount
	(Dollars in thousands, except per share data)					
Net income	$15,666			$16,385		
Less: income allocated to restricted stock units	132			79		
Basic earnings per share:						
Income available to common shareholders	$15,534	291,377,147	$0.05	$16,306	300,261,921	$0.05
Diluted earnings per share:						
Effect of dilutive potential common shares		1,965,728			1,268,059	
Income available to common shareholders	$15,534	293,342,875	$0.05	$16,306	301,529,980	$0.05

	For the Six Months Ended March 31,					
	2015			2014		
	Income	Shares	Per share amount	Income	Shares	Per share amount
	(Dollars in thousands, except per share data)					
Net income	$32,310			$32,409		
Less: income allocated to restricted stock units	279			156		
Basic earnings per share:						
Income available to common shareholders	$32,031	292,600,384	$0.11	$32,253	300,450,112	$0.11
Diluted earnings per share:						
Effect of dilutive potential common shares		2,144,392			1,246,979	
Income available to common shareholders	$32,031	294,744,776	$0.11	$32,253	301,697,091	$0.11

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

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2015	2014	2015	2014
Options to purchase shares	959,700	3,907,600	959,700	3,923,600

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3. INVESTMENT SECURITIES

Investments available for sale are summarized as follows:

	March 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency obligations	$2,000	$12	$—	$2,012
REMICs	568,916	4,981	(747)	573,150
Fannie Mae certificates	10,239	715	(25)	10,929
Total	$581,155	$5,708	$(772)	$586,091

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency obligations	$2,000	$23	$—	$2,023
REMICs	557,895	1,896	(4,184)	555,607
Fannie Mae certificates	10,654	749	(165)	11,238
Total	$570,549	$2,668	$(4,349)	$568,868

Gross unrealized losses on securities and the estimated fair value of the related securities, aggregated by investment category and length of time the individual securities have been in a continuous loss position, at March 31, 2015 and September 30, 2014, were as follows:

	March 31, 2015					
	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Available for sale—						
REMICs	$61,342	$165	$84,246	$582	$145,588	$747
Fannie Mae certificates	4,904	25	—	—	4,904	25
Total	$66,246	$190	$84,246	$582	$150,492	$772

	September 30, 2014					
	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Available for sale—						
REMICs	$182,151	$947	$162,321	$3,237	$344,472	$4,184
Fannie Mae certificates	—	—	4,826	165	4,826	165
Total	$182,151	$947	$167,147	$3,402	$349,298	$4,349

The unrealized losses on investment securities were attributable to interest rate increases. The contractual terms of U.S. government and agency obligations do not permit the issuer to settle the security at a price less than the par value of the investment. The contractual cash flows of mortgage-backed securities are guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. REMICs are issued by or backed by securities issued by these governmental agencies. It is expected that the securities would not be settled at a price substantially less than the amortized cost of the investment. The U.S. Treasury Department established financing agreements in 2008 to ensure Fannie Mae and Freddie Mac meet their obligations to holders of mortgage-backed securities that they have issued or guaranteed.

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Since the decline in value is attributable to changes in interest rates and not credit quality and because the Association has neither the intent to sell the securities nor is it more likely than not the Association will be required to sell the securities for the time periods necessary to recover the amortized cost, these investments are not considered other-than-temporarily impaired. At March 31, 2015, the amortized cost and fair value of U.S. government and agency obligations available for sale, categorized as due within one year, are $2,000 and $2,012, respectively. At September 30, 2014, the amortized cost and fair value of those obligations, then categorized as due in more than one year but less than five years, were $2,000 and $2,023, respectively.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans held for investment consist of the following:

	March 31, 2015	September 30, 2014
Real estate loans:		
Residential Core	$9,128,623	$8,828,839
Residential Home Today	145,427	154,196
Home equity loans and lines of credit	1,656,331	1,696,929
Construction	44,949	57,104
Real estate loans	10,975,330	10,737,068
Other consumer loans	3,874	4,721
Less:		
Deferred loan expenses (fees), net	4,525	(1,155)
LIP	(25,068)	(28,585)
Allowance for loan losses	(77,093)	(81,362)
Loans held for investment, net	$10,881,568	$10,630,687

At March 31, 2015 and September 30, 2014, respectively, $1,101 and $4,962 of loans were classified as mortgage loans held for sale.

