Capitol Federal Financial Inc
Form 10-K
November 29, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2010

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 001-34814

Capitol Federal Financial, Inc.
(Exact name of registrant as specified in its charter)

Maryland	27-2631712
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 Kansas Avenue, Topeka, Kansas	66603
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(785) 235-1341

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15d of the Act.
Yes o No þ

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

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (do not check if smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yeso Noþ

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant, computed by reference to the average of the closing bid and asked price of such stock on the NASDAQ Stock Market as of March 31, 2010, was $0.

As of November 12, 2010, there were no shares issued and outstanding of the Registrant’s common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part II of Form 10-K - Portions of the Annual Report to Stockholders for the year ended September 30, 2010. Part III of Form 10-K - Portions of the proxy statement for the Annual Meeting of Stockholders for the year ended September 30, 2010.

Explanatory Note:

Capitol Federal Financial, Inc., a Maryland corporation (the “Registrant”), was organized to facilitate the “second-step” conversion of Capitol Federal Savings Bank (the “Bank”) from the mutual holding company structure to the stock holding company structure (the “Conversion”). The Conversion is expected to be consummated in the fourth quarter of calendar year 2010, at which time the Registrant will become the holding company for the Bank and will own all of the issued and outstanding shares of the Bank’s common stock.

As part of the Conversion, shares of the Registrant’s common stock will be issued and sold in an offering to certain depositors and borrowers of the Bank and others and will also be issued in exchange for all the currently issued and outstanding shares of Capitol Federal Financial (“CFF”) held by persons other than Capitol Federal Savings Bank MHC (“MHC”). CFF is a federal corporation and is the current mid-tier holding company for the Bank. The Registrant filed a registration statement on Form S-1 (File No. 333-166578) with the Securities and Exchange Commission (the “SEC”) on May 6, 2010. The Registrant also filed several post-effective amendments to the registration statement with the SEC, the latest of which was filed and declared effective on November 12, 2010.

The Conversion and related offering were conditionally approved by the Office of Thrift Supervision on July 9, 2010 and November 12, 2010. The Conversion was approved by the members of MHC in August 2010 and will be voted upon by the stockholders of CFF on December 15, 2010. Completion of the Conversion and related offering is subject to, among other things, the receipt of final regulatory approvals and approval by CFF’s stockholders.

The information in this Form 10-K is for CFF; certain information contained within may not be relevant for the Registrant. Separate financial statements for the Registrant have not been included in this report because the Registrant, which has not issued any shares and has engaged only in organizational activities to date, has no significant assets, contingent or other liabilities, equity, revenues or expenses. The Registrant is capitalized with $1 thousand.

PRIVATE SECURITIES LITIGATION REFORM ACT—SAFE HARBOR STATEMENT

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

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

- our ability to continue to maintain overhead costs at reasonable levels;
- our ability to continue to originate a significant volume of one- to four-family mortgage loans in our market areas;
- our ability to acquire funds from or invest funds in wholesale or secondary markets;
- the future earnings and capital levels of the Bank and the continued non-objection by our primary regulator, the Office of Thrift Supervision (the "OTS"), to distribute capital from the Bank to the Company, which could affect the ability of the Company to pay dividends in accordance with its dividend policies;
- the continued ability of the MHC to waive the receipt of dividends from the Company, the loss of which, whether due to a change in law, regulation or regulatory policy or otherwise, could adversely affect the ability of the Company to pay dividends in accordance with its dividend policies;
- fluctuations in deposit flows, loan demand, and/or real estate values, as well as unemployment levels, which may adversely affect our business;
- the credit risks of lending and investing activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses ("ALLL");
- results of examinations of the Bank by the OTS, including the possibility that the OTS may, among other things, require the Bank to increase its ALLL;
- the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;
- the effects of, and changes in, foreign and military policies of the United States government;
- inflation, interest rate, market and monetary fluctuations;
- our ability to access cost-effective funding;
- the timely development and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;
- the willingness of users to substitute competitors' products and services for our products and services;
- our success in gaining regulatory approval of our products and services and branching locations, when required;
- the impact of changes in financial services laws and regulations, including laws concerning taxes, banking, securities and insurance and the impact of other governmental initiatives affecting the financial services industry;
- implementing business initiatives may be more difficult or expensive than anticipated;
- technological changes;
- acquisitions and dispositions;
- changes in consumer spending and saving habits; and
- our success at managing the risks involved in our business

This list of important factors is not all inclusive. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or the Bank.

PART I

As used in this Form 10-K, unless we specify otherwise, “the Company,” “we,” “us,” and “our” refer to Capitol Federal Financial, a United States corporation. “Capitol Federal Savings,” and “the Bank,” refer to Capitol Federal Savings Bank, a federal savings bank and the wholly-owned subsidiary of Capitol Federal Financial. “MHC” refers to Capitol Federal Savings Bank MHC, a mutual holding company and majority-owner of Capitol Federal Financial.

Item 1. Business

General

The Company is a federally chartered mid-tier mutual holding company incorporated in March 1999. Capitol Federal Financial, Inc. is a wholly-owned subsidiary of the Company. Capitol Federal Financial, Inc. is a Maryland corporation that was incorporated in April 2010 to be the successor corporation to the Company upon completion of the mutual-to-stock conversion of MHC. The Bank is a wholly-owned subsidiary of the Company, which is majority-owned by MHC, a federally chartered mutual holding company. The Company’s common stock is traded on the Global Select tier of the NASDAQ Stock Market under the symbol “CFFN.”

The Boards of Directors of MHC, the Company and the Bank adopted a Plan of Conversion and Reorganization (“the Plan”) on May 5, 2010. Pursuant to the Plan, MHC intends to convert from the mutual holding company form of organization to a stock form of organization. MHC will be merged into the Company, and MHC will no longer exist. As part of the conversion, MHC’s ownership interest of the Company is being offered for sale in a public offering. The existing publicly held shares of the Company, which represent the remaining ownership interest in the Company, will be exchanged for new shares of common stock of Capitol Federal Financial, Inc. When the conversion and public offering are completed, all of the outstanding capital stock of the Bank will be owned by Capitol Federal Financial, Inc. and all of the outstanding capital stock of Capitol Federal Financial, Inc. will be owned by the public.

