CAPITOL FEDERAL FINANCIAL
Form 10-Q
July 29, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

or

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

Commission file number: 000-25391

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

United States	48-1212142
(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 þ 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 þ	Accelerated filer ¨	Non-accelerated filer ¨ (do not check if a smaller reporting company)	Smaller Reporting Company ¨

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

As of July 23, 2010, there were 73,991,478 shares of Capitol Federal Financial Common Stock outstanding.

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITOL FEDERAL FINANCIAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (unaudited)

(Dollars in thousands except per share data and amounts)

	June 30, 2010 (Unaudited)	September 30, 2009
ASSETS:		
Cash and cash equivalents (includes interest-earning deposits of $64,070 and $32,319)	$ 75,886	$ 41,154
Investment securities:		
Available-for-sale ("AFS") at estimated fair value (amortized cost of $56,735 and $235,185)	56,601	234,784
Held-to-maturity ("HTM") at amortized cost (estimated fair value of $1,152,442 and $248,929)	1,146,463	245,920
Mortgage-backed securities ("MBS"):		
AFS, at estimated fair value (amortized cost of $1,048,106 and $1,334,357)	1,106,815	1,389,211
HTM, at amortized cost (estimated fair value of $542,761 and $627,829)	513,808	603,256
Loans receivable, net (of allowance for loan losses ("ALLL") of $15,677 and $10,150)	5,316,172	5,603,965
Bank-owned life insurance ("BOLI")	54,350	53,509
Capital stock of Federal Home Loan Bank ("FHLB"), at cost	136,055	133,064
Accrued interest receivable	31,578	32,640
Premises and equipment, net	40,915	37,709
Real estate owned ("REO"), net	7,150	7,404
Prepaid federal insurance premium	22,285	--
Other assets	35,279	21,064
TOTAL ASSETS	$ 8,543,357	$ 8,403,680
LIABILITIES:		
Deposits	$ 4,373,844	$ 4,228,609
Advances from FHLB	2,396,637	2,392,570
Other borrowings, net	713,609	713,609
Advance payments by borrowers for taxes and insurance	31,737	55,367
Income taxes payable	1,440	6,016
Deferred income tax liabilities, net	35,098	30,970
Accounts payable and accrued expenses	30,992	35,241
Total liabilities	7,583,357	7,462,382
STOCKHOLDERS' EQUITY:		
Preferred stock ($0.01 par value) 50,000,000 shares authorized; none issued	--	--
Common stock ($0.01 par value) 450,000,000 shares authorized, 91,512,287 shares issued; 73,990,978 and 74,099,355 shares outstanding as of June 30, 2010 and September 30, 2009, respectively	915	915

Additional paid-in capital	456,786	452,872
Unearned compensation, Employee Stock Ownership Plan (“ESOP”)	(6,553)	(8,066)
Unearned compensation, Recognition and Retention Plan (“RRP”)	(297)	(330)
Retained earnings	796,093	781,604
Accumulated other comprehensive income, net of tax	36,433	33,870
Less shares held in treasury (17,521,309 and 17,412,932 shares as of June 30, 2010 and September 30, 2009, respectively, at cost)	(323,377)	(319,567)
Total stockholders' equity	960,000	941,298
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 8,543,357	$ 8,403,680

See accompanying notes to consolidated financial statements.

<Index>

CAPITOL FEDERAL FINANCIAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars and share counts in thousands except per share data)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2010	2009	2010	2009
INTEREST AND DIVIDEND INCOME:				
Loans receivable	$ 68,990	$ 76,745	$ 213,831	$ 230,907
MBS	16,864	24,211	56,245	75,701
Investment securities	4,565	1,279	10,850	3,560
Capital stock of FHLB	1,005	793	2,991	2,351
Cash and cash equivalents	61	50	162	167
Total interest and dividend income	91,485	103,078	284,079	312,686
INTEREST EXPENSE:				
FHLB advances	24,417	25,307	73,535	81,505
Deposits	19,149	24,705	61,030	76,201
Other borrowings	7,032	7,144	21,090	21,978
Total interest expense	50,598	57,156	155,655	179,684
NET INTEREST AND DIVIDEND INCOME	40,887	45,922	128,424	133,002
PROVISION FOR LOAN LOSSES	1,816	3,112	8,131	5,768
NET INTEREST AND DIVIDEND INCOME AFTER PROVISION FOR LOAN LOSSES	39,071	42,810	120,293	127,234
OTHER INCOME:				
Retail fees and charges	4,681	4,671	13,617	13,271
Insurance commissions	573	528	1,908	1,892
Loan fees	670	564	1,925	1,730
Income from BOLI	351	262	842	887
Gain on securities, net	--	--	6,454	--
Gain on loans receivable, net	972	1,629	1,135	2,169
Other income, net	507	578	1,540	1,900
Total other income	7,754	8,232	27,421	21,849
OTHER EXPENSES:				
Salaries and employee benefits	10,858	10,715	32,197	32,447
Communications, information technology, and occupancy	3,703	3,936	11,499	11,428
Federal insurance premium	1,835	5,307	5,494	5,700
Advertising and promotional	1,295	1,704	4,276	5,393
Deposit and loan transaction costs	1,238	1,276	3,934	3,998
Regulatory and outside services	927	857	3,369	2,986

Postage and office supplies	439	582	1,853	2,030
Other expenses, net	329	2,034	3,851	6,650
Total other expenses	20,624	26,411	66,473	70,632
INCOME BEFORE INCOME TAX EXPENSE	26,201	24,631	81,241	78,451
INCOME TAX EXPENSE	9,443	9,155	28,848	28,991
NET INCOME	$ 16,758	$ 15,476	$ 52,393	$ 49,460
Basic earnings per common share	$ 0.23	$ 0.21	$ 0.72	$ 0.68
Diluted earnings per common share	$ 0.23	$ 0.21	$ 0.72	$ 0.68
Dividends declared per public share	$ 0.50	$ 0.50	$ 1.79	$ 1.61
Basic weighted average common shares	73,273,472	73,172,822	73,251,516	73,116,212
Diluted weighted average common shares	73,297,126	73,232,496	73,273,409	73,189,501

See accompanying notes to consolidated financial statements.

CAPITOL FEDERAL FINANCIAL AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Unearned Compensation ESOP	Unearned Compensation RRP	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance at October 1, 2009	$915	$452,872	$(8,066)	$(330)	$781,604	$33,870	$(319,567)	$941,298
Comprehensive income:								
Net income					52,393			52,393
Other comprehensive income:								
Changes in unrealized gain/losses on securities AFS, net of deferred income taxes of $1,559						2,563		2,563
Total comprehensive income								54,956
ESOP activity, net		3,514	1,513					5,027
RRP activity, net		122		(163)			47	6
Stock based compensation - stock options and RRP		174		196				370
Acquisition of treasury stock							(4,019)	(4,019)
Stock options exercised		104					162	266
Dividends on common stock to stockholders $1.79 per public share					(37,904)			(37,904)
Balance at June 30, 2010	$915	$456,786	$(6,553)	$(297)	$796,093	$36,433	$(323,377)	$960,000

See accompanying notes to consolidated financial statements.