A large concentration of the Company's lending is in Ohio and Florida. As of March 31, 2015 and September 30, 2014, the percentages of residential real estate loans held in Ohio were 66% and 68%, respectively, and the percentages held in Florida were 17% as of both dates. As of March 31, 2015 and September 30, 2014, home equity loans and lines of credit were concentrated in Ohio (40% at each date), Florida (27% and 28% respectively), and California (13% at each date). Although somewhat dissipating during the last two years, the lingering effects of the adverse economic conditions and market for real estate in Ohio and Florida that arose in connection with the financial crisis of 2008, continue to unfavorably impact the ability of borrowers in those areas to repay their loans.

Home Today is an affordable housing program targeted to benefit low- and moderate-income home buyers. Through this program the Association provided the majority of loans to borrowers who would not otherwise qualify for the Association's loan products, generally because of low credit scores. Although the credit profiles of borrowers in the Home Today program might be described as sub-prime, Home Today loans generally contain the same features as loans offered to our Core borrowers. Borrowers in the Home Today program must complete financial management education and counseling and must be referred to the Association by a sponsoring organization with which the Association has partnered as part of the program. Borrowers must also meet a minimum credit score threshold. Because the Association applied less stringent underwriting and credit standards to the majority of Home Today loans, loans originated under the program have greater credit risk than its traditional residential real estate mortgage loans. While effective March 27, 2009, the Home Today underwriting guidelines were changed to be substantially the same as the Association's traditional first mortgage product, the majority of loans in this program were originated prior to that date. As of March 31, 2015 and September 30, 2014, the principal balance of Home Today loans originated prior to March 27, 2009 was $142,410 and $151,164, respectively. The Association does not offer, and has not offered, loan products frequently considered to be designed to target sub-prime borrowers containing features such as higher fees or higher rates, negative amortization, a loan-to-value ratio greater than 100%, or pay option adjustable-rate mortgages.

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An age analysis of the recorded investment in loan receivables that are past due at March 31, 2015 and September 30, 2014 is summarized in the following tables. When a loan is more than one month past due on its scheduled payments, the loan is considered 30 days or more past due. Balances are net of deferred fees and any applicable loans-in-process.

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
March 31, 2015						
Real estate loans:						
Residential Core	$7,752	$2,159	$30,903	$40,814	$9,085,934	$9,126,748
Residential Home Today	4,639	2,065	12,325	19,029	124,343	143,372
Home equity loans and lines of credit	5,296	2,639	7,616	15,551	1,649,026	1,664,577
Construction	—	—	—	—	20,090	20,090
Total real estate loans	17,687	6,863	50,844	75,394	10,879,393	10,954,787
Other consumer loans	—	—	—	—	3,874	3,874
Total	$17,687	$6,863	$50,844	$75,394	$10,883,267	$10,958,661

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
September 30, 2014						
Real estate loans:						
Residential Core	$9,067	$3,899	$37,451	$50,417	$8,772,180	$8,822,597
Residential Home Today	7,887	2,553	15,105	25,545	126,417	151,962
Home equity loans and lines of credit	6,044	1,785	9,037	16,866	1,687,349	1,704,215
Construction	200	—	—	200	28,354	28,554
Total real estate loans	23,198	8,237	61,593	93,028	10,614,300	10,707,328
Other consumer loans	—	—	—	—	4,721	4,721
Total	$23,198	$8,237	$61,593	$93,028	$10,619,021	$10,712,049

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

	March 31, 2015	September 30, 2014
Real estate loans:		
Residential Core	$71,180	$79,388
Residential Home Today	26,455	29,960
Home equity loans and lines of credit	24,658	26,189
Construction	—	—
Total real estate loans	122,293	135,537
Other consumer loans	—	—
Total non-accrual loans	$122,293	$135,537

