Capitol Federal Financial Inc
Form 10-Q
February 04, 2014

UNITED STATES SECURITIES

AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2013

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

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 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 (§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 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 definition of "accelerated filer, large accelerated filer, and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
(do not check if a 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

As of January 24, 2014, there were 145,169,388 shares of Capitol Federal Financial, Inc. common stock outstanding.

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PART I -- FINANCIAL INFORMATION
Item 1. Financial Statements

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollars in thousands)

	December 31, 2013	September 30, 2013
ASSETS:		
Cash and cash equivalents (includes interest-earning deposits of $63,466 and $99,735)	$ 88,665	$ 113,886
Securities:		
Available-for-sale (“AFS”) at estimated fair value (amortized cost of $986,251 and $1,058,283)	993,593	1,069,967
Held-to-maturity (“HTM”) at amortized cost (estimated fair value of $1,670,097 and $1,741,846)	1,668,484	1,718,023
Loans receivable, net (of allowance for credit losses (“ACL”) of $8,919 and $8,822)	6,024,589	5,958,868
Bank-owned life insurance (“BOLI”)	59,832	59,495
Capital stock of Federal Home Loan Bank (“FHLB”), at cost	129,095	128,530
Accrued interest receivable	22,823	23,596
Premises and equipment, net	71,477	70,112
Other real estate owned (“OREO”)	3,645	3,882
Other assets	48,851	40,090
TOTAL ASSETS	$ 9,111,054	$ 9,186,449
LIABILITIES:		
Deposits	$ 4,620,908	$ 4,611,446
FHLB borrowings	2,515,618	2,513,538
Repurchase agreements	320,000	320,000
Advance payments by borrowers for taxes and insurance	23,930	57,392
Income taxes payable	7,577	108
Deferred income tax liabilities, net	19,586	20,437
Accounts payable and accrued expenses	33,972	31,402
Total liabilities	7,541,591	7,554,323
STOCKHOLDERS’ EQUITY:		
	--	--

Preferred stock ($0.01 par value) 100,000,000 shares authorized; no shares issued or outstanding		
Common stock ($0.01 par value) 1,400,000,000 shares authorized; 147,313,188 and 147,840,268 shares issued and outstanding as of December 31, 2013 and September 30, 2013, respectively	1,473	1,478
Additional paid-in capital	1,232,059	1,235,781
Unearned compensation, Employee Stock Ownership Plan (“ESOP”)	(44,190)	(44,603)
Retained earnings	375,554	432,203
Accumulated other comprehensive income (“AOCI”), net of tax	4,567	7,267
Total stockholders’ equity	1,569,463	1,632,126
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 9,111,054	$ 9,186,449

See accompanying notes to consolidated financial statements.

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Dollars in thousands, except per share data)

	For the Three Months Ended December 31,	
	2013	2012
INTEREST AND DIVIDEND INCOME:		
Loans receivable	$ 56,948	$ 58,467
Mortgage-backed securities (“MBS”)	11,962	15,183
Investment securities	2,066	2,865
Capital stock of FHLB	1,196	1,128
Cash and cash equivalents	62	33
Total interest and dividend income	72,234	77,676
INTEREST EXPENSE:		
FHLB borrowings	16,863	18,628
Deposits	8,323	9,849
Repurchase agreements	2,803	3,569
Total interest expense	27,989	32,046
NET INTEREST INCOME	44,245	45,630
PROVISION FOR CREDIT LOSSES	515	233
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	43,730	45,397
NON-INTEREST INCOME:		
Retail fees and charges	3,810	3,992
Insurance commissions	558	571
Loan fees	450	467
Income from BOLI	338	382
Other non-interest income	344	356
Total non-interest income	5,500	5,768

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Dollars in thousands, except per share data)