The Bank is a federally-chartered and insured savings bank headquartered in Topeka, Kansas. The Bank is examined and regulated by the OTS, its primary regulator, and its deposits are insured up to applicable limits by the Deposit Insurance Fund (“DIF”), which is administered by the Federal Deposit Insurance Corporation (“FDIC”). We primarily serve the metropolitan areas of Topeka, Wichita, Lawrence, Manhattan, Emporia and Salina, Kansas and a portion of the metropolitan area of greater Kansas City through 35 traditional and 11 in-store banking offices. At September 30, 2010, we had total assets of $8.49 billion, loans of $5.17 billion, deposits of $4.39 billion and total equity of $962.0 million.

We have been, and intend to continue to be, a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. We attract retail deposits from the general public and invest those funds primarily in permanent loans secured by first mortgages on owner-occupied, one- to four-family residences. To a much lesser extent, we also originate consumer loans, loans secured by first mortgages on non-owner-occupied one- to four-family residences, multi-family and commercial real estate loans and construction loans. While our primary business is the origination of one- to four-family mortgage loans funded through retail deposits, we also purchase whole one- to four-family mortgage loans from correspondent lenders located within our market areas and select market areas in Missouri and from nationwide lenders, and invest in certain investment and mortgage-backed securities (“MBS”) funded through retail deposits, advances from Federal Home Loan Bank Topeka (“FHLB,”) and repurchase agreements. We occasionally originate loans outside of our market areas, and the majority of the whole loans we purchase from nationwide lenders are secured by properties located outside of our market areas.

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

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

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

Available Information

Our Internet website address is www.capfed.com. Financial information, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports can be obtained free of charge from our website. These reports are available on our website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. These reports are also available on the SEC's website at http://www.sec.gov.

Market Area and Competition

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

The Bank ranked second in deposit market share in the state of Kansas as reported in the FDIC "Summary of Deposits - Market Share Report" dated June 30, 2010. Deposit market share is measured by total deposits, without consideration for type of deposit. We do not offer commercial deposit accounts, while many of our competitors have both commercial and retail deposits in their total deposit base. Some of our competitors also offer products and services that we do not, such as trust services and private banking, that add to their total deposits. In recent years, although our overall deposit base has grown, the Bank has experienced a slight decrease in market share due to the entrance of new sources for deposit services such as credit unions, newly chartered banks (de novo institutions), and additional banking locations by established financial institutions which historically have not had locations in Kansas. Consumers also have the ability to utilize online financial institutions and investment brokerages that are not confined to any specific market area. Management considers our well-established retail banking network together with our reputation for financial strength and customer service to be major factors in our success at attracting and retaining customers in our market areas.

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

We purchase one- to four-family conventional mortgage loans from correspondent lenders located within our market areas and select market areas in Missouri, and from nationwide lenders. At September 30, 2010 loans purchased from nationwide lenders represented 11% of our total loan portfolio and were secured by properties located in 47 of the continental United States. At September 30, 2010, purchases from nationwide lenders in the following states comprised greater than 5% of nationwide purchased loans: Illinois 11%; Texas 8%; Florida 7%; and New York 7%.

During fiscal year 2010, the Bank opened three branches in our Kansas City market area and a branch in our Wichita market area. Management continues to consider expansion opportunities in all of our market areas.

Lending Practices and Underwriting Standards

General. The Bank's primary lending activity is the origination of loans and the purchase of loans from a select group of correspondent lenders. These loans are generally secured by first mortgages on owner-occupied, one- to four-family residences in the Bank's primary market areas and select market areas in Missouri. The Bank also makes consumer loans, construction loans secured by residential or commercial properties, and real estate loans secured by multi-family dwellings. Additional lending volume has been generated by purchasing whole one- to four-family conventional mortgage loans from nationwide lenders. By purchasing loans from nationwide lenders, the Bank is able to attain some geographic diversification in its loan portfolio, and to help mitigate the Bank's interest rate risk exposure as the purchased loans are predominantly adjustable-rate or 15-year fixed-rate loans. We have experienced some performance problems and losses on loans purchased from nationwide lenders prior to fiscal year 2008. At the time these loans were purchased, they met our underwriting standards. However, as a result of the continued elevated levels of unemployment and the declines in real estate values, we have experienced an increase in non-performing purchased loans during the past two fiscal years. See additional discussion regarding non-performing purchased loans in "Critical Accounting Policies – Allowance for Loan Losses" in the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K and "Asset Quality – Loans and Real Estate Owned." The Bank purchased $44.1 million of one- to four-family loans from nationwide lenders during fiscal year 2010, the majority of which were adjustable-rate.

These loans had an average credit score of 723 at origination and a weighted average LTV ratio of 47%, based upon the loan balance at the time of purchase and the lower of the purchase price or appraisal at origination. The Bank purchased fewer loans under our nationwide purchase loan program during fiscal year 2010 than in fiscal year 2009 due to the lack of loans meeting our underwriting criteria from our existing relationships. The Bank is working to expand the number of relationships from which it may buy loans in the future. See additional discussion regarding loans purchased during fiscal year 2010 in "Financial Condition – Loans Receivable" in the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K.

The ability of financial institutions, including us, to originate or purchase large dollar volumes of one- to four-family real estate loans may be substantially reduced or restricted under certain economic and regulatory conditions, with a resultant decrease in interest income from these assets. At September 30, 2010, our one- to four-family residential real estate loan portfolio totaled $4.92 billion, a decrease of $406.3 million, or 7.6%, from the total portfolio at September 30, 2009. At September 30, 2010, our one- to four-family residential real estate loan portfolio constituted 94% of our loan portfolio and 58% of our total assets. For a discussion of our market risk associated with loans see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosure about Market Risk" in the Annual Report to Stockholders attached as Exhibit 13 to this Annual Report on Form 10-K.

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

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, the maximum amount which we could have loaned to any one borrower and the borrower's related entities at September 30, 2010 was $125.3 million. Our largest lending relationship to a single borrower or a group of related borrowers at September 30, 2010 consisted of 15 multi-family real estate projects located in Kansas, one single-family home located in Colorado, and four commercial real estate projects with two located in Kansas, one located in Colorado, and one located in Texas. Total commitments and loans outstanding to this group of related borrowers was $42.9 million as of September 30, 2010. Most of the multi-family real estate loans qualify for the low income housing tax credit program. We have over 30 years of experience with this group of borrowers, who usually build and manage their own properties. Each of the loans to this group of borrowers was current and performing in accordance with the original/refinance repayment terms at September 30, 2010. See additional information under the heading "Multi-family and Commercial Real Estate Lending."

