

WASHINGTON FEDERAL INC
Form 10-K
December 03, 2015

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015.

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

For the transition period from to
Commission File Number: 001-34654

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

Washington 91-1661606
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
425 Pike Street, Seattle, Washington 98101
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (206) 624-7930

Securities registered pursuant to Section 12(b) of the Act:
Title of each Class Name of each exchange on which registered
Common Stock, \$1.00 par value per share NASDAQ Stock Market
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 x No ..
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes .. No x
Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ..
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ..
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 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. x

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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.

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

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

The aggregate market value of the registrant's common stock ("Common Stock") held on March 31, 2015, by non-affiliates was \$2,046,569,111 based on the NASDAQ Stock Market closing price of \$21.805 per share on that date. This is based on 93,857,790 shares of Common Stock that were issued and outstanding on this date, which excludes 1,230,504 shares held by all directors and executive officers of the Registrant.

At December 2, 2015, there were 93,038,843 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents incorporated by reference and the Part of Form 10-K into which the document is incorporated:

(1) Portions of the Registrant's Annual Report to Stockholders for the fiscal year ended September 30, 2015, are incorporated into Part II, Items 5-8 and Part III, Item 12 of this Form 10-K.

(2) Portions of the Registrant's definitive proxy statement for its Annual Meeting of Stockholders to be held on January 20, 2016 are incorporated into Part III, Items 10-14 of this Form 10-K.

PART I

We make statements in this Annual Report on Form 10-K that constitute forward-looking statements. Words such as “expects,” “anticipates,” “believes,” “estimates,” “intends,” “forecasts,” “projects” and other similar expressions or future or conditional verbs such as “will,” “should,” “would” and “could” are intended to help identify such forward-looking statements. These statements are not historical facts, but instead represent current expectations, plans or forecasts of the Company and are based on the beliefs and assumptions of the management of the Company and the information available to management at the time that these disclosures were prepared. The Company intends for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and often are beyond the Company's control. Actual outcomes and results may differ materially from those expressed in, or implied by, the Company's forward-looking statements.

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this report, including under Item 1A. “Risk Factors,” and in any of the Company's other subsequent Securities and Exchange Commission filings, which could cause our future results to differ materially from the plans, objectives, goals, estimates, intentions, and expectations expressed in forward-looking statements:

- a deterioration in economic conditions, including declines in the real estate market and home sale volumes and financial stress on borrowers as a result of the uncertain economic environment;
- the severe effects of the continued economic downturn, including high unemployment rates and declines in housing prices and property values, in our primary market areas;
- the effects of and changes in monetary and fiscal policies of the Board of Governors of the Federal Reserve System and the U.S. Government;
- fluctuations in interest rate risk and changes in market interest rates;
- the Company's ability to make accurate assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and the value of the assets securing these loans;
- the Company's ability to successfully complete merger and acquisition activities and realize expected strategic and operating efficiencies associated with such activities;
- legislative and regulatory limitations, including those arising under the Dodd-Frank Wall Street Reform Act and potential limitations in the manner in which we conduct our business and undertake new investments and activities;
- the ability of the Company to obtain external financing to fund its operations or obtain this financing on favorable terms;
- changes in other economic, competitive, governmental, regulatory, and technological factors affecting the Company's markets, operations, pricing, products, services and fees;
- the success of the Company at managing the risks involved in the foregoing and managing its business; and
- the timing and occurrence or non-occurrence of events that may be subject to circumstances beyond the Company's control.

All forward-looking statements speak only as of the date on which such statements are made, and Washington Federal undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events, changes to future operating results over time, or the impact of circumstances arising after the date the forward-looking statement was made.

Item 1. Business

General

Washington Federal, Inc., formed in November 1994, is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through a federally-insured national bank subsidiary, Washington Federal, National Association ("Bank"). As used throughout this document, the terms "Washington Federal" or the "Company" refer to Washington Federal, Inc. and its consolidated subsidiaries and the term "Bank" refers to the operating subsidiary Washington Federal, National Association.

The Bank is a national bank that began operations in Washington as a state-chartered mutual company in 1917. In 1935, the Company converted to a federal charter and became a member of the Federal Home Loan Bank ("FHLB") system. On November 9, 1982, Washington Federal converted from a federal mutual to a federal capital stock savings association. On July 17, 2013, the Bank converted from a federal savings association to a national bank charter with the Office of the Comptroller of the Currency (the "OCC") and is now a national bank; at the same time, Washington Federal, which had previously been a savings and loan holding company, became a bank holding company under the Bank Holding Company Act (the "BHCA").

The Company's fiscal year end is September 30th. All references to 2015, 2014 and 2013 represent balances as of September 30, 2015, September 30, 2014 and September 30, 2013, respectively, or activity for the fiscal years then ended.

The business of the Bank consists primarily of attracting deposits from the general public and investing these funds in loans of various types, including first lien mortgages on single-family dwellings, construction loans, land acquisition and development loans, loans on multi-family and other income producing properties, home equity loans and business loans. It also invests in certain United States government and agency obligations and other investments permitted by applicable laws and regulations. Washington Federal has 247 branches located in Washington, Oregon, Idaho, Arizona, Utah, Nevada, New Mexico and Texas. Through its subsidiaries, the Company is also engaged in real estate investment and insurance brokerage activities.