	For the Three Months Ended December 31,	
	2013	2012
NON-INTEREST EXPENSE:		
Salaries and employee benefits	$ 10,726	$ 12,181
Occupancy	2,549	2,318
Information technology and communications	2,292	2,198
Regulatory and outside services	1,396	1,765
Deposit and loan transaction costs	1,387	1,526
Federal insurance premium	1,083	1,114
Advertising and promotional	1,006	1,032
Other non-interest expense	2,348	2,607
Total non-interest expense	22,787	24,741
INCOME BEFORE INCOME TAX EXPENSE	26,443	26,424
INCOME TAX EXPENSE	8,630	8,861
NET INCOME	$ 17,813	$ 17,563
Basic earnings per share	$ 0.12	$ 0.12
Diluted earnings per share	$ 0.12	$ 0.12
Dividends declared per share	$ 0.51	$ 0.78
Basic weighted average common shares	142,881,977	147,882,707
Diluted weighted average common shares	142,883,041	147,882,809

See accompanying notes to consolidated financial statements.

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(Dollars in thousands)

	For the Three Months Ended December 31,	
	2013	2012
Net income	$ 17,813	$ 17,563
Other comprehensive income, net of tax:		
Changes in unrealized holding gains/losses on AFS securities, net of deferred income taxes of $1,642 and $2,313 for the three months ended December 31, 2013 and 2012, respectively	(2,700)	(3,805)
Comprehensive income	$ 15,113	$ 13,758

See accompanying notes to consolidated financial statements.

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CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)
(Dollars in thousands, except per share data)

	Common Stock	Additional Paid-In Capital	Unearned Compensation ESOP	Retained Earnings	AOCI	Total Stockholders' Equity
Balance at October 1, 2013	$ 1,478	$ 1,235,781	$ (44,603)	$ 432,203	$ 7,267	$ 1,632,126
Net income				17,813		17,813
Other comprehensive income, net of tax					(2,700)	(2,700)
ESOP activity, net		97	413			510
Restricted stock activity, net		75				75
Stock-based compensation		548				548
Repurchase of common stock	(6)	(4,840)		(2,183)		(7,029)
Stock options exercised	1	398				399
Dividends on common stock to stockholders ($0.51 per share)				(72,279)		(72,279)
Balance at December 31, 2013	$ 1,473	$ 1,232,059	$ (44,190)	$ 375,554	$ 4,567	$ 1,569,463

See accompanying notes to consolidated financial statements.

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in thousands)

	For the Three Months Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 17,813	$ 17,563
Adjustments to reconcile net income to net cash provided by operating activities:		
FHLB stock dividends	(1,196)	(1,128)
Provision for credit losses	515	233
Originations of loans receivable held-for-sale ("LHFS")	(906)	(1,364)
Proceeds from sales of LHFS	1,453	1,320
Amortization and accretion of premiums and discounts on securities	1,511	2,294
Depreciation and amortization of premises and equipment	1,539	1,257
Amortization of deferred amounts related to FHLB advances, net	2,080	2,171
Common stock committed to be released for allocation - ESOP	510	1,636
Stock-based compensation	548	909
Changes in:		
Prepaid federal insurance premium	--	987
Accrued interest receivable	773	1,773
Other assets, net	78	(3,379)
Income taxes payable/receivable	8,335	8,848
Accounts payable and accrued expenses	(7,950)	(11,865)
Net cash provided by operating activities	25,103	21,255
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of AFS securities	(24,768)	(204,142)
Purchase of HTM securities	(30,896)	(193,191)
Proceeds from calls, maturities and principal reductions of AFS securities	96,656	345,298
Proceeds from calls, maturities and principal reductions of HTM securities	79,068	176,794
Proceeds from the redemption of capital stock of FHLB	3,350	3,315
Purchases of capital stock of FHLB	(2,719)	--
Net increase in loans receivable	(66,776)	(33,926)
Purchases of premises and equipment	(2,510)	(2,118)
Proceeds from sales of OREO	1,180	3,430
Net cash provided by investing activities	52,585	95,460

(Continued)

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in thousands)