The second largest lending relationship at September 30, 2010, consisted of nine loans totaling $11.2 million. Five loans are secured by multi-family real estate units and four are secured by one- to four-family real estate. We have over 30 years of experience with the borrowers. All units were built and are presently being managed by the borrowers. Each of the loans to this group of borrowers was current and performing in accordance with the original repayment terms at September 30, 2010.

One- to Four-Family Residential Real Estate Lending. The Bank originates and services conventional mortgage loans, or loans not insured or guaranteed by a government agency. The Bank also originates Federal Housing Administration ("FHA") insured loan products which are generally sold, along with the servicing of these loans. New loans are originated through referrals from real estate brokers and builders, our marketing efforts, and our existing and walk-in customers. While the Bank originates both adjustable and fixed-rate loans, our ability to originate loans is dependent upon customer demand for loans in our market areas. Demand is affected by the local housing market, competition and the interest rate environment. During the 2010 and 2009 fiscal years, the Bank originated and refinanced $482.9 million and $961.5 million of one- to four-family fixed-rate mortgage loans, and $63.6 million and $35.9 million of one- to four-family adjustable-rate mortgage (“ARM”) loans, respectively.

Repayment

The Bank's one- to four-family loans are primarily fully amortizing fixed-rate or ARM loans with contractual maturities of up to 30 years, except for interest-only ARM loans, which require only the payment of interest during the interest-only period, all with payments due monthly. Our one- to four-family loans are generally not assumable and do not contain prepayment penalties. A "due on sale" clause, allowing the Bank to declare the unpaid principal balance due and payable upon the sale of the secured property, is generally included in the security instrument.

Pricing

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

Adjustable rate loans

Current adjustable-rate one- to four-family conventional mortgage loans originated by the Bank generally provide for a specified rate limit or cap on the periodic adjustment to the interest rate, as well as a specified maximum lifetime cap and minimum rate, or floor. As a consequence of using caps, the interest rates on these loans may not be as rate sensitive as our cost of funds. Negative amortization of principal is not allowed. For three, five, or seven year ARM loans, borrowers are qualified based on the principal, interest, taxes and insurance payments at either the initial rate or the fully indexed accrual rate, whichever is greater. After the initial three, five, or seven year period, the interest rate is repriced annually and the new principal and interest payment is based on the new interest rate, remaining unpaid principal balance and term of the ARM loan. Our ARM loans are not automatically convertible into fixed-rate loans; however, we do allow borrowers to pay a modification fee to convert an ARM loan to a fixed-rate loan. ARM loans can pose different credit risks than fixed-rate loans, primarily because as interest rates rise, the borrower's payment also rises, increasing the potential for default. This specific risk type is known as repricing risk.

During 2008, the Bank discontinued offering an interest-only ARM product. The Bank does, however, still hold in its portfolio originated and purchased interest-only ARM loans. The interest-only ARM product was discontinued to reduce future credit risk exposure. Additionally, the Bank has not purchased any interest-only ARM loans since fiscal year 2006 that were not in their amortization period. At the time of origination, these loans did not require principal payments for a period of up to ten years. Borrowers were qualified based on a fully amortizing payment at the initial loan rate. The Bank was more restrictive on debt-to-income ratios and credit scores on interest-only ARM loans than on other ARM loans to offset the potential risk of payment shock at the time the loan rate adjusts and/or the principal and interest payments begin. At September 30, 2010, $121.6 million, or approximately 3% of our one- to four-family loan portfolio, consisted of non-amortizing interest-only ARM loans. The majority of these loans were purchased from nationwide lenders during fiscal year 2005. These loans had an initial interest-only term of either five or ten years, with approximately equal distribution between the two terms.

Underwriting

One- to four-family loans are underwritten manually or by an automated underwriting system developed by a third party. The system's components closely resemble the Bank's manual underwriting standards which are generally in accordance with Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA") manual underwriting guidelines. The automated underwriting system analyzes the applicant's data, with emphasis on credit history, employment and income history, qualifying ratios reflecting the applicant's ability to repay, asset reserves, and LTV ratio. Full documentation to support the applicant's credit, income, and sufficient funds to cover all applicable fees and reserves at closing are required on all loans. Loans that do not meet the automated underwriting standards are referred to a staff underwriter for manual underwriting. Properties securing one- to four-family loans are appraised by either staff appraisers or fee appraisers, both of which are independent of the loan origination function and have been approved by the Board of Directors.

Mortgage Insurance

For a conventional mortgage with an LTV ratio in excess of 80% at the time of origination, private mortgage insurance ("PMI") is required in order to reduce the Bank's loss exposure to less than 80% of either the appraised value or the purchase price of the property, whichever is less. The Bank will lend up to 97% of the lesser of the appraised value or purchase price for conventional one- to four-family loans, provided PMI is obtained. Management continuously monitors the claim-paying ability of our PMI counterparties. At this time, we believe that our PMI counterparties have the ability to meet potential claim obligations we may file in the foreseeable future.

FHA loans have mortgage insurance provided by the federal government. The loans are up to 96.5% LTV, prior to including the FHA insuring premium, which is calculated using the lesser of the appraised value or purchase price. The loans are originated and underwritten manually according to private investor and FHA guidelines. The Bank began offering FHA loans in late September 2009 to accommodate customers who may not qualify for a conventional mortgage loan. FHA loans are originated by the Bank with the intention of selling the loans on a flow basis to a private investor, with servicing released. The Bank began selling FHA loans in fiscal year 2010. The Bank originated $12.1 million and sold $10.5 million of FHA loans during fiscal year 2010.

Purchased loans

The Bank purchases approved conventional one- to four-family loans and the related servicing rights, on a loan-by-loan basis, from correspondent lenders. During the 2010 and 2009 fiscal years, the Bank purchased $67.3 million and $141.6 million, respectively, of one- to four-family loans from correspondent lenders. These loans generally have an interest rate 0.125% higher than loans we originate; however, we pay a premium of 0.50% of the loan balance for these loans.

