

TFS Financial CORP  
Form 10-Q  
August 09, 2011  
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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 June 30, 2011

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)

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<b>United States of America</b> (State or Other Jurisdiction of Incorporation or Organization)	<b>52-2054948</b> (I.R.S. Employer Identification No.)
<b>7007 Broadway Avenue</b>  <b>Cleveland, Ohio</b> (Address of Principal Executive Offices)	<b>44105</b> (Zip Code)
<b>(216) 441-6000</b>	

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  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  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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (do not check if a smaller reporting company)	Smaller Reporting Company <input type="checkbox"/>

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of the latest practicable date.

As of August 2, 2011 there were 308,442,143 shares of the Registrant's common stock, par value \$0.01 per share, outstanding, of which 227,119,132 shares, or 73.63% of the Registrant's common stock, were held by Third Federal Savings and Loan Association of Cleveland, MHC, the Registrant's mutual holding company.

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



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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****TFS FINANCIAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CONDITION (unaudited)****(In thousands, except share data)**

	June 30, 2011	September 30, 2010
<b>ASSETS</b>		
Cash and due from banks	\$ 33,757	\$ 38,804
Other interest-bearing cash equivalents	243,812	704,936
Cash and cash equivalents	277,569	743,740
Investment securities:		
Available for sale (amortized cost \$16,573 and \$24,480, respectively)	16,664	24,619
Held to maturity (fair value \$449,380 and \$657,076, respectively)	441,691	646,940
	458,355	671,559
Mortgage loans held for sale (none measured at fair value)	0	25,027
Loans held for investment, net:		
Mortgage loans	9,863,637	9,323,073
Other loans	6,916	7,199
Deferred loan fees, net	(19,020)	(15,283)
Allowance for loan losses	(153,305)	(133,240)
Loans, net	9,698,228	9,181,749
Mortgage loan servicing assets, net	30,791	38,658
Federal Home Loan Bank stock, at cost	35,620	35,620
Real estate owned	20,126	15,912
Premises, equipment, and software, net	60,518	62,685
Accrued interest receivable	35,625	36,282
Bank owned life insurance contracts	169,172	164,334
Other assets	91,537	100,461
<b>TOTAL ASSETS</b>	<b>\$ 10,877,541</b>	<b>\$ 11,076,027</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits	\$ 8,701,896	\$ 8,851,941
Borrowed funds	185,129	70,158
Borrowers' advances for insurance and taxes	28,817	51,401
Principal, interest, and related escrow owed on loans serviced	89,430	284,425
Accrued expenses and other liabilities	105,882	65,205
Total liabilities	9,111,154	9,323,130
Commitments and contingent liabilities		

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Preferred stock, \$0.01 par value, 100,000,000 shares authorized, none issued and outstanding	0	0
Common stock, \$0.01 par value, 700,000,000 shares authorized; 332,318,750 shares issued; 308,442,143 and 308,395,000 outstanding at June 30, 2011 and September 30, 2010, respectively	3,323	3,323
Paid-in capital	1,690,561	1,686,062
Treasury stock, at cost; 23,876,607 and 23,923,750 shares at June 30, 2011 and September 30, 2010, respectively	(287,797)	(288,366)
Unallocated ESOP shares	(80,168)	(82,699)
Retained earnings substantially restricted	453,503	452,633
Accumulated other comprehensive loss	(13,035)	(18,056)
<b>Total shareholders' equity</b>	<b>1,766,387</b>	<b>1,752,897</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 10,877,541</b>	<b>\$ 11,076,027</b>

See accompanying notes to unaudited interim consolidated financial statements.

**Table of Contents****TFS Financial Corporation and Subsidiaries****CONSOLIDATED STATEMENTS OF INCOME (unaudited)****(In thousands, except share and per share data)**

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2011	2010	2011	2010
<b>INTEREST INCOME:</b>				
Loans, including fees	\$ 103,845	\$ 103,902	\$ 309,439	\$ 315,713
Investment securities available for sale	43	150	198	416
Investment securities held to maturity	2,871	4,674	9,001	14,639
Other interest and dividend earning assets	527	664	1,822	1,813
Total interest and dividend income	107,286	109,390	320,460	332,581
<b>INTEREST EXPENSE:</b>				
Deposits	43,723	51,446	135,387	158,779
Borrowed funds	518	480	1,441	1,439
Total interest expense	44,241	51,926	136,828	160,218
NET INTEREST INCOME	63,045	57,464	183,632	172,363
PROVISION FOR LOAN LOSSES	22,500	30,000	79,500	71,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	40,545	27,464	104,132	101,363
<b>NON-INTEREST INCOME</b>				
Fees and service charges, net of amortization	4,507	5,626	11,829	16,658
Net gain on the sale of loans	201	19,716	490	25,510
Increase in and death benefits from bank owned life insurance contracts	1,621	1,623	4,840	4,820
Income on private equity investments	763	200	977	546
Other	1,667	1,363	5,709	4,276
Total non-interest income	8,759	28,528	23,845	51,810
<b>NON-INTEREST EXPENSE</b>				
Salaries and employee benefits	19,694	22,223	56,994	63,879
Marketing services	2,102	920	6,306	4,971
Office property, equipment and software	4,986	5,046	14,983	15,661
Federal insurance premium	2,759	4,239	14,591	12,762
State franchise tax	1,459	1,329	3,826	3,709
Real estate owned expense, net	1,994	1,380	5,906	4,042
Appraisal and other loan review expenses	1,005	158	4,907	480
Other operating expenses	5,553	5,386	18,958	14,609
Total non-interest expense	39,552	40,681	126,471	120,113
INCOME BEFORE INCOME TAXES	9,752	15,311	1,506	33,060
INCOME TAX EXPENSE	3,767	5,074	645	10,975