	For the Three Months Ended December 31,	
	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	$ (72,279)	$ (114,302)
Deposits, net of withdrawals	9,462	31,520
Proceeds from borrowings	250,000	334,150
Repayments on borrowings	(250,000)	(334,150)
Change in advance payments by borrowers for taxes and insurance	(33,462)	(31,824)
Repurchase of common stock	(7,029)	(38,657)
Stock options exercised	399	--
Net cash used in financing activities	(102,909)	(153,263)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(25,221)	(36,548)
CASH AND CASH EQUIVALENTS:		
Beginning of period	113,886	141,705
End of period	$ 88,665	$ 105,157
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income tax payments	$ 296	$ 12
Interest payments	$ 26,738	$ 30,601

(Concluded)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation - The accompanying consolidated financial statements of Capitol Federal® Financial, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013, filed with the Securities and Exchange Commission ("SEC"). Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Capitol Federal Savings Bank (the "Bank"). The Bank has a wholly-owned subsidiary, Capitol Funds, Inc. Capitol Funds, Inc. has a wholly-owned subsidiary, Capitol Federal Mortgage Reinsurance Company. All intercompany accounts and transactions have been eliminated in consolidation.

In preparing the financial statements, management is required 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 and revenues and expenses during the reporting periods. The ACL is a significant estimate that involves a high degree of complexity and requires management to make difficult and subjective judgments and assumptions about highly uncertain matters. The use of different judgments and assumptions could cause reported results to differ significantly. In addition, bank regulators periodically review the ACL of the Bank. Bank regulators have the authority to require the Bank, as they can require all banks, to increase the ACL or recognize additional charge-offs based upon their judgments, which may differ from management's judgments. Any increases in the ACL or recognition of additional charge-offs required by bank regulators could adversely affect the Company's financial condition and results of operations.

Loans Receivable - Loans receivable that management has the intent and ability to hold for the foreseeable future are carried at the amount of unpaid principal, net of ACL, undisbursed loan funds, unamortized premiums and discounts, and deferred loan origination fees and costs. Net loan origination fees and costs and premiums and discounts are amortized as yield adjustments to interest income using the level-yield method, adjusted for the estimated prepayment speeds of the related loans when applicable. Interest on loans is credited to income as earned and accrued only if deemed collectible.

Endorsed loans - Existing loan customers, whose loans have not been sold to third parties, who have not been delinquent on their contractual loan payments during the previous 12 months and who are not currently in bankruptcy, have the opportunity, for a cash fee, to endorse their original loan terms to current loan terms being offered. The fee assessed for endorsing the mortgage loan is deferred and amortized over the remaining life of the endorsed loan using the level-yield method and is reflected as an adjustment to interest income. Each endorsement is examined on a loan-by-loan basis and if the new loan terms represent more than a minor change to the loan, then the unamortized balance of the pre-endorsement deferred fees and/or costs associated with the mortgage loan are recognized in interest income at the time of the endorsement. If the endorsement of terms does not represent more than a minor change to the loan, then the unamortized balance of the pre-endorsement deferred fees and/or costs continue to be deferred.

Troubled debt restructurings (“TDRs”) - For borrowers experiencing financial difficulties, the Bank may grant a concession to the borrower. Generally, the Bank grants a short-term payment concession to borrowers who are experiencing a temporary cash flow problem. The most frequently used concession is to reduce the monthly payment amount for a period of 6 to 12 months, often by requiring payments of only interest and escrow during this period, resulting in an extension of the maturity date of the loan. For more severe situations requiring long-term solutions, the Bank also offers interest rate reductions to currently-offered rates and the capitalization of delinquent interest and/or escrow resulting in an extension of the maturity date of the loan. The Bank does not forgive principal or interest nor does it commit to lend additional funds, except for situations generally involving the capitalization of delinquent interest and/or escrow not to exceed the original loan balance, to these borrowers.

Endorsed loans are classified as TDRs when certain guidelines for soft credit scores and/or estimated loan-to-value (“LTV”) ratios are not met. These guidelines are intended to identify changes in the borrower’s credit condition since origination, signifying the borrower could be experiencing financial difficulties even though the borrower has not been delinquent on his contractual loan payment in the previous 12 months.

The TDRs discussed above will be reported as such until paid-off, unless the loan has been restructured to an interest rate equal to or greater than the rate the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk, and has performed under the new terms of the restructuring agreement for at least 12 consecutive months.