The underwriting of loans purchased through correspondent lenders is generally performed by our underwriters, using our underwriting standards. Lenders are located within the metropolitan Kansas City market area and select market areas in Missouri. The products offered by our correspondents are underwritten to standards that are at least as restrictive as the Bank's own internal products and underwriting standards. The Bank requires fully documented loan files. Our underwriting standards do not permit loans with no documentation, stated income, or stated assets. Lenders are required to fully document all data sources for each application. Management believes these requirements reduce the credit risk associated with these loans. The Bank has not requested any correspondent lender to repurchase loans during fiscal year 2010.

The Bank also purchases conventional one- to four-family loans from nationwide lenders in bulk. The servicing rights are generally retained by the lender. The servicing is governed by a servicing agreement, which outlines collection policies and procedures, as well as oversight requirements, such as servicer certifications attesting to and providing proof of compliance with the servicing agreement. The underwriting standards are generally similar to the Bank's internal underwriting standards. The Bank requires fully documented loan files. The Bank does not permit loans that were originated with no documentation, stated income, or stated assets. Lenders are required to fully document all data sources for each application. Management believes these requirements reduce the credit risk associated with these loans. Before committing to purchase a pool of loans from a lender, the Bank's Chief Lending Officer or Secondary Marketing Manager reviews specific criteria such as loan amount, credit scores, LTV ratios, geographic location, and debt ratios of each loan in the pool. If the specific criteria do not meet the Bank's underwriting standards and compensating factors are not sufficient, then a loan will be removed from the pool. Once the review of the specific criteria is complete and loans not meeting the Bank's standards are removed from the pool, changes are sent back to the lender for acceptance and pricing. Before the pool is funded, an internal Bank underwriter reviews at least 25% of the loan files to confirm loan terms, credit scores, debt service ratios, property appraisals and other underwriting related documentation. Our standard contractual agreement with the lender includes recourse options for any breach of representation or warranty with respect to the loans purchased. The Bank has not requested any nationwide lenders to repurchase loans during fiscal year 2010. During fiscal years 2010 and 2009, the Bank purchased $44.1 million and $191.8 million, respectively, of one- to four-family loans from nationwide lenders.

Loan modification program

In an effort to offset the impact of repayments and to retain our customers, the Bank offers existing loan customers whose loans have not been sold to third parties and who have been current on their contractual loan payments for the previous 12 months, the opportunity to modify their original loan rate and/or term to a new loan rate and/or term generally consistent with those currently being offered. Through our modification program a borrower can modify the rate and/or term of their loan in less time than it takes to process a refinance, and for a cost that is less than a refinance. The Bank does not solicit customers for this program, but considers it a valuable opportunity to retain customers who, due to our conservative initial underwriting, could likely obtain similar financing elsewhere. During fiscal years 2010 and 2009, we modified $545.1 million and $1.14 billion, respectively of our originated loans.

Loan sales

Conventional one- to four-family loans may be sold on a bulk basis for portfolio restructuring or on a flow basis as loans are originated to reduce interest rate risk and/or maintain a certain liquidity position. The Bank generally retains the servicing on these loans. ALCO determines which conventional one- to four-family loans are to be originated as held for sale or held for investment. Conventional one- to four-family loans originated as held for sale are to be sold in accordance with policies set forth by ALCO. Conventional one- to four-family loans originated as held for investment are generally not eligible for sale unless a specific segment of the portfolio is identified for asset restructuring purposes. Generally, the Bank will continue to service these loans. The Bank sold $34.7 million and $96.9 million of conventional one- to four-family loans during fiscal years 2010 and 2009, respectively. As a result of our traditional underwriting guidelines requiring complete documentation for originated loans, the Bank was required to repurchase only one sold loan during fiscal year 2010.

Construction Lending. The Bank also originates construction-to-permanent loans primarily secured by one- to four-family residential real estate. The majority of the one- to four-family construction loans are secured by property located within the Bank's Kansas City market areas. Construction loans are obtained primarily by homeowners who will occupy the property when construction is complete. Construction loans to builders for speculative purposes are not permitted. The application process includes submission of complete plans, specifications, and costs of the project to be constructed. All construction loans are manually underwritten using the Bank's internal underwriting standards. At September 30, 2010, we had $33.2 million in construction-to-permanent loans outstanding, including undisbursed loan funds, representing almost 1% of our total loan portfolio.

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

Construction draw requests and the supporting documentation are reviewed and approved by management. The Bank also performs regular documented inspections of the construction project to ensure the funds are being used for the intended purpose and the project is being completed according to the plans and specifications provided. The Bank charges a 1% fee at closing, based on the loan amount, for these administrative requirements. Interest is billed and collected monthly based on the amount of funds disbursed. Once the construction period is complete, the payment method is modified from interest-only to an amortized principal and interest payment for the remaining term of the loan.

Consumer Lending. The Bank offers a variety of secured consumer loans, including home equity loans and lines of credit, home improvement loans, auto loans, and loans secured by savings deposits. The Bank also originates a very limited amount of unsecured loans. The Bank does not originate any consumer loans on an indirect basis, such as contracts purchased from retailers of goods or services which have extended credit to their customers. All consumer loans are originated in the Bank's market areas. At September 30, 2010, our consumer loan portfolio totaled $194.0 million, or 3.7% of our total loan portfolio.

The majority of the consumer loan portfolio is comprised of home equity lines of credit, which have interest rates that can adjust monthly based upon changes in the Prime rate, to a maximum of 18%. Home equity loans originated after June 2010 may be originated in amounts, together with the existing first mortgage, of up to 90% of the value of the property. Home equity loans originated prior to June 2010 may have been originated in amounts, together with the amount of the existing first mortgage, of up to 100% of the value of the property securing the loan. Closed end equity home loans may be originated up to 95% of the value of the property securing the loans, taking into consideration the existing first mortgage. In order to minimize risk of loss, home equity loans that are greater than 80% of the value of the property, when combined with the first mortgage, require PMI. The term-to-maturity of closed-end home equity and home improvement loans may be up to 20 years. Home equity lines of credit originated after June 2010, have a seven year draw period with a ten year repayment term. The majority of home equity lines of credit loans originated prior to June 2010 have no stated term-to-maturity. All home equity lines of credit require a payment of 1.5% of the outstanding loan balance per month during the draw period with an amortizing payment during the repayment period. Interest-only home equity lines of credit have a maximum term of 12 months, monthly payments of accrued interest, and a balloon payment at maturity. Repaid principal may be re-advanced at any time, not to exceed the original credit limit of the loan. Other consumer loan terms vary according to the type of collateral and the length of the contract. Home equity loans, including lines of credit and home improvement loans, comprised 3.6% of our total loan portfolio, or $186.3 million, at September 30, 2010. As of September 30, 2010, 74.5% of the home equity portfolio was adjustable-rate.

The underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of their ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the security in relation to the proposed loan amount.

Consumer loans generally have shorter terms to maturity or reprice more frequently, which reduces our exposure to changes in interest rates, and usually carry higher rates of interest than do one- to four-family loans. However, consumer loans may entail greater risk than do one- to four-family loans, particularly in the case of consumer loans that are secured by rapidly depreciable assets, such as automobiles. Management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

Multi-family and Commercial Real Estate Lending. At September 30, 2010, multi-family and commercial real estate loans totaled $66.5 million, or 1.3% of our total loan portfolio. The Bank's multi-family and commercial real estate loans are secured primarily by multi-family dwellings and small commercial buildings generally located in the Bank's market areas. These loans are granted based on the income producing potential of the property and the financial strength of the borrower. LTV ratios on multi-family and commercial real estate loans do not exceed 80% of the appraised value of the property securing the loans. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt at the time of origination. The Bank generally requires personal guarantees of the borrowers covering a portion of the debt in addition to the security property as collateral for these loans. Appraisals on properties securing these loans are performed by independent state certified fee appraisers approved by the Board of Directors. Our multi-family and commercial real estate loans are originated with either a fixed or adjustable interest rate. The interest rate on ARM loans is based on a variety of indices, generally determined through negotiation with the borrower. While maximum maturities may extend to 30 years, these loans frequently have shorter maturities and may not be fully amortizing, requiring balloon payments of unamortized principal at maturity.

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

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

The Bank is a participant with four other banking institutions on a $42.5 million commercial construction loan secured by a retail shopping center in Kansas. The Bank's original participant share was $15.0 million, which was to be disbursed as the improvements were completed. The loan was converted from a construction loan to a permanent loan in April 2009, but still had funds to advance for tenant finish. Due to economic factors, the lead bank and the borrower requested to restructure the project and reduce the overall commitment to $31.0 million, which reduced the Bank's commitment to $10.9 million as of August 2009. The overall commitment was reduced further to $23.1 million in December 2009, which reduced the Bank's commitment to $8.2 million at December 31, 2009. The change in commitment involved completing the tenant finish for retail space that was already started, of which 88% was tenant leased as of September 30, 2010, and postponing the development of additional retail space. The loan matured in April 2010 and was refinanced into two loans with a 12 month term to maturity. The Bank's total commitment was further reduced to $8.0 million at that time. One loan represents the retail portion of the project and the other loan represents the land portion of the project. At September 30, 2010, the loans had an aggregate outstanding principal balance of $7.6 million and an outstanding commitment of $290 thousand. These loans are part of our largest lending relationship to a single borrower or a group of related borrowers at September 30, 2010. Although the loans have performed per the terms of the agreement, the change in the agreement has prompted management to classify the loans as "Special Mention" at September 30, 2010. See "Asset Quality - Loans and Real Estate Owned – Classified Assets."

Loan Portfolio. The following table presents information concerning the composition of our loan portfolio in dollar amounts and in percentages (before deductions for undisbursed loan funds, unearned loan fees and deferred costs, and the ALLL) as of the dates indicated.

	September 30,									
	2010		2009		2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Real Estate Loans:										
One- to four-family	$4,915,651	94.4 %	$5,321,935	94.2 %	$5,026,358	93.4 %	$4,992,398	93.4 %	$4,931,505	93.8 %
Multi-family and commercial	66,476	1.3	80,493	1.4	56,081	1.0	60,625	1.1	56,774	1.1
Construction	33,168	0.6	39,535	0.7	85,178	1.6	74,521	1.4	45,452	0.8
Total real estate loans	5,015,295	96.3	5,441,963	96.3	5,167,617	96.0	5,127,544	95.9	5,033,731	95.7
Consumer Loans:										
Home equity	186,347	3.6	195,557	3.5	202,956	3.8	208,642	3.9	212,938	4.1
Other	7,671	0.1	9,430	0.2	9,272	0.2	10,440	0.2	10,804	0.2
Total consumer loans	194,018	3.7	204,987	3.7	212,228	4.0	219,082	4.1	223,742	4.3
Total loans receivable	5,209,313	100.0%	5,646,950	100.0%	5,379,845	100.0%	5,346,626	100.0%	5,257,473	100.0%
Less:										
Undisbursed loan funds	15,489		20,649		43,186		42,481		22,605	
Unearned loan fees and deferred costs	10,730		12,186		10,088		9,893		9,318	
ALLL	14,892		10,150		5,791		4,181		4,433	
Total loans receivable, net	$5,168,202		$5,603,965		$5,320,780		$5,290,071		$5,221,117	

The following table presents the contractual maturity of our loan portfolio at September 30, 2010. Loans which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract is due. The table does not reflect the effects of possible prepayments or enforcement of due on sale clauses.

	Real Estate						Consumer					
	One- to Four-Family		Multi-family and Commercial		Construction and Development (2)		Home Equity (3)		Other		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)											
Amounts due:												
Within one year (1)	$2,161	5.64%	$7,643	6.05%	$19,422	5.06%	$509	6.54%	$778	5.00%	$30,513	5.37%
After one year:												
Over one to two	4,333	5.71	723	5.70	13,746	4.66	445	6.75	758	8.06	20,005	5.10
Over two to three	20,164	5.14	4,295	6.38	--	--	619	6.79	1,482	5.85	26,560	5.42
Over three to five	23,315	5.42	304	5.79	--	--	5,637	5.11	4,216	4.96	33,472	5.31
Over five to ten	430,490	5.12	17,692	6.24	--	--	21,450	6.22	412	8.97	470,044	5.21
Over 10 to 15	933,401	4.82	21,877	6.25	--	--	36,252	4.88	25	6.50	991,555	4.86
After 15 years	3,501,787	5.07	13,942	6.33	--	--	121,435	5.64	--	--	3,637,164	5.09
Total due after one year	4,913,490	5.03	58,833	6.27	13,746	4.66	185,838	5.55	6,893	5.74	5,178,800	5.06
Totals loans	$4,915,651	5.03%	$66,476	6.24%	$33,168	4.90%	$186,347	5.55%	$7,671	5.66%	5,209,313	5.06%
Less:												
Undisbursed loan funds											15,489	
Unearned loan fees and deferred costs											10,730	
ALLL											14,892	
Total loans receivable, net											$5,168,202	

(1) Includes demand loans, loans having no stated maturity, and overdraft loans.
(2) Construction loans are presented based upon the term to complete construction.
(3) For home equity loans, the maturity date calculated assumes the customer always makes the required minimum payment. The majority of interest-only home equity lines of credit assume a balloon payment of unpaid principal at 120 months. All other home equity lines of credit generally assume a term of 240 months.