<Index>

CAPITOL FEDERAL FINANCIAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	For the Nine Months Ended June 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 52,393	$ 49,460
Adjustments to reconcile net income to net cash provided by operating activities:		
FHLB stock dividends	(2,991)	(2,351)
Provision for loan losses	8,131	5,768
Originations of loans receivable held-for-sale ("LHFS")	(32,811)	(858)
Proceeds from sales of LHFS	28,505	97,838
Amortization and accretion of premiums and discounts on MBS and investment securities	4,449	1,377
Depreciation and amortization of premises and equipment	3,487	3,751
Amortization of deferred amounts related to FHLB advances, net	4,942	2,208
Common stock committed to be released for allocation - ESOP	5,027	6,166
Stock based compensation - stock options and RRP	370	475
Gain on the sale of trading securities received in the loan swap transaction	(6,454)	--
Changes in:		
Prepaid federal insurance premium	(22,285)	--
Accrued interest receivable	1,062	876
Other assets, net	(9,908)	620
Income taxes payable/receivable	(2,002)	1,840
Accounts payable and accrued expenses	(4,249)	1,010
Net cash provided by operating activities	27,666	168,180
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of trading securities received in the loan swap transaction	199,144	--
Proceeds from maturities or calls of investment securities AFS	177,069	45,032
Purchases of investment securities AFS	--	(255,046)
Proceeds from maturities or calls of investment securities HTM	153,115	39,600
Purchases of investment securities HTM	(1,055,442)	(10,116)
Principal collected on MBS AFS	284,951	227,574
Purchases of MBS AFS	--	(169,452)
Principal collected on MBS HTM	94,496	125,176
Purchases of MBS HTM	(5,032)	(3,217)
Proceeds from the redemption of capital stock of FHLB	--	3,688
Purchases of capital stock of FHLB	--	(9,002)
Loan originations, net of principal collected	45,798	(196,002)
Loan purchases, net of principal collected	30,960	(133,849)
Net deferred fee activity	131	1,330
Purchases of premises and equipment	(6,735)	(8,944)
Proceeds from sales of REO	9,538	6,047
Net cash used in investing activities	(72,007)	(337,181)

(Continued)

	For the Nine Months Ended June 30, 2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(37,904)	(33,621)
Deposits, net of withdrawals	145,235	251,368
Proceeds from advances/line of credit from FHLB	300,000	1,561,102
Repayments on advances/line of credit from FHLB	(300,000)	(1,561,102)
Deferred FHLB prepayment penalty	(875)	(38,388)
Change in advance payments by borrowers for taxes and insurance	(23,630)	(22,801)
Acquisitions of treasury stock	(4,019)	(2,426)
Stock options exercised	178	1,316
Excess tax benefits from stock options	88	516
Net cash provided by financing activities	79,073	155,964
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	34,732	(13,037)
CASH AND CASH EQUIVALENTS:		
Beginning of period	41,154	87,138
End of period	$75,886	$74,101
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income tax payments	$30,757	$27,116
Interest payments, net of interest credited to deposits	$90,053	$103,229
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Loans transferred to REO	$9,014	$7,320
Transfer of loans receivable to LHFS, net	$--	$94,672
Swap of loans for trading securities	$193,889	$--

(Concluded)

See accompanying notes to consolidated financial statements.

<Index>

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Financial Statement Presentation

The accompanying consolidated financial statements of Capitol Federal Financial and subsidiaries (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, 2009, filed with the Securities and Exchange Commission ("SEC"). Interim results are not necessarily indicative of results for a full year. 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. Significant estimates include the ALLL, other-than-temporary declines in the fair value of securities, and fair value measurements. Actual results could differ from those estimates. See "Item 2- Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies."

The Board of Directors of Capitol Federal Savings Bank MHC ("MHC"), the Company and Capitol Federal Savings Bank (the "Bank") adopted a Plan of Conversion and Reorganization (the "Plan") on May 5, 2010. Pursuant to the Plan, MHC will 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. Pursuant to the Plan, the Company, which owns 100% of the Bank, also will be succeeded by a new Maryland corporation, named Capitol Federal Financial, Inc. As part of the conversion, MHC's ownership interest of the Company will be offered for sale in a public offering. The existing publicly held shares of the Company, which represents the remaining ownership interest in the Company, will be exchanged for new shares of common stock of Capitol Federal Financial, Inc., the new Maryland corporation. The exchange ratio will ensure that immediately after the conversion and public offering, the public stockholders of the Company will own the same aggregate percentage of Capitol Federal Financial, Inc. common stock that they owned of the Company common stock immediately prior to that time. 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 conversion and reorganization is expected to be completed by the end of fiscal year 2010, subject to the receipt of final regulatory approvals and approval by the Company's shareholders and the members of MHC.

The Plan provides for the establishment, upon the completion of the reorganization, of special "liquidation accounts" at Capitol Federal Financial, Inc. and at the Bank for the benefit of certain depositors of the Bank in an amount equal to MHC's ownership interest in the retained earnings of the Company as of the date of the latest balance sheet contained in the prospectus for the public offering. Following the completion of the reorganization, under the rules of the Office of Thrift Supervision ("OTS"), neither Capitol Federal Financial, Inc. nor the Bank, will be permitted to pay dividends on its capital stock to its stockholders, if stockholders' equity would be reduced below the amount of its liquidation account.

In addition, Capitol Federal Financial, Inc. intends to fund a $40.0 million cash contribution to the Bank's charitable foundation in connection with the conversion.

Direct costs of the conversion and public offering will be deferred and reduce the proceeds from the shares sold in the public offering. If the conversion and public offering are not completed, all costs will be charged to expense in the period in which the public offering is terminated. As of June 30, 2010, the Company had deferred $3.3 million in costs related to the offering.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, the Bank and Capitol Federal Financial, Inc. 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.

2. Recent Accounting Pronouncements

Effective October 1, 2009, the Company adopted new authoritative accounting guidance under Accounting Standards Codification ("ASC") 260, Earnings Per Share, which provides that unvested share-based payment awards containing nonforfeitable rights to dividends or dividend equivalents are participating securities and should be included in the computation of earnings per share ("EPS") pursuant to the two-class method. The Company determined that its unvested RRP awards are participating securities. This new guidance requires retrospective adjustment to all prior-period EPS data presented. The Company has participating securities related to the Company's stock incentive plans in the form of unvested restricted common shares. However, these participating securities do not have an impact on the Company's EPS.

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 166, Accounting for Transfers of Financial Assets an Amendment of FASB Statement No. 140. SFAS No. 166 was codified into ASC 860, Transfers of Servicing Assets by Accounting Standards Update ("ASU") 2009-16. The objective of SFAS No. 166 is to improve the relevance, representational faithfulness, and comparability of the information provided in the financial statements related to the transfer of financial assets; the effects of a transfer on the company's financial position, financial performance and cash flows; and a transferor's continuing involvement in transferred financial assets. SFAS No. 166 is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009, which for the Company is October 1, 2010. Early adoption is prohibited. The Company has not yet completed its assessment of the impact of SFAS No. 166.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). SFAS No. 167 was codified into ASC 810, Consolidation by ASU 2009-17. SFAS No. 167 does not change many of the key principles for determining whether an entity is a variable interest entity consistent with the ASC on "Consolidation." SFAS No. 167 does amend many important provisions of the existing guidance on "Consolidation." SFAS No. 167 is effective as of the beginning of the first fiscal year that begins after November 15, 2009, which for the Company is October 1, 2010. Early adoption is prohibited. The Company has not yet completed its assessment of the impact of SFAS No. 167.