The Office of the Comptroller of the Currency ("OCC") requires loans that had been discharged under Chapter 7 bankruptcy proceedings where the borrower has not reaffirmed the debt owed to the lender ("Chapter 7 loans") to be reported as TDRs, regardless of their delinquency status ("Chapter 7 TDRs"). These loans will be reported as TDRs until the borrower has made 48 consecutive monthly loan payments after the Chapter 7 discharge date.

Delinquent loans - A loan is considered delinquent when payment has not been received within 30 days of its contractual due date.

Nonaccrual loans - The accrual of income on loans is discontinued when interest or principal payments are 90 days in arrears or, for TDR loans, the borrower has not made six consecutive monthly payments per the restructured loan terms or since the discharge date for Chapter 7 TDRs. Loans on which the accrual of income has been discontinued are designated as nonaccrual and outstanding interest previously credited beyond 90 days delinquent is reversed. A nonaccrual loan is returned to accrual status once the contractual payments have been made to bring the loan less than 90 days past due or, in the case of a TDR loan, the borrower has made six consecutive payments per the restructured loan terms or the borrower has made six consecutive payments since the discharge date for Chapter 7 TDRs.

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. Interest income on impaired loans is recognized in the period collected unless the ultimate collection of principal is considered doubtful. The following types of loans are reported as impaired loans: all nonaccrual loans, loans classified as substandard, loans partially charged-off, Chapter 7 loans, and all TDRs except those that have been restructured to an interest rate equal to or greater than the rate the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk, and has performed under the new terms of the restructuring agreement for at least 12 consecutive months.

The majority of the Bank's impaired loans are related to one- to four-family properties. Impaired loans related to one- to four-family properties are individually evaluated for loss when the loan becomes 180 days delinquent or at any time management has knowledge of the existence of a potential loss to ensure that the carrying value of the loan is not in excess of the fair value of the collateral, less estimated selling costs.

Allowance for Credit Losses - The ACL represents management's best estimate of the amount of inherent losses in the loan portfolio as of the balance sheet date. Management's methodology for assessing the appropriateness of the ACL consists of an analysis ("formula analysis") model, along with analyzing several other factors. Management maintains the ACL through provisions for credit losses that are either charged to or credited to income.

For one- to four-family secured loans, losses are charged-off when the loan is generally 180 days delinquent or in foreclosure. Losses are based on new collateral values obtained through appraisals, less estimated costs to sell. Anticipated private mortgage insurance ("PMI") proceeds are taken into consideration when calculating the loss amount. An updated appraisal is requested, at a minimum, every 12 months thereafter if the loan is 180 days or more delinquent or in foreclosure. If the Bank holds the first and second mortgage, both loans are combined when evaluating whether there is a potential loss on the loan. Charge-offs for real estate-secured loans may also occur at any time if the Bank has knowledge of the existence of a potential loss. For all real estate loans that are not secured by one- to four-family property, losses are charged-off when the collection of such amounts is unlikely. When a non-real estate secured loan is 120 days delinquent, any identified losses are charged-off.

The Bank's primary lending emphasis is the origination and purchase of one- to four-family first mortgage loans on residential properties and, to a lesser extent, home equity and second mortgage loans on one- to four-family residential properties, resulting in a loan concentration in residential mortgage loans. The Bank has a concentration of loans secured by residential property located in Kansas and Missouri. Based on the composition of the Bank's loan portfolio, the primary risk characteristics inherent in the one- to four-family and consumer loan portfolios are a decline in economic conditions, elevated levels of unemployment or underemployment, and declines in residential real estate values. Any one or a combination of these events may adversely affect borrowers' ability to repay their loans, resulting in increased delinquencies, non-performing assets, loan losses, and future loan loss provisions. Although the multi-family and commercial loan portfolio is subject to the same risk of declines in economic conditions, the primary risk characteristics inherent in this portfolio include the ability of the borrower to sustain sufficient cash flows from leases and to control expenses to satisfy their contractual debt payments, and/or the ability to utilize personal and/or business resources to pay their contractual debt payments if the cash flows are not sufficient. Additionally, if the Bank were to repossess the secured collateral of a multi-family or commercial loan, the pool of potential buyers is limited more than that for a residential property. Therefore, the Bank could hold the property for an extended period of time and/or potentially be forced to sell at a discounted price, resulting in additional losses.