Loans are placed in non-accrual status when they are contractually 90 days or more past due. Loans restructured in TDRs that were in non-accrual status prior to the restructurings remain in non-accrual status for a minimum of six months after restructuring. Additionally, home equity loans and lines of credit where the customer has a severely delinquent first mortgage loan and loans in Chapter 7 bankruptcy status where all borrowers have filed, and not reaffirmed or been dismissed, are placed in non-accrual status. At March 31, 2015 and September 30, 2014, respectively, the recorded investment in non-accrual loans includes $71,448 and $73,946 which are performing according to the terms of their agreement, of which $46,183 and $49,019 are loans in Chapter 7 bankruptcy status primarily where all borrowers have filed, and have not reaffirmed or been dismissed.

Interest on loans in accrual status, including certain loans individually reviewed for impairment, is recognized in interest income as it accrues, on a daily basis. Accrued interest on loans in non-accrual status is reversed by a charge to interest income

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

The recorded investment in loan receivables at March 31, 2015 and September 30, 2014 is summarized in the following table. The table provides details of the recorded balances according to the method of evaluation used for determining the allowance for loan losses, distinguishing between determinations made by evaluating individual loans and determinations made by evaluating groups of loans not individually evaluated. Balances of recorded investments are net of deferred fees and any applicable loans-in-process.

	March 31, 2015			September 30, 2014		
	Individually	Collectively	Total	Individually	Collectively	Total
Real estate loans:						
Residential Core	$127,905	$8,998,843	$9,126,748	$131,719	$8,690,878	$8,822,597
Residential Home Today	63,393	79,979	143,372	67,177	84,785	151,962
Home equity loans and lines of credit	32,363	1,632,214	1,664,577	34,490	1,669,725	1,704,215
Construction	—	20,090	20,090	—	28,554	28,554
Total real estate loans	223,661	10,731,126	10,954,787	233,386	10,473,942	10,707,328
Other consumer loans	—	3,874	3,874	—	4,721	4,721
Total	$223,661	$10,735,000	$10,958,661	$233,386	$10,478,663	$10,712,049

An analysis of the allowance for loan losses at March 31, 2015 and September 30, 2014 is summarized in the following table. The analysis provides details of the allowance for loan losses according to the method of evaluation, distinguishing between allowances for loan losses determined by evaluating individual loans and allowances for loan losses determined by evaluating groups of loans collectively.

	March 31, 2015			September 30, 2014		
	Individually	Collectively	Total	Individually	Collectively	Total
Real estate loans:						
Residential Core	$9,799	$18,708	$28,507	$8,889	$22,191	$31,080
Residential Home Today	4,220	8,358	12,578	6,366	10,058	16,424
Home equity loans and lines of credit	541	35,449	35,990	532	33,299	33,831
Construction	—	18	18	—	27	27
Total real estate loans	14,560	62,533	77,093	15,787	65,575	81,362
Other consumer loans	—	—	—	—	—	—
Total	$14,560	$62,533	$77,093	$15,787	$65,575	$81,362

At March 31, 2015 and September 30, 2014, individually evaluated loans that required an allowance were comprised only of loans evaluated for impairment based on the present value of cash flows, such as performing TDRs. All other individually evaluated loans received a charge-off, if applicable.

Because many variables are considered in determining the appropriate level of general valuation allowances, directional changes in individual considerations do not always align with the directional change in the balance of a particular component of the general valuation allowance. At March 31, 2015 and September 30, 2014, respectively, allowances on individually reviewed loans evaluated for impairment based on the present value of cash flows, such as performing TDRs, were $14,560 and $15,787.

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Residential Core mortgage loans represent the largest portion of the residential real estate portfolio. The Company believes overall credit risk is low based on the nature, composition, collateral, products, lien position and performance of the portfolio. The portfolio does not include loan types or structures that have historically experienced severe performance problems at other financial institutions (sub-prime, no documentation or pay option adjustable rate mortgages).