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures About Fair Value Measurements, which amends ASC 820-10 to require new disclosures about transfers in and out of Level 1 and Level 2 fair value measurements and the roll forward of activity in Level 3 fair value measurements. ASU 2010-06 also clarifies existing disclosure requirements regarding the level of disaggregation of each class of assets and liabilities within a line item in the statement of financial condition and clarifies that a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3 fair value measurements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the new disclosures about the roll forward of activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Since the provisions of ASU 2010-06 are disclosure related, the Company's adoption of this guidance did not have an impact on its financial condition or results of operations.

In February 2010, the FASB issued ASU 2010-09, Amendments to Certain Recognition and Disclosure Requirements, which amends ASC 855, Subsequent Events to address implementation issues of ASC 855. ASU 2010-09 requires SEC filers to evaluate subsequent events through the date the financial statements are issued and exempts SEC filers from disclosing the date through which subsequent events have been evaluated. The ASU was effective immediately for the Company. Since the provisions of ASU 2010-09 are disclosure related, the Company's adoption of this guidance did not have an impact on its financial condition or results of operations.

3. Earnings Per Share

The Company accounts for the 3,024,574 shares acquired by its ESOP and the shares awarded pursuant to its RRP in accordance with ASC 260, which requires that unvested RRP awards that contain nonforfeitable rights to dividends be treated as participating securities in the computation of EPS pursuant to the two-class method. The two-class method is an earnings allocation that determines EPS for each class of common stock and participating security. 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.

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2010	2009	2010	2009
	(in thousands, except share and per share data)			
Net income (1)	$ 16,758	$ 15,476	$ 52,393	$ 49,460
Average common shares outstanding	73,172,098	73,071,448	73,200,737	73,065,433
Average committed ESOP shares outstanding	101,374	101,374	50,779	50,779
Total basic average common shares outstanding	73,273,472	73,172,822	73,251,516	73,116,212
Effect of dilutive RRP shares	2,029	3,842	3,182	5,626
Effect of dilutive stock options	21,625	55,832	18,711	67,663
Total diluted average common shares outstanding	73,297,126	73,232,496	73,273,409	73,189,501
Net EPS:				
Basic	$ 0.23	$ 0.21	$ 0.72	$ 0.68
Diluted	$ 0.23	$ 0.21	$ 0.72	$ 0.68
Antidilutive stock options and RRP, excluded from the diluted average common shares outstanding calculation	101,850	74,050	219,252	74,050

(1) Net income available to participating securities (unvested RRP shares) was inconsequential for the three and nine month periods ended June 30, 2010 and June 30, 2009.

4. Fair Value of Financial Instruments

Fair Value Measurements - ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The Company did not have any liabilities that were measured at fair value at June 30, 2010. The Company's AFS securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets or liabilities on a non-recurring basis, such as REO and impaired loans. These non-recurring fair value adjustments involve the application of lower-of-cost-or-fair value accounting or write-downs of individual assets.

In accordance with ASC 820, the Company groups its assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 — Valuation is based upon quoted prices for identical instruments traded in active markets.

- Level 2 — Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

- Level 3 — Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

The Company bases its fair values on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As required by ASC 820, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

The following is a description of valuation methodologies used for assets measured at fair value on a recurring basis.

AFS Securities
The Company's AFS securities portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders' equity. The Company's major security types based on the nature and risks of the securities are included in the table below. The majority of the securities within the AFS portfolio are issued by U.S. government-sponsored enterprises ("GSEs"). The fair values for all AFS securities are based on quoted prices for similar securities. Various modeling techniques are used to determine pricing for the Company's securities, including option pricing and discounted cash flow models. The inputs to these models may include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. The Company is responsible for the valuation process and as part of this process may use data from outside sources in establishing fair value. The Company performs due diligence to understand the inputs used or how the data was calculated or derived. The Company corroborates the reasonableness

of the valuation process. There are some AFS securities in the AFS portfolio that have significant unobservable inputs requiring the independent pricing services to use some judgment in pricing the related securities. These AFS securities are classified as Level 3. All other AFS securities are classified as Level 2.

The following table provides the level of valuation assumption used to determine the carrying value of the Company's assets measured at fair value on a recurring basis, which consists of AFS securities, at June 30, 2010.

	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)(1)
	(Dollars in thousands)			
GSE debentures	$50,647	$--	$50,647	$ --
Municipal bonds	2,799	--	2,799	--
Trust preferred securities	3,155	--	--	3,155
MBS	1,106,815	--	1,106,815	--
	$1,163,416	$--	$1,160,261	$ 3,155

(1) The Company's Level 3 AFS securities have had no activity since September 30, 2009, except for reductions in net unrealized losses recognized in other comprehensive income. Reductions of net unrealized losses included in other comprehensive income for the three and nine months ended June 30, 2010 was $65 thousand and $674 thousand, respectively.

The following is a description of valuation methodologies used for significant assets measured at fair value on a non-recurring basis.

Loans Receivable

Loans which meet certain criteria are evaluated individually for impairment. A loan is considered impaired when, based upon current information and events, it is probable 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 at June 30, 2010 were $53.9 million. Substantially all of the Bank's impaired loans at June 30, 2010 were secured by residential real estate. These impaired loans are individually assessed to ensure that the carrying value of the loan is not in excess of the fair value of the collateral, less estimated selling costs. Fair value is estimated through current appraisals, automated valuation models ("AVMs"), broker price opinions ("BPOs") or listing prices. Fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. Based on this evaluation, the Company maintained an ALLL of $4.9 million at June 30, 2010 for such impaired loans.

REO

REO represents real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at lower of cost or fair value. Fair value is estimated through current appraisals, AVMs, BPOs, or listing prices. As these properties are actively marketed, estimated fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. The fair value of REO at June 30, 2010 was $7.2 million. During the three and nine months ended June 30, 2010, charge-offs to the ALLL related to loans that were transferred to REO were $493 thousand and $1.1 million, respectively. Write downs related to REO that were charged to other expense were $163 thousand and $508 thousand for the three and nine months ended June 30, 2010.

The following table provides the level of valuation assumption used to determine the carrying value of the Company's assets measured at fair value on a non-recurring basis at June 30, 2010.

	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Impaired loans	$53,909	$--	$--	$ 53,909
REO	7,150	--	--	7,150
	$61,059	$--	$--	$ 61,059

12

Fair Value Disclosures

The Company determined estimated fair value amounts using available market information and a selection from a variety of valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amount the Company could realize in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2010 and September 30, 2009. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates.

The estimated fair values of the Company's financial instruments as of June 30, 2010 and September 30, 2009 are as follows.

	At June 30, 2010		At September 30, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)			
Financial assets:				
Cash and cash equivalents	$75,886	$75,886	$41,154	$41,154
Investment securities:				
AFS	56,601	56,601	234,784	234,784
HTM	1,146,463	1,152,442	245,920	248,929
MBS:				
AFS	1,106,815	1,106,815	1,389,211	1,389,211
HTM	513,808	542,761	603,256	627,829
Loans receivable	5,316,172	5,567,654	5,603,965	5,801,724
BOLI	54,350	54,350	53,509	53,509
Capital stock of FHLB	136,055	136,055	133,064	133,064
Financial liabilities:				
Deposits	4,373,844	4,433,422	4,228,609	4,294,454
Advances from FHLB	2,396,637	2,582,433	2,392,570	2,554,206
Other borrowings	713,609	744,660	713,609	742,301

The following methods and assumptions were used to estimate the fair value of the financial instruments:

Cash and Cash Equivalents - The carrying amounts of cash and cash equivalents are considered to approximate their fair value due to the nature of the financial asset.