Each quarter, a formula analysis is prepared which segregates the loan portfolio into categories based on certain risk characteristics. The categories include the following: one- to four-family loans; multi-family and commercial loans; consumer home equity loans; and other consumer loans. Home equity loans with the same underlying collateral as a one- to four-family loan are combined with the one- to four-family loan in the formula analysis model to calculate a combined LTV ratio. Loans individually evaluated for loss are excluded from the formula analysis model. The one- to four-family loan portfolio and related home equity loans are segregated into additional categories based on the following risk characteristics: originated and correspondent purchased, or bulk purchased; interest payments (fixed-rate and adjustable-rate/interest-only); LTV ratios; borrower's credit scores; and certain geographic locations. The categories were derived by management based on reviewing the historical performance of the one- to four-family loan portfolio and taking into consideration current economic conditions, such as trends in residential real estate values in certain areas of the U.S. and unemployment rates.

Quantitative loss factors are applied to each loan category in the formula analysis model based on the historical loss experience for each respective loan category. Each quarter, management reviews the historical loss time periods and utilizes the historical loss time periods believed to be the most reflective of the current economic conditions and recent charge-off experience.

Qualitative loss factors are applied to each loan category in the formula analysis model. The qualitative loss factors that are applied in the formula analysis model for one- to four-family and consumer loan portfolios are: unemployment rate trends; collateral value trends; credit score trends; and delinquent loan trends. The qualitative loss factors that are applied in the formula analysis model for multi-family and commercial loan portfolio are: unemployment rate trends; credit score trends for the primary guarantor; delinquent loan trends; and a factor based on management's judgment due to the higher risk nature of these loans, as compared to one- to four-family loans. As loans are classified or become delinquent, the qualitative loss factors increase for each respective loan category. Additionally, TDRs that have not been individually evaluated for loss are included in a category within the formula analysis model with an overall higher qualitative loss factor than corresponding performing loans, for the life of the loan. The qualitative factors were derived by management based on a review of the historical performance of the respective loan portfolios and consideration of current economic conditions and their likely impact to the loan portfolio.

Management utilizes the formula analysis, along with considering several other data elements when evaluating the adequacy of the ACL. Such data elements include the trend and composition of delinquent loans, trends in foreclosed property and short sale transactions and charge-off activity, the current status and trends of local and national economies (particularly levels of unemployment), trends and current conditions in the real estate and housing markets, loan portfolio growth and concentrations, and certain ACL ratios such as ACL to loans receivable, net and annualized historical losses to ACL. Since the Bank's loan portfolio is primarily concentrated in one- to four-family real estate, management monitors residential real estate market value trends in the Bank's local market areas and geographic sections of the U.S. by reference to various industry and market reports, economic releases and surveys, and management's general and specific knowledge of the real estate markets in which the Bank lends, in order to determine what impact, if any, such trends may have on the level of ACL. Reviewing these qualitative factors assists management in evaluating the overall credit quality of the loan portfolio and the reasonableness of the ACL on an ongoing basis, and whether changes need to be made to the Bank's ACL methodology. Management seeks to apply the ACL methodology in a consistent manner; however, the methodology can be modified in response to changing conditions.

Recent Accounting Pronouncements - In December 2011, the Financial Accounting Standards Board ("FASB") issued 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The Accounting Standards Update ("ASU") requires new disclosures regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new disclosures are designed to make GAAP financial statements more comparable to those prepared under International Financial Reporting Standards. The new disclosures entail presenting information about both gross and net exposures. The new disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, which was October 1, 2013 for the Company, and interim periods therein; retrospective application is required. The adoption of this ASU was disclosure-related and therefore did not have an impact on the Company's consolidated financial condition or results of operations when adopted on October 1, 2013.