The principal sources of funds for the Company's activities are retained earnings, loan repayments (including prepayments), net deposit inflows, repayments and sales of investments and borrowings. Washington Federal's principal sources of revenue are interest on loans and interest and dividends on investments. Its principal expenses are interest paid on deposits, credit costs, general and administrative expenses, interest on borrowings and income taxes. The Company's growth has been generated both internally and as a result of 19 acquisitions. Six of those acquisitions involved government assistance in some form.

Certain branches of Bank of America, National Association. During the fiscal year 2014, the Bank acquired 74 branches from Bank of America, National Association. This included: effective as of the close of business on October 31, 2013, 11 branches located in New Mexico; effective as of the close of business on December 6, 2013, 40 branches that are located in Eastern Washington, Oregon, and Idaho; and effective as of the close of business on May 2, 2014, 23 branches that are located in Arizona and Nevada. The combined acquisitions provided \$1.9 billion in deposit accounts, \$13 million of loans, and \$25 million in branch properties. The Bank paid a 1.99% premium on the total deposits and received \$1.8 billion in cash from the transactions. The operating results of the Company include the operating results produced by the first eleven branches for the period from November 1, 2013 to September 30, 2015, for the additional forty branches from December 7, 2013 to September 30, 2015, and for the most recent twenty-three branches from May 3, 2014 to September 30, 2015.

South Valley Bancorp, Inc. Effective November 1, 2012, the Bank acquired South Valley Bancorp, Inc. and its wholly owned subsidiary, South Valley Bank & Trust ("SVBT"), was merged into the Bank. The acquisition provided \$361 million of net loans, \$108 million of loans covered by an FDIC loss-sharing agreement, \$736 million of deposit accounts, including \$533 million in transaction deposit accounts and 24 branch locations in Central and Southern Oregon. Total consideration paid at closing was \$44 million, including \$34 million of Washington Federal common

stock and \$10 million of cash resulting from the collection of certain earn-out assets. The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period November 1, 2012 to September 30, 2015.

Western National Bank. Effective December 16, 2011, the Bank acquired certain assets and liabilities, including most of the loans and deposits, of Western National Bank, headquartered in Phoenix, Arizona (“WNB”) from the Federal Deposit Insurance Corporation (“FDIC”) in an FDIC assisted transaction. Under the terms of the Purchase and Assumption Agreement, the Bank and the FDIC agreed to a discount of \$53 million on net assets and no loss sharing provision or premium on deposits. WNB operated three full-service offices in Arizona. The Bank acquired certain assets with a book value of \$177 million, including \$143 million in loans and \$7 million in foreclosed real estate, and selected liabilities with a book value of \$153 million, including \$136 million in deposits.

Pursuant to the purchase and assumption agreement with the FDIC, the Company received a cash payment from the FDIC for \$30 million. The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period December 16, 2011 to September 30, 2015.

Charter Bank. Effective October 14, 2011, the Bank acquired six branch locations, four in Albuquerque, New Mexico, and two in Santa Fe, New Mexico, from Charter Bank. The acquisition provided \$255 million of deposits were acquired for a premium of \$1.1 million. The operating results of the Company include the operating results produced by the assumed liabilities for the period October 14, 2011 to September 30, 2015.

The Bank is subject to extensive regulation, supervision and examination by the OCC, its primary federal regulator, the Bureau of Consumer Financial Protection ("CFPB") and the FDIC, which insures its deposits up to applicable limits. Washington Federal, as a bank holding company, is subject to extensive regulation, supervision and examination by the Board of Governors of the Federal Reserve System ("Federal Reserve"). The CFPB has broad authority to regulate providers of credit, payment and other consumer financial products and services and to bring actions to enforce federal consumer protection legislation as necessary.

The regulatory structure gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities. Any change in such regulation, whether by the OCC, the FDIC, the Federal Reserve, the CFPB or the U.S. Congress, could have a significant impact on the Company and its operations. See "Regulation" section below.

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Average Statements of Financial Condition

Year Ended September 30,

2015

2014

2013

Average
Balance

Interest

Average
Rate

Average
Balance

Interest

Average
Rate

Average
Balance

Interest

Average
Rate

(In thousands)

Assets

Loans (1)	\$8,598,435	\$437,002	5.08 %	\$7,997,565	\$430,850	5.39 %	\$7,818,781	\$454,915	5.82 %
Mortgage-backed securities	3,073,180	71,392	2.32	3,275,846	80,260	2.45	2,582,247	48,520	1.88
Investment securities (2)	1,634,441	20,318	1.24	1,866,560	20,964	1.12	1,446,493	12,492	.86
FHLB & FRB stock	138,443	1,841	1.33	168,078	1,623	.97	155,773	364	.23
Total interest-earning assets	13,444,499	530,553	3.95 %	13,308,049	533,697	4.01 %	12,003,294	516,291	4.30 %
Other assets	1,102,599			969,654			945,137		
Total assets	\$14,547,098			\$14,277,703			\$12,948,431		

Liabilities and

Stockholders' Equity

Checking accounts	\$2,458,314	1,036	.04 %	\$1,888,478	1,259	.07 %	\$1,244,149	936	.08 %
Passbook and statement accounts	659,938	660	.10	558,146	607	.11	377,581	566	.15
Insured money market accounts	2,541,137	3,631	.14	2,323,460	4,574	.20	1,881,866	4,280	.23
Certificate accounts (time deposits)	4,944,916	45,606	.92	5,420,812	51,966	.96	5,479,541	62,010	1.13
Repurchase agreements with customers	52,382	121	.23	46,905	118	.25			