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NET INCOME	\$	5,985	\$	10,237	\$	861	\$	22,085
Earnings per share - basic and diluted	\$	0.02	\$	0.03	\$	0.00	\$	0.07
Weighted average shares outstanding								
Basic		300,347,978		299,826,025		300,234,492		299,725,977
Diluted		301,147,673		300,557,738		300,918,065		300,335,743

See accompanying notes to unaudited interim consolidated financial statements.

**Table of Contents****TFS FINANCIAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (unaudited)****Nine Months Ended June 30, 2011 and 2010****(In thousands)**

	Common stock	Paid-in capital	Treasury stock	Unallocated common stock held by ESOP	Retained earnings	Unrealized gains/(losses) on securities	Accumulated other comprehensive income (loss) Pension obligation	Total shareholders equity
Balance at September 30, 2009	\$ 3,323	1,679,000	(287,514)	(87,896)	456,875	240	(18,163)	\$ 1,745,865
Comprehensive Income								
Net income					22,085			22,085
Change in unrealized gains on securities available for sale						(83)		(83)
Change in pension obligation							1,018	1,018
Total comprehensive income								23,020
Purchase of treasury stock (161,400 shares)			(1,810)					(1,810)
ESOP shares allocated or committed to be released		1,032		3,874				4,906
Compensation costs for stock-based plans		4,984						4,984
Excess tax effect from stock-based compensation		123						123
Dividends paid to common shareholders (\$0.21 per common share)					(15,561)			(15,561)
Balance at June 30, 2010	\$ 3,323	1,685,139	(289,324)	(84,022)	463,399	157	(17,145)	\$ 1,761,527
Balance at September 30, 2010	\$ 3,323	1,686,062	(288,366)	(82,699)	452,633	90	(18,146)	\$ 1,752,897
Comprehensive Income								
Net income					861			861
Change in unrealized gains on securities available for sale						(31)		(31)
Change in pension obligation							5,052	5,052
Total comprehensive loss								5,882
ESOP shares allocated or committed to be released		(281)		2,531				2,250
Compensation costs for stock-based plans		5,397	(3)					5,394
Excess tax effect from stock-based compensation		(36)						(36)
Treasury stock allocated to restricted stock plan		(581)	572		9			
Balance at June 30, 2011	\$ 3,323	1,690,561	(287,797)	(80,168)	453,503	59	(13,094)	\$ 1,766,387

See accompanying notes to unaudited interim consolidated financial statements.



**Table of Contents****TFS FINANCIAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)****(In thousands)**

	<b>For the Nine Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 861	\$ 22,085
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
ESOP and stock-based compensation expense	7,644	9,932
Depreciation and amortization	15,380	11,563
Deferred income taxes	400	0
Provision for loan losses	79,500	71,000
Net gain on the sale of loans	(490)	(25,510)
Other net losses	3,283	1,796
Principal repayments on and proceeds from sales of loans held for sale	0	151,536
Loans originated for sale	0	(202,677)
Increase in bank owned life insurance contracts	(4,846)	(4,818)
Net decrease (increase) in interest receivable and other assets	5,992	(43,265)
Net increase in accrued expenses and other liabilities	48,450	4,395
Other	662	2,502
Net cash provided by (used in) operating activities	156,836	(1,461)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Loans originated	(1,993,393)	(1,807,187)
Principal repayments on loans	1,371,213	1,403,028
Proceeds from sales, principal repayments and maturities of:		
Securities available for sale	10,102	7,626
Securities held to maturity	214,681	230,801
Proceeds from sale of:		
Loans	33,722	797,099
Real estate owned	11,201	14,223
Purchases of:		
Securities available for sale	(2,288)	(8,141)
Securities held to maturity	(12,424)	(295,564)
Premises and equipment	(2,279)	(3,100)
Other	(853)	122
Net cash (used in) provided by investing activities	(370,318)	338,907
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net (decrease) increase in deposits	(150,045)	337,703
Net decrease in borrowers' advances for insurance and taxes	(22,584)	(17,586)
Net (decrease) increase in principal and interest owed on loans serviced	(194,995)	2,236
Net increase in short term borrowed funds	100,016	0
Proceeds from long term borrowed funds	29,955	0
Repayment of long term borrowed funds	(15,000)	0
Purchase of treasury shares	0	(1,810)
Excess tax (provision) benefit related to stock-based compensation	(36)	81
Dividends paid to common shareholders	0	(15,561)