As described earlier in this footnote, Home Today loans have greater credit risk than traditional residential real estate mortgage loans. At March 31, 2015 and September 30, 2014, respectively, approximately 37% and 42% of Home Today loans include private mortgage insurance coverage. The majority of the coverage on these loans was provided by PMI Mortgage Insurance Co., which was seized by the Arizona Department of Insurance and through March 31, 2015 paid all claim payments at 67%. In April 2015, the Association was notified that, in addition to a catch-up adjustment for prior claims, all future claims will be paid at 70%. Appropriate adjustments have been made to the Association’s affected valuation allowances and charge-offs, and estimated loss severity factors were adjusted accordingly for loans evaluated collectively. The amount of loans in our owned portfolio covered by mortgage insurance provided by PMIC as of March 31, 2015 and September 30, 2014, respectively, was $157,842 and $186,233 of which $145,325 and $170,128 was current. The amount of loans in our owned portfolio covered by mortgage insurance provided by Mortgage Guaranty Insurance Corporation as of March 31, 2015 and September 30, 2014, respectively, was $66,602 and $74,254 of which $65,943 and $73,616 was current. As of March 31, 2015, MGIC's long-term debt rating, as published by the major credit rating agencies, did not meet the requirements to qualify as "high credit quality"; however, MGIC continues to make claims payments in accordance with its contractual obligations and the Association has not increased its estimated loss severity factors related to MGIC's claim paying ability. No other loans were covered by mortgage insurers that were deferring claim payments or which were assessed as being non-investment grade.

Home equity loans and lines of credit represent a significant portion of the residential real estate portfolio, primarily comprised of home equity lines of credit. The state of the economy and low housing prices continue to have an adverse impact on a portion of this portfolio since the home equity lines generally are in a second lien position. Post-origination deterioration in economic and housing market conditions may also impact a borrower's ability to afford the higher payments required during the end of draw repayment period that follows the period of interest only payments on home equity lines of credit originated prior to 2012 or the ability to secure alternative financing. When the Association began to offer new home equity lines of credit again, the product was designed with prudent property and credit performance conditions to reduce future risk. Beginning in February 2013, the terms on new home equity lines of credit included monthly principal and interest payments throughout the entire term to minimize the potential payment differential between the during draw and after draw periods.

The Association originates construction loans to individuals for the construction of their personal single-family residence by a qualified builder (construction/permanent loans). The Association’s construction/permanent loans generally provide for disbursements to the builder or sub-contractors during the construction phase as work progresses. During the construction phase, the borrower only pays interest on the drawn balance. Upon completion of construction, the loan converts to a permanent amortizing loan without the expense of a second closing. The Association offers construction/permanent loans with fixed or adjustable rates, and a current maximum loan-to-completed-appraised value ratio of 80%. Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, the Association may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. This is more likely to occur when home prices are falling.

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

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The recorded investment and the unpaid principal balance of impaired loans, including those reported as TDRs, as of March 31, 2015 and September 30, 2014 are summarized as follows. Balances of recorded investments are net of deferred fees.

	March 31, 2015			September 30, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related IVA recorded:						
Residential Core	$69,072	$89,553	$—	$72,840	$94,419	$—
Residential Home Today	26,463	55,646	—	28,045	57,854	—
Home equity loans and lines of credit	24,233	33,450	—	26,618	38,046	—
Construction	—	—	—	—	—	—
Other consumer loans	—	—	—	—	—	—
Total	$119,768	$178,649	$—	$127,503	$190,319	$—
With an IVA recorded:						
Residential Core	$58,833	$59,717	$9,799	$58,879	$59,842	$8,889
Residential Home Today	36,930	37,456	4,220	39,132	39,749	6,366
Home equity loans and lines of credit	8,130	8,141	541	7,872	7,909	532
Construction	—	—	—	—	—	—
Other consumer loans	—	—	—	—	—	—
Total	$103,893	$105,314	$14,560	$105,883	$107,500	$15,787
Total impaired loans:						
Residential Core	$127,905	$149,270	$9,799	$131,719	$154,261	$8,889
Residential Home Today	63,393	93,102	4,220	67,177	97,603	6,366
Home equity loans and lines of credit	32,363	41,591	541	34,490	45,955	532
Construction	—	—	—	—	—	—
Other consumer loans	—	—	—	—	—	—
Total	$223,661	$283,963	$14,560	$233,386	$297,819	$15,787

At March 31, 2015 and September 30, 2014, respectively, the recorded investment in impaired loans includes $184,307 and $186,428 of loans restructured in TDRs of which $19,010 and $20,851 were 90 days or more past due. For all classes of loans, a loan is considered impaired when, based on current information and events, it is probable that the Association will be unable to collect the scheduled payments of principal and interest according to the contractual terms of the loan agreement. Factors considered in determining that a loan is impaired may include the deteriorating financial condition of the borrower indicated by missed or delinquent payments, a pending legal action, such as bankruptcy or foreclosure, or the absence of adequate security for the loan.