Investment Securities and MBS - Estimated fair values of securities are based on one of three methods: 1) quoted market prices where available, 2) quoted market prices for similar instruments if quoted market prices are not available, 3) unobservable data that represents the Bank's assumptions about items that market participants would consider in determining fair value where no market data is available. AFS securities are carried at estimated fair value. HTM securities are carried at amortized cost.

Loans Receivable - Fair values are estimated for portfolios with similar financial characteristics. Loans are segregated by type, such as one- to four-family residential mortgages, multi-family residential mortgages, nonresidential and installment loans. Each loan category is further segmented into fixed and adjustable interest rate categories. Market pricing sources are used to approximate the estimated fair value of fixed- and adjustable-rate one- to four-family residential mortgages. For all other loan categories, future cash flows are discounted using the LIBOR curve plus a margin at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturity.

BOLI - The carrying value of BOLI is considered to approximate its fair value due to the nature of the financial asset.

Capital Stock of FHLB - The carrying value of FHLB stock equals cost. The fair value is based on redemption at par value.

Deposits - The estimated fair value of demand deposits, savings and money market accounts is the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using a margin to the LIBOR curve.

Advances from FHLB - The estimated fair value of advances from FHLB is determined by discounting the future cash flows of each advance using a margin to the LIBOR curve.

Other Borrowings - Other borrowings consists of repurchase agreements and Junior Subordinated Deferrable Interest Debentures ("the debentures"). The estimated fair value of the repurchase agreements is determined by discounting the future cash flows of each agreement using a margin to the LIBOR curve. The debentures have a variable rate structure, with the ability to redeem at par; therefore, the carrying value of the debentures approximates their estimated fair value.

5. Securities

The following tables reflect the amortized cost, estimated fair value, and gross unrealized gains and losses of AFS and HTM securities at June 30, 2010 and September 30, 2009. The majority of the MBS and investment portfolios are composed of securities issued by U.S. GSEs.

	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$50,347	$300	$--	$50,647
Municipal bonds	2,653	146	--	2,799
Trust preferred securities	3,735	--	580	3,155
MBS	1,048,106	58,739	30	1,106,815
	1,104,841	59,185	610	1,163,416
HTM:				
GSE debentures	1,075,564	3,976	--	1,079,540
Municipal bonds	70,899	2,046	43	72,902
MBS	513,808	28,954	1	542,761
	1,660,271	34,976	44	1,695,203
	$2,765,112	$94,161	$654	$2,858,619

	September 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$228,743	$1,132	$--	$229,875
Municipal bonds	2,668	131	--	2,799
Trust preferred securities	3,774	--	1,664	2,110
MBS	1,334,357	55,552	698	1,389,211
	1,569,542	56,815	2,362	1,623,995
HTM:				
GSE debentures	175,394	535	--	175,929
Municipal bonds	70,526	2,514	40	73,000
MBS	603,256	24,645	72	627,829
	849,176	27,694	112	876,758
	$2,418,718	$84,509	$2,474	$2,500,753

At June 30, 2010 and September 30, 2009, the MBS held within our portfolio were issued by Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC"), or Government National Mortgage Association ("GNMA"), with the exception of $3.6 million and $4.6 million at those respective dates, which were issued by a private issuer. The following table presents the carrying value of the MBS in our portfolio by issuer:

	At	
	June 30, 2010	September 30, 2009
	(Dollars in thousands)	
FNMA	$846,439	$1,035,271
FHLMC	767,992	949,639
GNMA	2,552	2,921
Private Issuer	3,640	4,636
	$1,620,623	$1,992,467

The following table presents the taxable and non-taxable components of interest income on investment securities for the three and nine months ended June 30, 2010 and 2009:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Taxable	$4,031	$777	$9,243	$2,077
Non-taxable	534	502	1,607	1,483
	$4,565	$1,279	$10,850	$3,560

On a quarterly basis, management conducts a formal review of securities for the presence of an other-than-temporary impairment ("OTTI"). Management assesses whether an OTTI is present when the fair value of a security is less than its amortized cost basis at the balance sheet date. For such securities, OTTI is considered to have occurred if 1) the Company intends to sell the security, 2) if it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, or 3) if the present value of expected cash flows is not sufficient to recover the entire amortized cost.

The following tables summarize the estimated fair value and gross unrealized losses of those securities on which an unrealized loss at June 30, 2010 and September 30, 2009 was reported and the continuous unrealized loss position for the twelve months prior to June 30, 2010 and September 30, 2009 or for a shorter period of time, as applicable.

	June 30, 2010					
		Less Than 12 Months			Equal to or Greater Than 12 Months	
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized Losses
AFS:			(Dollars in thousands)			
Trust preferred securities	--	$--	$--	1	$3,155	$580
MBS	2	20,133	28	4	636	2
	2	$20,133	$28	5	$3,791	$582
HTM:						
GSE debentures	1	$24,938	$--	--	$--	$--
Municipal bonds	3	1,451	12	3	1,943	32
MBS	1	2,315	--	1	49	--
	5	$28,704	$12	4	$1,992	$32

	September 30, 2009					
		Less Than 12 Months			Equal to or Greater Than 12 Months	
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized Losses
AFS:			(Dollars in thousands)			
Trust preferred securities	--	$--	$--	1	$2,110	$1,664
MBS	16	57,157	600	37	15,804	98
	16	$57,157	$600	38	$17,914	$1,762
HTM:						
Municipal bonds	4	$1,930	$36	1	$495	$4
MBS	3	5,563	26	4	11,043	46
	7	$7,493	$62	5	$11,538	$50

The unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Additionally, the impairment is also considered temporary because scheduled coupon payments have been made, it is anticipated that the entire principal balance will be collected as scheduled, and management neither intends to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the recovery of the remaining amortized cost amount, which could be at maturity.

The amortized cost and estimated fair value of securities by remaining contractual maturity without consideration for call features or pre-refunding dates as of June 30, 2010 are shown below. Actual maturities of MBS may differ from contractual maturities because borrowers have the right to prepay obligations, generally without penalty. Maturities of MBS depend on the repayment characteristics and experience of the underlying financial instruments.

	AFS		HTM	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
One year or less	$ 25,347	$ 25,494	$ 2,978	$ 3,021
One year through five years	25,580	25,766	1,071,795	1,076,442
Five years through ten years	139,540	150,380	340,396	359,916
Ten years and thereafter	914,374	961,776	245,102	255,824
	$ 1,104,841	$ 1,163,416	$ 1,660,271	$ 1,695,203

Issuers of certain investment securities have the right to call and prepay obligations with or without prepayment penalties. As of June 30, 2010, the amortized cost of the securities in our portfolio which are callable or have pre-refunding dates within one year totaled $1.06 billion.

As of June 30, 2010 and September 30, 2009, the Bank had pledged AFS and HTM MBS with an amortized cost of $714.5 million and $764.4 million, respectively, and an estimated fair value of $757.2 million and $797.0 million, respectively, as collateral for repurchase agreements. The securities pledged as collateral for the repurchase agreements can be repledged by the counterparties. As of June 30, 2010 and September 30, 2009, the Bank also had pledged AFS and HTM MBS with an amortized cost of $173.3 million and $193.6 million, respectively, and an estimated fair value of $184.6 million and $202.8 million, respectively, as collateral for public unit depositors, and discount window borrowings and treasury, tax, and loan requirements at the Federal Reserve Bank ("FRB"). As of June 30, 2010, there were no securities pledged for treasury, tax, and loan requirements at the FRB.