The following table presents, as of September 30, 2010, the amount of loans due after September 30, 2011, and whether these loans have fixed or adjustable interest rates.

	Fixed	Adjustable	Total
	(Dollars in thousands)		
Real Estate Loans:			
One- to four-family	$4,016,966	$896,524	$4,913,490
Multi-family and commercial	58,635	198	58,833
Construction	10,984	2,762	13,746
Consumer Loans:			
Home equity	47,539	138,299	185,838
Other	3,031	3,862	6,893
Total	$4,137,155	$1,041,645	$5,178,800

The following table shows our loan originations and refinances, loan purchases and participations, transfers, and repayment activity for the periods indicated. Purchased loans include loans purchased from correspondent and nationwide lenders. The table below does not include $545.1 million and $1.14 billion of originated loans that were modified during fiscal years 2010 and 2009, respectively.

	Year Ended September 30,		
	2010	2009	2008
	(Dollars in thousands)		
Originations and Refinances by type:			
Adjustable-rate:			
Real estate - one- to four-family	$60,108	$33,601	$66,429
- multi-family and commercial	--	--	1,800
- construction	3,492	2,261	11,250
Home Equity	83,199	91,053	87,614
Other consumer	3,068	4,391	1,731
Total adjustable-rate loans originated	149,867	131,306	168,824
Fixed-rate:			
Real estate - one- to four-family	456,620	937,430	586,982
- multi-family and commercial	5,420	14,891	975
- construction	26,241	24,063	44,783
Home equity	5,429	10,069	14,475
Other consumer	1,551	1,922	4,796
Total fixed-rate loans originated	495,261	988,375	652,011
Total loans originated	645,128	1,119,681	820,835
Purchases and Participations:			
Real estate - one- to four-family	110,388	332,932	116,141
- multi-family and commercial	7,713	--	--
- construction	1,000	500	3,490
Total loans purchased/participations	119,101	333,432	119,631
Transfer of loans to loans held-for-sale , net	(194,759)	(94,672)	--
Principal repayments	(989,826)	(1,079,777)	(899,178)

Decrease in other items, net	(17,281)	(11,559)	(8,069)
Net (decrease) increase	$(437,637)	$267,105	$33,219

Asset Quality – Loans and Real Estate Owned ("REO")

The Bank's traditional underwriting guidelines have provided the Bank with loans of high quality and generally low delinquencies and low levels of non-performing assets compared to national levels. Of particular importance is the complete and full documentation required for each loan the Bank originates and purchases. This allows the Bank to make an informed credit decision based upon a thorough assessment of the borrower's ability to repay the loan compared to underwriting methodologies that do not require full documentation.

In the following asset quality discussion, loans purchased from correspondent lenders are included with originated loans and loans purchased from nationwide lenders are reported as purchased loans.

For one- to four-family loans and home equity loans, when a borrower fails to make a loan payment 15 days after the due date, a late charge is assessed and a notice is mailed. Collection personnel review all delinquent loan balances more than 16 days past due. Attempts to contact the borrower occur by personal letter and, if no response is received, by telephone, with the purpose of establishing repayment arrangements for the borrower to bring the loan current. Repayment arrangements must be approved by a designated bank officer. Once a loan becomes 90 days delinquent, a demand letter is issued requiring the loan to be brought current or foreclosure procedures will be implemented. Generally when a loan becomes 120 days delinquent, and an acceptable repayment plan has not been established, the loan is forwarded to legal counsel to initiate foreclosure. We also monitor whether mortgagors who filed for bankruptcy are meeting their obligation to pay the mortgage debt in accordance with the terms of the bankruptcy petition.

We monitor delinquencies on our purchased loan portfolio with reports we receive from the servicers. We monitor these servicer reports to ensure that the servicer is upholding the terms of the servicing agreement. The reports generally provide total principal and interest due and length of delinquency, and are used to prepare monthly management reports and perform delinquent loan trend analysis. Management also utilizes information from the servicers to monitor property valuations and identify the need to record specific valuation allowances. The servicers handle collection efforts per the terms of the servicing agreement.

As a result of recent industry-wide issues related to the foreclosure practices, the Bank evaluated its foreclosure procedures and guidelines and management believes the Bank is handling foreclosures in an appropriate manner. Additionally, the servicers of our nationwide purchased loans, except for one, have not reported any issues with respect to their foreclosure processes. At September 30, 2010, we had no loans in foreclosure with the one servicer who has reported issues with their foreclosure processes.

The following matrix shows the balance of one- to four-family loans at September 30, 2010 by LTV ratio and credit score. The LTV ratios used in the matrix were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent bank appraisal, broker price opinion or automated valuation model, if available. In most cases, the most recent appraisal was obtained at the time of origination. The LTV ratios based upon appraisals obtained at the time of origination may not necessarily indicate the extent to which we may incur a loss on any given loan that may go into foreclosure as the value of the underlying collateral may have declined since the time of origination. Credit scores were most recently updated in September 2010. Management will continue to update credit scores as deemed necessary based upon economic conditions. Per the matrix, the greatest concentration of loans fall into the "751 and above" credit score category and have a LTV ratio of less than 70%. The average LTV ratio and credit score for our one- to four-family purchased loans at September 30, 2010 was 59% and 741, respectively. The average LTV ratio and credit score for our one- to four-family originated loans at September 30, 2010 was 66% and 760, respectively.