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

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

- For residential mortgage loans, payments are greater than 180 days delinquent;
- For home equity lines of credit, equity loans, and residential loans restructured in a TDR, payments are greater than 90 days delinquent;
- For all classes of loans, a sheriff sale is scheduled within 60 days to sell the collateral securing the loan;
- For all classes of loans, all borrowers have been discharged of their obligation through a Chapter 7 bankruptcy;

- For all classes of loans, within 60 days of notification, all borrowers obligated on the loan have filed Chapter 7 bankruptcy and have not reaffirmed or been dismissed;
- For all classes of loans, a borrower obligated on a loan has filed bankruptcy and the loan is greater than 30 days delinquent;

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• For all classes of loans, it becomes evident that a loss is probable.

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

The following summarizes the effective dates of charge-off policies that changed or were first implemented during the current and previous four fiscal years and the portfolios to which those policies apply.

Effective Date	Policy	Portfolio(s) Affected
6/30/2014	A loan is considered collateral dependent and any collateral shortfall is charged off when, within 60 days of notification, all borrowers obligated on a loan filed Chapter 7 bankruptcy and have not reaffirmed or been dismissed (1)	All
9/30/2012	Pursuant to an OCC directive, a loan is considered collateral dependent and any collateral shortfall is charged off when all borrowers obligated on a loan are discharged through Chapter 7 bankruptcy	All
6/30/2012	Loans in any form of bankruptcy greater than 30 days past due are considered collateral dependent and any collateral shortfall is charged off	All
12/31/2011	Pursuant to an OCC directive, impairment on collateral dependent loans previously reserved for in the allowance were charged off. Charge-offs are recorded to recognize confirmed collateral shortfalls on impaired loans (2)	All
9/30/2010	Timing of impairment evaluation was accelerated to include equity loans greater than 90 days delinquent (3)	Home Equity Loans

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(1) Prior to 6/30/2014, collateral shortfalls on loans in Chapter 7 bankruptcy were charged off when all borrowers were discharged of the obligation or when the loan was 30 days or more past due. Adoption of this policy did not result in a material change to total charge-offs or the provision for loan losses in the three or nine months ending June 30, 2014.

(2) Prior to 12/31/2011, partial charge-offs were not used, but a reserve in the allowance was established when the recorded investment in the loan exceeded the fair value of the collateral less costs to dispose. Individual loans were only charged off when a triggering event occurred, such as a foreclosure action was culminated, a short sale was approved, or a deed was accepted in lieu of repayment.

(3) Prior to 9/30/2010, impairment evaluations on equity loans were performed when the loan was greater than 180 days delinquent.

Loans restructured in TDRs that are not evaluated based on collateral are separately evaluated for impairment on a loan by loan basis at the time of restructuring and at each subsequent reporting date for as long as they are reported as TDRs. The impairment evaluation is based on the present value of expected future cash flows discounted at the effective interest rate of the original loan. Expected future cash flows include a discount factor representing a potential for default. Valuation allowances are recorded for the excess of the recorded investments over the result of the cash flow analysis. Loans discharged in Chapter 7 bankruptcy are reported as TDRs and also evaluated based on the present value of expected future cash flows unless evaluated based on collateral. We evaluate these loans using the expected future cash flows because we expect the borrower, not liquidation of the collateral, to be the source of repayment for the loan. Other consumer loans are not considered for restructuring. A loan restructured in a TDR is classified as an impaired loan for a minimum of one year. After one year, that loan may be reclassified out of the balance of impaired loans if the loan was restructured to yield a market rate for loans of similar credit risk at the time of restructuring and the loan is not impaired based on the terms of the restructuring agreement. No loans whose terms were restructured in TDRs were reclassified from impaired loans during the three months ended March 31, 2015 and March 31, 2014.