During the quarter ended December 31, 2009, the Bank swapped $194.8 million of originated fixed-rate mortgage loans with the FHLMC for MBS ("loan swap transaction"). The MBS received in the loan swap transaction were classified as trading securities prior to their subsequent sale by the Bank. Proceeds from the sale of these securities were $199.1 million, resulting in a gross realized gain of $6.5 million. The gain is included in gain on securities, net in the consolidated statements of income for the nine months ended June 30, 2010.

6. Subsequent Events

In preparing these financial statements, we have evaluated events occurring subsequent to June 30, 2010, for potential recognition and disclosure. There have been no material events or transactions which would require adjustments to the consolidated financial statements at June 30, 2010.

Subsequent to June 30, 2010, the Company received conditional approval from the OTS to reorganize from a two-tier mutual holding company structure to a stock holding company structure and commence a "second-step" stock offering of new shares of common stock. Additionally, the registration statement relating to the sale of common stock by the new holding company for the Bank, Capitol Federal Financial, Inc., was declared effective by the SEC. Completion of the conversion and offering is subject to, among other things, the receipt of final regulatory approvals and approval by the Company's shareholders and the members of MHC.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company and its wholly-owned subsidiaries may from time to time make written or oral "forward-looking statements," including statements contained in documents filed or furnished by the Company with the SEC. These forward-looking statements may be included in this Quarterly Report on Form 10-Q and the exhibits attached to it, in the Company's reports to stockholders, in the Company's press releases, 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 area;
- 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 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 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 of 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.

As used in this Form 10-Q, 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.

The following discussion and analysis is intended to assist in understanding the financial condition and results of operations of the Company. It should be read in conjunction with the consolidated financial statements and notes presented in this report. The discussion includes comments relating to the Bank, since the Bank is wholly-owned by the Company and comprises the majority of its assets and is the principal source of income for the Company. This discussion and analysis should be read in conjunction with management’s discussion and analysis included in the Company’s 2009 Annual Report on Form 10-K filed with the SEC.

Executive Summary

The following summary should be read in conjunction with our Management’s Discussion and Analysis of Financial Condition and Results of Operations in its entirety.

The Board of Directors of MHC, the Company and the Bank adopted a Plan of Conversion and Reorganization on May 5, 2010. Pursuant to the Plan, MHC will 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 will be offered for sale in a public offering. The existing publicly held shares of the Company, which represents the remaining ownership interest in the Company, will be exchanged for new shares of common stock of Capitol Federal Financial, Inc. the new Maryland corporation. 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.

Our principal business consists of attracting deposits from the general public and investing those funds primarily in permanent loans secured by first mortgages on owner-occupied, one- to four-family residences. We also originate consumer loans, loans secured by first mortgages on non-owner-occupied one- to four-family residences, construction loans secured by one- to four-family residences, commercial real estate loans, and multi-family real estate loans. While our primary business is the origination of one- to four-family loans funded through retail deposits, we also purchase whole loans and invest in certain investment securities and MBS, and use FHLB advances, repurchase agreements and other borrowings as additional funding sources.

The Company is significantly affected by prevailing economic conditions, including federal monetary and fiscal policies and federal regulation of financial institutions. Deposit balances are influenced by a number of factors, including interest rates paid on competing personal investment products, the level of personal income, and the personal rate of savings within our market areas. Lending activities are influenced by the demand for housing and other loans, changing loan underwriting guidelines, as well as interest rate pricing competition from other lending institutions. The primary sources of funds for lending activities include deposits, loan repayments, investment income, borrowings, and funds provided from operations.

The Company’s results of operations are primarily dependent on net interest income, which is the difference between the interest earned on loans, MBS, investment securities and cash, and the interest paid on deposits and borrowings. On a weekly basis, management reviews deposit flows, loan demand, cash levels, and changes in several market rates to assess all pricing strategies. The Bank generally prices its first mortgage loan products based on secondary market and competitor pricing. Generally, deposit pricing is based upon a survey of competitors in the Bank’s market areas, and the need to attract funding and retain maturing deposits. The majority of our loans are fixed-rate products with maturities up to 30 years, while the majority of our deposits have maturity or reprice dates of less than two years.

During the first nine months of fiscal year 2010, the economy began to show signs of recovery, as evidenced by increases in consumer spending and the stabilization of the labor market, the housing sector, and financial markets. However, unemployment levels remained elevated and unemployment periods prolonged, housing prices remained depressed and demand for housing was weak, due to distressed sales and tightened lending standards. In an effort to support mortgage lending and housing market recovery, and to help improve credit conditions overall, the Federal Open Market Committee of the Federal Reserve has maintained the overnight lending rate between zero and 25 basis points since December 2008.

Total assets increased $139.7 million, from $8.40 billion at September 30, 2009 to $8.54 billion at June 30, 2010, due primarily to growth in the deposit portfolio, which was used to fund investment security purchases. During the current quarter, the Bank prepaid $200.0 million of fixed-rate FHLB advances with a weighted average contractual rate of 4.63%. The prepaid advances were replaced with $200.0 million of fixed-rate FHLB advances with a weighted average contractual interest rate of 3.17% and a term of 84 months. The Bank paid an $875 thousand prepayment penalty to the FHLB as a result of prepaying the FHLB advances, which was deferred as an adjustment to the carrying value of the new advances, effectively increasing the interest rate on the new advances 7 basis points to 3.24%.

Non-performing loans increased $2.3 million from $30.9 million at September 30, 2009 to $33.2 million at June 30, 2010. The balance of non-performing loans continues to remain at historically high levels due to the continued elevated level of unemployment coupled with the decline in real estate values, particularly in some of the states in which we have purchased loans. Despite the current economic operating environment and some deterioration in our portfolio, particularly the purchased loan portfolio, we believe that our overall credit quality continued to compare favorably to the industry and our peers. The Bank recorded a provision for loan losses of $1.8 million during the current quarter, resulting in a provision for loan losses of $8.1 million fiscal year-to-date. The $1.8 million recorded during the current quarter was primarily due to specific valuation allowances (“SVAs”) on purchased loans as a result of receiving updated real estate valuations during the quarter.

The Company recognized net income of $16.8 million for the quarter ended June 30, 2010, compared to net income of $15.5 million for the quarter ended June 30, 2009. The $1.3 million increase in net income between periods was primarily a result of a $3.5 million decrease in federal insurance premiums, a $1.7 million decrease in other expenses, net, and a $1.3 million decrease in the provision for loan losses, partially offset by a decrease in net interest income of $5.0 million. Federal insurance premiums in the prior year quarter included a $3.8 million Federal Deposit Insurance Corporation (“FDIC”) special assessment and there was no such special assessment in the current year quarter. The decrease in other expenses, net was primarily due to the prior year quarter including $566 thousand of impairments and valuation allowances related to our mortgage-servicing rights (“MSR”) assets compared to a recovery of $636 thousand during the current year quarter. The $5.0 million decrease in net interest income was due to an $11.6 million decrease in interest and dividend income, partially offset by a $5.6 million decrease in interest expense on deposits, primarily on our certificate of deposit portfolio due to the portfolio repricing to lower market rates. The $11.6 million decrease in interest and dividend income was largely composed of a $7.7 million decrease in interest income on loans receivable and a $7.3 million decrease in interest income on MBS, partially offset by a $3.3 million increase in interest income on investment securities. Cash flows on our MBS portfolio are primarily being reinvested into lower yielding investment securities, relative to the yields on the MBS portfolio, with weighted average lives of three years or less. If market rates were to rise, the short-term nature of the investment securities may allow management the opportunity to reinvest the maturing funds at a higher rate.