In January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The ASU clarifies the scope of the offsetting disclosure requirements in ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. These standards are effective for fiscal years beginning on or after January 1, 2013, which was October 1, 2013 for the Company. The standards are disclosure-related and therefore, their adoption did not have an impact on the Company's consolidated financial condition or results of operations when adopted on October 1, 2013.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which is intended to improve the transparency of changes in other comprehensive income and items reclassified out of AOCI. The standard requires entities to disaggregate the total change of each component of other comprehensive income and separately present reclassification adjustments and current period other comprehensive income. Additionally, the standard requires that significant items reclassified out of AOCI be presented by component either on the face of the statement where net income is presented or as a separate disclosure in the notes to the financial statements. ASU 2013-02 is effective for fiscal years beginning after December 15, 2012, which was October 1, 2013 for the Company, and should be applied prospectively. The adoption of this ASU is disclosure-related and therefore did not have an impact on the Company's consolidated financial condition or results of operations when adopted on October 1, 2013.

In February 2013, the FASB issued ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. The ASU provides recognition, measurement, and disclosure guidance for certain obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. ASU 2013-04 is effective for fiscal years beginning after December 15, 2013, which is October 1, 2014 for the Company, and should be applied retrospectively. The Company has not yet completed its evaluation of this standard.

2. Earnings Per Share

Shares acquired by the ESOP are not considered in the basic average shares outstanding until the shares are committed for allocation or vested to an employee's individual account. Unvested shares awarded pursuant to the Company's restricted stock benefit plans are treated as participating securities in the computation of earnings per share pursuant to the two-class method as they contain nonforfeitable rights to dividends. The two-class method is an earnings allocation that determines earnings per share for each class of common stock and participating security.

	For the Three Months Ended December 31,	
	2013	2012
	(Dollars in thousands, except per share data)	
Net income	$ 17,813	$ 17,563
Income allocated to participating securities	(50)	(60)
Net income available to common stockholders	$ 17,763	$ 17,503
Average common shares outstanding	142,881,528	147,881,207
Average committed ESOP shares outstanding	449	1,500
Total basic average common shares outstanding	142,881,977	147,882,707
Effect of dilutive stock options	1,064	102
Total diluted average common shares outstanding	142,883,041	147,882,809
Net earnings per share:		
Basic	$ 0.12	$ 0.12
Diluted	$ 0.12	$ 0.12

Antidilutive stock options, excluded from the diluted average common shares outstanding calculation	2,403,917	2,471,473

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3. Securities

The following tables reflect the amortized cost, estimated fair value, and gross unrealized gains and losses of AFS and HTM securities at the dates presented. The majority of the MBS and investment securities portfolios are composed of securities issued by U.S. government-sponsored enterprises ("GSEs").

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$ 658,834	$ 483	$ 11,155	$ 648,162
MBS	323,720	18,146	--	341,866
Trust preferred securities	2,579	--	170	2,409
Municipal bonds	1,118	38	--	1,156
	986,251	18,667	11,325	993,593
HTM:				
MBS	1,633,298	30,192	29,421	1,634,069
Municipal bonds	35,186	863	21	36,028
	1,668,484	31,055	29,442	1,670,097
	$ 2,654,735	$ 49,722	$ 40,767	$ 2,663,690

	September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$ 709,118	$ 996	$ 7,886	$ 702,228
MBS	345,263	18,701	--	363,964
Trust preferred securities	2,594	--	171	2,423
Municipal bonds	1,308	44	--	1,352
	1,058,283	19,741	8,057	1,069,967
HTM:				
MBS	1,683,744	39,878	16,984	1,706,638
Municipal bonds	34,279	943	14	35,208
	1,718,023	40,821	16,998	1,741,846
	$ 2,776,306	$ 60,562	$ 25,055	$ 2,811,813

The following tables summarize the estimated fair value and gross unrealized losses of those securities on which an unrealized loss at the dates presented was reported and the continuous unrealized loss position for less than 12 months and equal to or greater than 12 months as of the dates presented.

December 31, 2013				
Less Than 12 Months			Equal to or Greater Than 12 Months	
	Estimated	Unrealized	Estimated	Unrealized
Count	Fair Value	Losses		