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

	For the Three Months Ended March 31,			
	2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related IVA recorded:				
Residential Core	$70,658	$299	$80,383	$294
Residential Home Today	26,886	65	31,130	66
Home equity loans and lines of credit	24,305	86	28,752	85
Construction	—	—	340	1
Other consumer loans	—	—	—	—
Total	$121,849	$450	$140,605	$446
With an IVA recorded:				
Residential Core	$58,762	$650	$59,000	$680
Residential Home Today	37,262	476	42,427	536
Home equity loans and lines of credit	8,274	59	6,888	59
Construction	—	—	—	—
Other consumer loans	—	—	—	—
Total	$104,298	$1,185	$108,315	$1,275
Total impaired loans:				
Residential Core	$129,420	$949	$139,383	$974
Residential Home Today	64,148	541	73,557	602
Home equity loans and lines of credit	32,579	145	35,640	144
Construction	—	—	340	1
Other consumer loans	—	—	—	—
Total	$226,147	$1,635	$248,920	$1,721

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	For the Six Months Ended March 31,			
	2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related IVA recorded:				
Residential Core	$70,956	$586	$83,212	$575
Residential Home Today	27,254	123	31,854	153
Home equity loans and lines of credit	25,426	158	28,210	177
Construction	—	—	287	6
Other consumer loans	—	—	—	—
Total	$123,636	$867	$143,563	$911
With an IVA recorded:				
Residential Core	$58,856	$1,314	$59,749	$1,423
Residential Home Today	38,031	963	43,677	1,089
Home equity loans and lines of credit	8,001	126	6,889	119
Construction	—	—	33	—
Other consumer loans	—	—	—	—
Total	$104,888	$2,403	$110,348	$2,631
Total impaired loans:				
Residential Core	$129,812	$1,900	$142,961	$1,998
Residential Home Today	65,285	1,086	75,531	1,242
Home equity loans and lines of credit	33,427	284	35,099	296
Construction	—	—	320	6
Other consumer loans	—	—	—	—
Total	$228,524	$3,270	$253,911	$3,542

Interest on loans in non-accrual status is recognized on a cash-basis. The amounts of interest income on impaired loans recognized using a cash-basis method were $306 and $583 for the quarter ended and six months ended March 31, 2015, respectively, and $285 and $629 for the quarter ended and six months ended March 31, 2014, respectively. Cash payments on loans with a partial charge-off are applied fully to principal, then to recovery of the charged off amount prior to interest income being recognized. Interest income on the remaining impaired loans is recognized on an accrual basis.

The recorded investment in TDRs by type of concession as of March 31, 2015 and September 30, 2014 is shown in the tables below.

March 31, 2015	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
Residential Core	$ 16,925	$ 1,087	$ 9,277	$ 22,147	$ 22,909	$ 33,939	$ 106,284
Residential Home Today	8,666	60	6,336	13,346	22,879	6,567	57,854
Home equity loans and lines of credit	102	2,553	444	2,215	765	14,090	20,169
Total	$ 25,693	$ 3,700	$ 16,057	$ 37,708	$ 46,553	$ 54,596	$ 184,307

September 30, 2014	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
Residential Core	$ 16,693	$ 1,265	$ 10,248	$ 21,113	$ 22,687	$ 33,576	$ 105,582
Residential Home Today	11,374	78	7,448	15,085	20,823	5,301	60,109

Home equity loans and lines of credit	74	1,833	769	1,213	819	16,029	20,737
Total	$ 28,141	$ 3,176	$ 18,465	$ 37,411	$ 44,329	$ 54,906	$ 186,428

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

For all loans restructured during the three months and six months ended March 31, 2015 and March 31, 2014 (set forth in the table below), the pre-restructured outstanding recorded investment was not materially different from the post-restructured outstanding recorded investment.