Net income for the nine months ended June 30, 2010 was $52.4 million compared to $49.5 million for the same period in the prior fiscal year. The $2.9 million increase in net income between periods was primarily a result of a $6.5 million gain on securities and a $2.8 million decrease in other expenses, net, partially offset by a decrease in net interest income of $4.6 million and an increase in the provision for loan losses of $2.4 million. The gain on securities resulted from the sale of trading MBS in conjunction with the loan swap transaction during the December 31, 2009 quarter. The proceeds from the sale were primarily reinvested into the investment securities portfolio. The decrease in other expenses, net was primarily due to the prior year nine month period including $1.6 million of impairments and valuation allowances related to our MSR assets compared to a recovery of $670 thousand in the current year nine month period. The decrease in net interest income was primarily due to a $19.5 million decrease in interest income on MBS and a $17.1 million decrease in interest income on loans receivable, partially offset by a $15.2 million decrease in interest expense on the deposit portfolio, primarily on the certificate of deposit portfolio, an $8.0 million decrease in interest expense on FHLB advances and a $7.3 million increase in interest income on investment securities.

The Bank has opened two new branches in our Kansas City, Missouri market area and a new branch in the Wichita market area since the beginning of fiscal year 2010. The Bank continues to consider expansion opportunities in all of its market areas.

Available Information

Financial and other Company information, including press releases, 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 investor relations website, http://ir.capfed.com. SEC filings are available on our website immediately after they are electronically filed with or furnished to the SEC, and are also available on the SEC's website at www.sec.gov.

Critical Accounting Policies

Our most critical accounting policies are the methodologies used to determine the ALLL, other-than-temporary declines in the value of securities and fair value measurements. These policies are important to the presentation of our financial condition and results of operations, involve a high degree of complexity, and require management to make difficult and subjective judgments that may require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions, and estimates could cause reported results to differ materially. These critical accounting policies and their application are reviewed at least annually by our audit committee. The following is a description of our critical accounting policies and an explanation of the methods and assumptions underlying their application.

Allowance for Loan Losses. Management maintains an ALLL to absorb known and inherent losses in the loan portfolio based upon ongoing quarterly assessments of the loan portfolio. Our methodology for assessing the appropriateness of the ALLL consists of a formula analysis for general valuation allowances and SVAs for identified problem and impaired loans. The ALLL is maintained through provisions for loan losses which are charged to income. The methodology for determining the ALLL is considered a critical accounting policy by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the economic environment that could result in changes to the amount of the recorded ALLL.

Our primary lending emphasis is the origination and purchase of one- to four-family mortgage loans on residential properties, and, to a lesser extent, home equity and second mortgages on one- to four-family residential properties, resulting in a loan concentration in residential first mortgage loans. As a result of our lending practices, we also have a concentration of loans secured by real property located primarily in Kansas and Missouri. At June 30, 2010, approximately 70% and approximately 15% of the Bank's loans were secured by real property located in Kansas and Missouri, respectively. Based on the composition of our loan portfolio, we believe the primary risks inherent in our portfolio are the continued weakened economic conditions due to the U.S. recession, continued high levels of unemployment or underemployment, and a continuing decline in 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 levels of loan loss provisions. Although management believes that the Bank has established and maintained the ALLL at appropriate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment.

Management considers quantitative and qualitative factors when determining the appropriateness of the ALLL. Such factors include the trend and composition of delinquent and non-performing loans, results of foreclosed property and short sale transactions (historical losses and net charge-offs), 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, and loan portfolio growth and concentrations. Since our loan portfolio is primarily concentrated in one- to four-family real estate, we monitor one- to four-family real estate market value trends in our local market areas and geographic sections of the U.S. by reference to various industry and market reports, economic releases and surveys, and our general and specific knowledge of the real estate markets in which we lend, in order to determine what impact, if any, such trends may have on the level of our ALLL. We also use ratio analyses as a supplemental tool for evaluating the overall reasonableness of the ALLL. We consider the observed trends in the ratios, taking into consideration the composition of our loan portfolio compared to our peers, in combination with our historical loss experience. In addition, the OTS reviews the adequacy of the Company's ALLL during its examination process. We consider any comments from the OTS when assessing the appropriateness of our ALLL. Reviewing these quantitative and qualitative factors assists management in evaluating the overall reasonableness of the ALLL and whether changes need to be made to our assumptions. We seek to apply ALLL methodology in a consistent manner; however, the methodology can be modified in response to changing conditions.

Our loan portfolio is segregated into categories in the formula analysis based on certain risk characteristics such as loan type (one- to four-family, multi-family, etc.), interest payments (fixed-rate, adjustable-rate), loan source (originated or purchased), loan-to-value ("LTV") ratios, borrower's credit score and payment status (i.e. current or number of days delinquent). Consumer loans, such as second mortgages and home equity lines of credit, 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 to calculate a combined LTV ratio. All loans that are not impaired are included in a formula analysis. Impaired loans are defined as non-accrual loans and troubled debt restructurings ("TDRs") that have not yet performed under the restructured terms for 12 consecutive months. Quantitative loss factors are applied to each loan category in the formula analysis based on the historical net loss experience and current SVAs, adjusted for such factors as loan delinquency trends, for each respective loan category. Additionally, qualitative loss factors that management believes impact the collectability of the loan portfolio as of the evaluation date are applied to certain loan categories. Such qualitative factors include changes in collateral values, unemployment rates, credit scores and delinquent loan trends. Loss factors increase as loans become classified or delinquent.

The qualitative and quantitative factors applied in the formula analysis are reviewed quarterly by management to assess whether the factors adequately cover probable and estimable losses inherent in the loan portfolio. Our ALLL methodology permits modifications to the formula analysis in the event that, in management's judgment, significant factors which affect the collectibility of the portfolio or any category of the loan portfolio, as of the evaluation date, are not reflected in the current formula analysis. Management's evaluation of the qualitative factors with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with a specific problem loan or portfolio segments. During fiscal year 2010, management adjusted certain factors in the formula analysis to account for lingering negative economic conditions and the relatively recent loss experience on our purchased loan portfolio. If our future loss experience requires additional increases in our loss factors, this may result in increased levels of loan loss provisions.

SVAs are established in connection with individual loan reviews of specifically identified problem and impaired loans. Since the majority of our loan portfolio is composed of one- to four-family real estate, determining the estimated fair value of the underlying collateral is important in evaluating the amount of specific valuations required for problem and impaired loans. Generally, once a purchased loan is 90 days delinquent new collateral values are obtained through AVMs or BPOs. Due to the relatively stable home values in Kansas and Missouri, we do not obtain new collateral values on originated loans until they enter foreclosure. If the estimated fair value of the collateral, less estimated costs to sell, is less than the current loan balance, an SVA is established for the difference.