	Credit Score									
	Less than 660		661 to 700		701 to 750		751 and above		Total	
LTV ratio	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
					(Dollars in thousands)					
Less than 70%	$117,323	2.4%	$139,706	2.8%	$388,555	7.9 %	$1,922,577	39.2%	$2,568,161	52.3 %
70% to 80%	102,139	2.1	109,367	2.2	321,663	6.5	1,085,865	22.1	1,619,034	32.9
More than 80%	83,561	1.7	68,981	1.4	183,776	3.7	392,138	8.0	728,456	14.8
Total	$303,023	6.2%	$318,054	6.4%	$893,994	18.1%	$3,400,580	69.3%	$4,915,651	100.0%

Delinquent Loans. The following tables set forth our loans 30 to 89 days delinquent by type, number and amount as of the periods presented.

	Loans Delinquent for 30 to 89 Days at September 30,					
	2010		2009		2008	
	Number	Amount	Number	Amount	Number	Amount
			(Dollars in thousands)			
One- to four-family:						
Originated	175	$ 17,613	159	$ 15,488	125	$ 13,244
Purchased	34	6,047	41	10,556	37	7,083
Multi-family and commercial	--	--	--	--	--	--
Construction	--	--	--	--	--	--
Consumer Loans:						
Home equity	50	874	40	708	33	664
Other	16	183	15	89	21	118
	275	$ 24,717	255	$ 26,841	216	$ 21,109
30 to 89 days delinquent loans to total loans receivable, net		0.48 %		0.48 %		0.40 %

Loans 30 to 89 days delinquent decreased $2.1 million from $26.8 million at September 30, 2009 to $24.7 million at September 30, 2010. The $2.1 million decrease was primarily composed of a $4.5 million decrease in purchased one- to four-family loans, partially offset by a $2.1 million increase in originated one- to four-family loans. The decrease in purchased one- to four-family loans was primarily due to borrowers making the necessary payments during fiscal year 2010 to no longer be delinquent at September 30, 2010 and fewer loans moving into the 30 to 89 day delinquent category. Our local market areas did not feel the impact of the negative economic conditions felt by a large portion of the U.S. until recently, thereby resulting in a lag in delinquencies on our originated loan portfolio compared to our purchased loan portfolio.

The following table presents the weighted average percentage of one- to four-family loans, by principal balance, that entered the 30 to 89 days delinquent category during the 12 months ended September 30, 2010 that paid off, returned to performing status, stayed 30 to 89 days delinquent, or progressed to the non-performing or REO categories.

30 to 89 Day Delinquent Loan Trend Analysis

	Paid Off		Performing		30 to 89 Days Delinquent		Non-Performing		REO		Total	
Originated	4.0	%	43.1	%	32.8	%	17.7	%	2.4	%	100.0	%
Purchased	1.5		26.5		39.5		31.5		1.0		100.0	
Total Portfolio Average	3.0	%	37.4	%	34.7	%	23.0	%	1.9	%	100.0	%

Non-performing Assets. The table below sets forth the number, amount and categories of non-performing assets. Non-performing assets consist of non-performing loans and REO. Purchased loans include loans purchased from nationwide lenders. Correspondent purchased loans are included with originated loans. Non-performing loans are non-accrual loans that are 90 or more days delinquent or are in the process of foreclosure. REO includes assets acquired in settlement of loans. At all dates presented, we had no loans past due 90 days or more that were still accruing interest. The amount of interest income on non-performing loans included in interest income was $880 thousand for the year ended September 30, 2010. The amount of interest income that would have been recorded on non-performing loans if they were not on non-accruing status was $1.6 million for the year ended September 30, 2010.

	September 30, 2010		2009		2008		2007		2006	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)									
Non-performing loans:										
One- to four-family:										
Originated	109	$12,884	99	$9,248	70	$6,488	68	$4,941	56	$3,534
Purchased	60	18,375	70	21,259	25	6,708	9	2,163	13	1,857
Multi-family and commercial	--	--	--	--	--	--	--	--	--	--
Construction	--	--	--	--	--	--	--	--	--	--
Consumer Loans:										
Home equity	31	685	22	367	19	379	13	207	12	177
Other	6	12	8	45	11	91	7	41	3	41
	206	31,956	199	30,919	125	13,666	97	7,352	84	5,609
Non-performing loans as a percentage of total loans receivable, net		0.62 %		0.55 %		0.26 %		0.14 %		0.11 %
REO:										
One- to four-family:										
Originated (1)	73	6,172	48	5,702	31	2,228	26	2,036	34	2,401
Purchased	17	3,748	8	1,702	12	2,918	1	61	--	--
Multi-family and commercial	--	--	--	--	--	--	--	--	--	--
Construction	--	--	--	--	--	--	--	--	--	--
Consumer Loans:										
Home equity	--	--	--	--	--	--	--	--	--	--

Other	--	--	--	--	--	--	--	--	1	8
	90	9,920	56	7,404	43	5,146	27	2,097	35	2,409
Total non-performing assets	296	$41,876	255	$38,323	168	$18,812	124	$9,449	119	$8,018
Non-performing assets										
as a percentage of total assets		0.49 %		0.46 %		0.23 %		0.12 %		0.10 %

(1) Real estate related consumer loans are included in the one- to four-family category as the underlying collateral is a one- to four-family property.

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Non-performing loans increased $1.1 million from $30.9 million at September 30, 2009 to $32.0 million at September 30, 2010. The $1.1 million was primarily composed of a $3.6 million increase in originated one- to four-family loans, partially offset by a $2.9 million decrease in purchased one- to four-family loans. The increase in originated one- to four family loans was due to the factors discussed in the 30 to 89 day delinquent loan category above. Originated loans in the 30 to 89 day delinquent loans recently started moving to the non-performing loan and REO categories. The decrease in purchased one- to four-family loans was due to the loans moving to REO, short sales and loans paying off, and fewer loans moving into the non-performing loan category.

At September 30, 2010, one- to four-family non-performing loans totaled $31.3 million, 64% of which had LTV ratios greater than 80%. At origination, these loans generally had LTV ratios at or less than 80%, but as a result of declines in real estate values as reflected in updated appraisals, broker price opinions and automated valuation model, the LTV ratios are now in excess of 80%. Of these loans, 20% have PMI which reduces or eliminates the Bank's exposure to loss. The balance of one- to four-family non-performing loans with LTV ratios greater than 80% with no PMI was $16.0 million at September 30, 2010.