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

	For the Three Months Ended March 31, 2015						
	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
Residential Core	$805	$—	$212	$1,149	$ 1,528	$2,233	$5,927
Residential Home Today	—	—	188	95	2,484	796	3,563
Home equity loans and lines of credit	—	369	—	446	40	348	1,203
Total	$805	$369	$400	$1,690	$ 4,052	$3,377	$10,693

	For the Three Months Ended March 31, 2014						
	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
Residential Core	$442	$—	$—	$586	$ 1,360	$1,541	$3,929
Residential Home Today	74	—	—	2	1,207	227	1,510
Home equity loans and lines of credit	—	237	—	551	70	1,189	2,047
Total	$516	$237	$—	$1,139	$ 2,637	$2,957	$7,486

	For the Six Months Ended March 31, 2015						
	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
Residential Core	$1,565	$—	$278	$2,998	$ 2,515	$5,089	$12,445
Residential Home Today	82	—	357	158	3,806	1,786	6,189
Home equity loans and lines of credit	—	1,015	—	917	83	913	2,928
Total	$1,647	$1,015	$635	$4,073	$ 6,404	$7,788	$21,562

	For the Six Months Ended March 31, 2014						
	Reduction in Interest Rates	Payment Extensions	Forbearance or Other	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total

			Actions				
Residential Core	$921	$—	$225	$2,112	$ 2,637	$3,397	$9,292
Residential Home Today	163	—	—	227	2,321	445	3,156
Home equity loans and lines of credit	—	523	—	745	126	2,073	3,467
Total	$1,084	$523	$225	$3,084	$ 5,084	$5,915	$15,915

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

	For the Three Months Ended March 31,			
	2015		2014	
TDRs That Subsequently Defaulted	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)		(Dollars in thousands)	
Residential Core	29	$3,698	32	$3,359
Residential Home Today	22	799	31	1,516
Home equity loans and lines of credit	14	575	40	1,469
Total	65	$5,072	103	$6,344

	For the Six Months Ended March 31,			
	2015		2014	
TDRs That Subsequently Defaulted	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)		(Dollars in thousands)	
Residential Core	34	$3,801	37	$3,773
Residential Home Today	25	1,065	38	1,776
Home equity loans and lines of credit	21	642	49	1,554
Total	80	$5,508	124	$7,103

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

	Pass	Special Mention	Substandard	Loss	Total
March 31, 2015					
Real Estate Loans:					
Residential Core	$9,050,345	$—	$76,403	$—	$9,126,748
Residential Home Today	115,344	—	28,028	—	143,372
Home equity loans and lines of credit	1,630,364	5,879	28,334	—	1,664,577
Construction	20,090	—	—	—	20,090
Total	$10,816,143	$5,879	$132,765	$—	$10,954,787

	Pass	Special Mention	Substandard	Loss	Total
September 30, 2014					
Real Estate Loans:					
Residential Core	$8,739,183	$—	$83,414	$—	$8,822,597
Residential Home Today	120,827	—	31,135	—	151,962
Home equity loans and lines of credit	1,667,939	6,084	30,192	—	1,704,215
Construction	28,554	—	—	—	28,554
Total	$10,556,503	$6,084	$144,741	$—	$10,707,328

Residential loans are internally assigned a grade that complies with the guidelines outlined in the OCC's Handbook for Rating Credit Risk. Pass loans are assets well protected by the current paying capacity of the borrower. Special Mention loans have a potential weakness that the Association feels deserve management's attention and may result in further deterioration in their repayment prospects and/or the Association's credit position. Substandard loans are inadequately protected by the current payment capacity of the borrower or the collateral pledged with a defined weakness that jeopardizes the liquidation of the debt. Also included in Substandard are performing home equity loans and lines of credit where the customer has a severely delinquent first mortgage to which the performing home equity loan or line of credit is subordinate and loans in Chapter 7

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bankruptcy status where all borrowers have filed, and have not reaffirmed or been dismissed. Loss loans are considered uncollectible and are charged off when identified.