Loans with an outstanding balance of $1.5 million or more are individually reviewed annually if secured by property in one of the following categories: multi-family (five or more units) property, unimproved land, other improved commercial property, acquisition and development of land projects, developed building lots, office building, single-use building, or retail building. SVAs are established if the individual loan review determines a quantifiable impairment.

Securities Impairment. Management monitors the securities portfolio for OTTI on an ongoing basis and performs a formal review quarterly. The process involves monitoring market events and other items that could impact the issuers' ability to perform. The evaluation includes, but is not limited to such factors as: the nature of the investment, the length of time the security has had a fair value less than the amortized cost basis, the cause(s) and severity of the loss, expectation of an anticipated recovery period, recent events specific to the issuer or industry including the issuer's financial condition and the current ability to make future payments in a timely manner, external credit ratings and recent downgrades in such ratings, the Company's intent to sell and whether it is more likely than not the Company would be required to sell prior to recovery for debt securities.

Management determines whether OTTI losses should be recognized for impaired securities by assessing all known facts and circumstances surrounding the securities. If the Company intends to sell an impaired security or if it is more likely than not that the Company will be required to sell an impaired security before recovery of its amortized cost basis, an OTTI will be recognized and the difference between amortized cost and fair value will be recognized as a loss in earnings. At June 30, 2010, no securities had been identified as other-than-temporarily impaired.

Fair Value Measurements. The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures, per the provisions of ASC 820, Fair Value Measurements and Disclosures. In accordance with ASC 820, the Company groups its assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the underlying assumptions used to determine fair value, with Level 1 (quoted prices for identical assets in an active market) being considered the most reliable, and Level 3 having the most unobservable inputs and therefore being considered the least reliable. The Company bases its fair values on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As required by ASC 820, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company did not have any liabilities that were measured at fair value at June 30, 2010.

The Company's AFS securities are our most significant assets measured at fair value on a recurring basis. Changes in the fair value of AFS securities are recorded, net of tax, in accumulated other comprehensive income, which is a component of stockholders' equity. The fair values for all AFS securities are obtained from independent nationally recognized pricing services. Various modeling techniques are used to determine pricing for the Company's securities, including option pricing and discounted cash flow models. The inputs to these models may include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. There are some AFS securities in the AFS portfolio that have significant unobservable inputs requiring the independent pricing services to use some judgment in pricing the related securities. These AFS securities are classified as Level 3. All other AFS securities are classified as Level 2.

Loans receivable and REO are the Company's significant assets measured at fair value on a non-recurring basis. These non-recurring fair value adjustments involve the application of lower-of-cost-or-fair value accounting or write-downs of individual assets. Fair value for these assets is estimated using current appraisals, AVMs, BPOs, or listing prices. Fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3.

Financial Condition

Total assets increased $139.7 million from $8.40 billion at September 30, 2009 to $8.54 billion at June 30, 2010, due primarily to growth in the deposit portfolio which was used to fund investment security purchases. The following table presents selected balance sheet data for the Company at the dates indicated.

	Balance at				
	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
	(Dollars in thousands, except per share amounts)				
Total assets	$8,543,357	$8,485,465	$8,374,762	$8,403,680	$8,319,292
Cash and cash equivalents	75,886	60,735	105,128	41,154	74,101
Investment securities	1,203,064	970,431	651,943	480,704	322,166
MBS	1,620,623	1,757,310	1,877,969	1,992,467	2,100,998
Loans receivable, net	5,316,172	5,380,852	5,423,923	5,603,965	5,541,731
Capital stock of FHLB	136,055	135,050	134,064	133,064	132,071
Deposits	4,373,844	4,319,066	4,227,252	4,228,609	4,175,251
Advances from FHLB	2,396,637	2,395,842	2,394,214	2,392,570	2,410,949
Other borrowings	713,609	713,609	713,609	713,609	713,609
Stockholders' equity	960,000	946,073	941,999	941,298	922,634
Accumulated other comprehensive income	36,433	30,765	30,875	33,870	23,512
Equity to total assets at end of period	11.2 %	11.1 %	11.2 %	11.2 %	11.1 %
Book value per share	$13.09	$12.91	$12.86	$12.85	$12.60
Bank tangible equity ratio(1)	9.7 %	10.0 %	10.1 %	10.0 %	9.8 %

(1) See tangible equity to GAAP equity reconciliation in “Liquidity and Capital Resources – Regulatory Capital.”

Loans Receivable. The loans receivable portfolio decreased $287.8 million from $5.60 billion at September 30, 2009 to $5.32 billion at June 30, 2010. The decrease in the portfolio was largely a result of the loan swap transaction that took place during the first quarter of fiscal year 2010, where $194.8 million of originated fixed-rate mortgage loans were swapped for MBS. The Bank continues to service the loans. The MBS were classified as trading securities and sold during the first quarter for a $6.5 million gain. The proceeds from the sale were primarily reinvested into investment securities with terms shorter than that of the loans swapped. The transaction was executed as a means of reducing future interest rate risk sensitivity. For the nine months ended June 30, 2010, principal repayments on loans have exceeded originations, refinances, and purchases by $76.8 million.

The Bank purchased $44.1 million of one- to four-family loans from nationwide lenders during the first nine months of fiscal year 2010, the majority of which were adjustable-rate. These loans had a weighted 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. At June 30, 2010, one- to four-family loans purchased from nationwide lenders represented 11% of our loan portfolio and were secured by properties located in 47 of the continental United States and Washington, D.C. As of June 30, 2010, the average balance of a purchased nationwide mortgage loan was $348 thousand, the average balance of a purchased correspondent loan was $273 thousand and the average balance of an originated mortgage loan was $125 thousand. By purchasing loans from nationwide lenders, the Bank is able to attain some geographic diversification in its loan portfolio and help mitigate the Bank’s interest rate risk exposure as the purchased loans are predominately adjustable-rate or 15-year fixed-rate loans. We have experienced some 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 rates and the declines in real estate values in some of the states where we have purchased loans, we have experienced an increase in non-performing purchased loans and loan losses. See additional discussion regarding non-performing purchased loans and loan losses related to purchased loans in “Asset Quality – Loans and REO.”

Included in the loan portfolio at June 30, 2010 were $210.3 million of adjustable-rate mortgage (“ARM”) loans that were originated as interest-only. Of these interest-only loans, $162.8 million were purchased from nationwide lenders, primarily during fiscal year 2005. Interest-only ARM loans do not typically require principal payments during their initial term, and have initial interest-only terms of either five or ten years. The $162.8 million of purchased interest-only ARM loans had a weighted average credit score of 736 at origination and a weighted average LTV ratio of 74%, based upon the loan balance at the time of purchase and the lower of purchase price or appraisal at origination. The Bank has not purchased any interest-only ARM loans since 2006 and discontinued offering the product in its local markets during 2008 to reduce future credit risk. At June 30, 2010, $166.3 million, or 79%, of interest-only loans were still in their interest-only payment term. As of June 30, 2010, $66.8 million will begin to amortize principal within two years, $45.8 million will begin to amortize principal within two-to-five years, $45.9 million will begin to amortize principal within five-to-seven years and the remaining $7.8 million will begin amortizing in seven-to-ten years. At June 30, 2010, $16.0 million, or 48% of non-performing loans, were interest-only ARMs and $3.7 million was reserved in the ALLL for these loans. Of the $16.0 million non-performing interest-only ARM loans, $12.0 million, or 75%, were still in the interest-only payment term. Non-performing interest-only ARM loans represented approximately 8% of the total interest-only ARM loan portfolio at June 30, 2010. See additional discussion regarding non-performing loans in “Asset Quality – Loans and REO.”