The following table presents the year of origination for originated and purchased one- to four-family loans, and the origination year for non-performing originated and purchased one- to four-family loans at September 30, 2010. The origination date for modified loans is based on when the loan was originated, not the modification date.

Origination Calendar Year	Originated Loans	Purchased Loans	Total Loans	Originated Non-Performing Loans	Purchased Non-Performing Loans	Total Non-Performing Total
			(Dollars in thousands)			
2002 and prior	$637,310	$13,856	$651,166	$ 3,204	$ 501	$3,705
2003	357,338	27,435	384,773	1,016	640	1,656
2004	275,758	188,833	464,591	1,626	6,391	8,017
2005	356,744	176,436	533,180	819	10,127	10,946
2006	378,558	16,431	394,989	4,080	716	4,796
2007	504,721	174	504,895	1,490	--	1,490
2008	565,741	63,079	628,820	649	--	649
2009	892,025	72,302	964,327	--	--	--
2010	382,577	6,333	388,910	--	--	--
	$4,350,772	$564,879	$4,915,651	$ 12,884	$ 18,375	$31,259

The following table presents the top twelve states where the properties securing our one- to four-family loans are located and the corresponding balance of 30 to 89 day delinquent loans, non-performing loans and the weighted average LTV ratios for non-performing loans at September 30, 2010. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal or the most recent bank appraisal, broker price opinion or automated valuation model, if available. As a result of updated estimated fair values, the LTV of various non-performing loans in the table below are now in excess of 100%. We have recorded specific valuation allowances on these loans, after taking into consideration potential PMI proceeds.

	One- to Four-Family		Loans 30 to 89 Days Delinquent		Non-Performing Loans		
State	Balance	% of Total	Balance	% of Total	Balance	% of Total	Average LTV
	(Dollars in thousands)						
Kansas	$3,629,879	73.8 %	$13,748	58.1 %	$11,245	36.0 %	80 %
Missouri	739,240	15.1	4,314	18.2	2,192	7.0	94
Illinois	63,217	1.3	--	--	2,718	8.7	110
Texas	44,385	0.9	681	2.9	247	0.8	82
New York	40,889	0.8	--	--	720	2.3	126
Florida	42,038	0.9	1,482	6.3	2,740	8.8	119
Colorado	29,368	0.6	813	3.4	830	2.6	91
Arizona	27,285	0.6	668	2.8	2,421	7.7	156
Connecticut	26,872	0.5	--	--	148	0.5	93
Virginia	24,789	0.5	--	--	1,021	3.3	102
New Jersey	24,095	0.5	--	--	664	2.1	67
Minnesota	25,596	0.5	452	1.9	433	1.4	58
Other states	197,998	4.0	1,502	6.4	5,880	18.8	96
	$4,915,651	100.0 %	$23,660	100.0 %	$31,259	100.0 %	97 %

Impaired Loans. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Impaired loans totaled $57.1 million, $41.4 million, and $13.7 million at September 30, 2010, 2009, and 2008, respectively.

A troubled debt restructuring is the situation where, due to a borrower's financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise have considered. The majority of the Bank's troubled debt restructurings involve a restructuring of loan terms such as a temporary reduction in the payment amount to require only interest and escrow (if required) and extending the maturity date of the loan. All troubled debt restructurings that have not been performing under the modified loan terms for 12 consecutive months are considered to be impaired loans. At September 30, 2010, 2009, 2008, and 2007, the Bank had troubled debt restructurings of $27.2 million, $10.8 million, $918 thousand and $230 thousand, respectively. The increase in troubled debt restructurings from September 30, 2007 to September 30, 2010 was primarily due to the increase in, and continued elevated level of, unemployment which has resulted in some borrowers experiencing financial difficulties. We had no troubled debt restructurings at September 30, 2006. Of the $27.2 million of troubled debt restructurings at September 30, 2010, 80%, or $21.7 million, were originated loans and $2.5 million were greater than 90 days delinquent and were included in the non-performing loan balance at September 30, 2010. The amount of interest recognized in interest income on total troubled debt restructurings was $1.4 million for the year ended September 30, 2010.

Classified Assets. Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by the OTS to be of lesser quality, as "substandard", "doubtful" or "loss." In addition, the regulations also provide for a "special mention" category, which are performing loans on which known information about the collateral pledged or the possible credit problems of the borrowers have caused management to have doubts as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such assets in the non-performing asset categories. Troubled debt restructurings that were performing prior to restructuring are reported as special mention until they have been performing for 12 consecutive months under the new loan terms. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Troubled debt restructurings that were more than 90 days delinquent at the time of restructuring are reported as substandard until they have been performing for 12 consecutive months under the new loan terms. Assets classified as "doubtful" have all of the weaknesses inherent as those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions and values "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When an insured institution reports problem assets as either special mention, substandard or doubtful, it may establish specific valuation allowances in an amount deemed prudent by management and approved by the Board of Directors. General valuation allowances may be established to recognize the inherent risk associated with lending activities, but unlike specific valuation allowances, have not been allocated to specific problem assets within a portfolio of similar assets. When an insured institution classifies problem assets as "loss," it is required either to establish a specific valuation allowance for losses equal to 100% of that portion of the asset so classified or to charge off such amount. An institution's determination as to the classification of its assets and the amount of its ALLL is subject to review by the OTS and, in limited circumstances, the FDIC, which may order the establishment of additional loss allowances.

In connection with the filing of the Bank's periodic reports with the OTS and in accordance with our asset classification policy, we regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. The following table sets forth the balance of assets, less specific valuation allowances, classified as special mention, or substandard at September 30, 2010. At that date, we had no assets, less specific valuation allowances, classified as doubtful or loss. Purchased loans and purchased REO represent loans purchased from nationwide lenders.

	Special Mention		Substandard	
	Number	Amount	Number	Amount
	(Dollars in thousands)			
Real Estate Loans:				
One- to four-family				
Originated	86	$14,908	146	$17,671
Purchased	1	198	72	19,713
Multi-family and commercial	3	8,225	--	--
Construction	--	--	--	--
Consumer Loans:				
Home equity	6	60	36	889