At March 31, 2015 and September 30, 2014, respectively, the recorded investment of impaired loans includes $102,906 and $103,459 of TDRs that are individually evaluated for impairment, but have adequately performed under the terms of the restructuring and are classified as Pass loans. At March 31, 2015 and September 30, 2014, respectively, there were $12,010 and $14,814 of loans classified substandard and $5,879 and $6,084 of loans designated special mention that are not included in the recorded investment of impaired loans; rather, they are included in loans collectively evaluated for impairment.

Other consumer loans are internally assigned a grade of nonperforming when they become 90 days or more past due. At March 31, 2015 and September 30, 2014, no consumer loans were graded as nonperforming.

During the quarter ended December 31, 2013, $5,321 of residential loans were deemed uncollectible and fully charged-off as a result of implementing a new practice of charging off the remaining balance on loans that had remained delinquent and in the foreclosure process for greater than 1,500 days. These loans previously were recorded at estimated net realizable value, with the potential for additional loss recognized within the allowance for loan losses. Any future foreclosure proceeds on these loans would result in recoveries of prior charge-offs.

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

	For the Three Months Ended March 31, 2015				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential Core	$28,717	$1,315	$(2,916)	$1,391	$28,507
Residential Home Today	16,434	(3,537)	(581)	262	12,578
Home equity loans and lines of credit	34,595	3,221	(3,124)	1,298	35,990
Construction	16	1	—	1	18
Total real estate loans	79,762	1,000	(6,621)	2,952	77,093
Other consumer loans	—	—	—	—	—
Total	$79,762	$1,000	$(6,621)	$2,952	$77,093

	For the Three Months Ended March 31, 2014				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential Core	$33,462	$1,865	$(3,707)	$1,022	$32,642
Residential Home Today	20,479	(2,412)	(2,388)	1,240	16,919
Home equity loans and lines of credit	31,227	5,624	(4,258)	1,192	33,785
Construction	114	(77)	—	8	45
Total real estate loans	85,282	5,000	(10,353)	3,462	83,391
Other consumer loans	—	—	—	—	—
Total	$85,282	$5,000	$(10,353)	$3,462	$83,391

	For the Six Months Ended March 31, 2015				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential Core	$31,080	$(409)	$(4,184)	$2,020	$28,507
Residential Home Today	16,424	(2,613)	(1,663)	430	12,578
Home equity loans and lines of credit	33,831	6,201	(6,753)	2,711	35,990

Construction	27	(179)	—	170	18
Total real estate loans	81,362	3,000	(12,600)	5,331	77,093
Other consumer loans	—	—	—	—	—
Total	$81,362	$3,000	$(12,600)	$5,331	$77,093

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	For the Six Months Ended March 31, 2014				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential Core	$35,427	$6,946	$(11,183)	$1,452	$32,642
Residential Home Today	24,112	(3,219)	(5,321)	1,347	16,919
Home equity loans and lines of credit	32,818	7,381	(8,935)	2,521	33,785
Construction	180	(108)	(41)	14	45
Total real estate loans	92,537	11,000	(25,480)	5,334	83,391
Other consumer loans	—	—	—	—	—
Total	$92,537	$11,000	$(25,480)	$5,334	$83,391

5. DEPOSITS

Deposit account balances are summarized as follows:

	March 31, 2015	September 30, 2014
Negotiable order of withdrawal accounts	$1,015,153	$990,326
Savings accounts	1,639,910	1,661,920
Certificates of deposit	5,844,321	6,000,216
	8,499,384	8,652,462
Accrued interest	1,534	1,416
Total deposits	$8,500,918	$8,653,878

Brokered certificates of deposit, which are used as a cost effective funding alternative, totaled $477,110 and $356,685 at March 31, 2015 and September 30, 2014, respectively. The FDIC places restrictions on banks with regard to issuing brokered deposits based on the bank's capital classification. As a well-capitalized institution at March 31, 2015 and September 30, 2014, the Association may accept brokered deposits without FDIC restrictions.

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6. OTHER COMPREHENSIVE INCOME (LOSS)

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

	For the Three Months Ended March 31, 2015			For the Three Months Ended March 31, 2014	
	Unrealized gains (losses) on securities available for sale	Defined Benefit Plan	Total	Unrealized gains (losses) on securities available for sale	Defined Benefit Plan