The following table presents loan origination, refinance and purchase activity for the periods indicated. Loan originations, purchases and refinances are reported together. The fixed-rate one- to four-family loans less than or equal to 15 years have an original maturity at origination of less than or equal to 15 years, while fixed-rate one- to four-family loans greater than 15 years have an original maturity at origination of greater than 15 years. The adjustable-rate one- to four-family loans less than or equal to 36 months have a term to first reset of less than or equal to 36 months at origination and adjustable-rate one- to four-family loans greater than 36 months have a term to first reset of greater than 36 months at origination.

	For the Three Months Ended									
	June 30, 2010					June 30, 2009				
	Amount	Rate		% of Total		Amount	Rate		% of Total	
Fixed-Rate:	(Dollars in thousands)									
One- to four-family										
<= 15 years	$43,530	4.48	%	22.8	%	$108,316	4.67	%	26.7	%
> 15 years	95,162	5.08		50.0		249,645	5.06		61.5	
Other real estate	5,420	6.34		2.8		2,547	6.25		0.6	
Home equity	1,130	7.12		0.6		2,634	7.55		0.7	
Other consumer	360	8.78		0.2		410	8.67		0.1	
Total fixed-rate	145,602	4.97		76.4		363,552	4.98		89.6	
Adjustable-Rate:										
One- to four-family										
<= 36 months	--	--		--		434	4.63		0.1	
> 36 months	14,209	4.26		7.5		17,020	4.88		4.2	
Other real estate	7,713	6.05		4.1		--	--		--	
Home equity	22,222	4.82		11.7		23,555	4.80		5.8	
Other consumer	626	4.51		0.3		1,187	5.26		0.3	
Total adjustable-rate	44,770	4.85		23.6		42,196	4.84		10.4	
Total originations, refinances and purchases	$190,372	4.94	%	100.0	%	$405,748	4.96	%	100.0	%
Purchased/participation loans included above:										
Fixed-Rate:										
Correspondent	$8,590	5.15	%			$37,912	5.11	%		
Nationwide	--	--				--	--			
Adjustable-Rate:										
Correspondent	3,024	4.38				9,544	5.04			
Nationwide(1)	7,713	6.05				--	--			
Total purchased loans	$19,327	5.39	%			$47,456	5.09	%		

(1) Nationwide purchases/participations for the quarter ended June 30, 2010 consisted of a refinance of an other real estate loan participation.

	For the Nine Months Ended					
	June 30, 2010			June 30, 2009		
	Amount	Rate	% of Total	Amount	Rate	% of Total
Fixed-Rate:	(Dollars in thousands)					
One- to four-family						
<= 15 years	$139,967	4.54 %	22.5 %	$212,217	4.83 %	18.9 %
> 15 years	291,739	5.09	46.8	582,938	5.21	51.9
Other real estate	5,420	6.34	0.9	14,483	5.99	1.3
Home equity	4,078	7.38	0.7	7,196	7.54	0.6
Other consumer	1,165	8.60	0.2	1,243	8.40	0.1
Total fixed-rate	442,369	4.96	71.1	818,077	5.15	72.8
Adjustable-Rate:						
One- to four-family						
<= 36 months	38,764	3.32	6.2	138,958	4.92	12.4
> 36 months	68,708	4.28	11.0	96,059	5.20	8.6
Other real estate	7,713	6.05	1.2	--	--	--
Home equity	62,755	4.84	10.1	67,520	4.89	6.0
Other consumer	2,435	4.64	0.4	2,778	5.34	0.2
Total adjustable-rate	180,375	4.35	28.9	305,315	5.01	27.2
Total originations, refinances and purchases	$622,744	4.78 %	100.0 %	$1,123,392	5.11 %	100.0 %
Purchased/participation loans included above:						
Fixed-Rate:						
Correspondent	$38,818	5.09 %		$84,887	5.25 %	
Nationwide	2,338	5.05		256	4.38	
Adjustable-Rate:						
Correspondent	20,215	4.45		20,643	5.28	
Nationwide	49,463	3.88		191,313	5.00	
Total purchased loans	$110,834	4.43 %		$297,099	5.09 %	

Total originations, refinances, and purchases were lower than the prior year nine month period. Mortgage origination volume, in general, has decreased from the prior year as the market demand for lending has been reduced. The reduction in refinances was due to mortgage rates remaining at approximately the same level as the prior year so borrowers did not have as much incentive to refinance their mortgage loans, or they have already done so. Additionally, the Bank has been purchasing fewer loans under the Bank's nationwide purchase loan program during fiscal year 2010 due to the lack of loans meeting our underwriting criteria from our existing lender relationships. The Bank is working to expand the number of lender relationships from which it may buy loans in the future.

In an effort to offset the impact of repayments and to retain our customers, the Bank offers existing one-to four-family loan customers whose loans have not been sold to third parties who have been current on their contractual loan payments for the previous 12 months the opportunity to modify their original loan terms to new loan terms generally consistent with those currently being offered. During the nine months ended June 30, 2010 and 2009, the Bank modified $282.3 million and $1.07 billion of loans, respectively, with a weighted average rate decrease of 88 basis points for both periods. Loan modification activity is not included in the tables above because a new loan is not generated at the time of modification.

The Bank generally prices its first mortgage loan products based on secondary market and competitor pricing. During the nine months ended June 30, 2010, the average rate offered on the Bank's 30-year fixed-rate one- to four-family loans, with no points paid by the borrower, was approximately 150 basis points above the average 10-year Treasury rate, while the average rate offered on the Bank's 15-year fixed-rate one- to four-family loans was approximately 90 basis points above the average 10-year Treasury rate.

The following table summarizes the activity in the loan portfolio for the periods indicated, excluding changes in loans in process, deferred fees, and ALLL. Refinances are included in "repayments." Purchased loans include purchases from correspondent and nationwide lenders. Loan modification activity is not included in the activity in the following table because a new loan is not generated at the time of modification, and is described for the nine months ended June 30, 2010 and 2009 on the previous page. The modified balance and rate are included in the ending loan portfolio balance and rate.

	For the Three Months Ended							
	June 30, 2010		March 31, 2010		December 31, 2009		September 30, 2009	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)							
Beginning balance	$5,425,458	5.19 %	$5,463,744	5.23 %	$5,646,950	5.29 %	$5,587,130	5.36 %
Originations and refinances								
Fixed	137,012	4.96	107,694	4.93	156,507	4.95	255,441	5.07
Adjustable	34,033	4.62	38,779	4.44	37,885	4.57	37,948	4.75
Purchases								
Fixed	16,303	5.58	12,417	5.03	20,149	5.09	24,670	5.08
Adjustable	3,024	4.38	14,011	4.03	44,930	3.69	11,662	4.82
Repayments	(250,098)		(208,015)		(243,087)		(262,408)	
Transfer of loans to LHFS, net (1)	--		--		(194,759)		--	
Other (2)	(4,260)		(3,172)		(4,831)		(7,493)	
Ending balance	$5,361,472	5.14 %	$5,425,458	5.19 %	$5,463,744	5.23 %	$5,646,950	5.29 %

	For the Nine Months Ended			
	June 30, 2010		June 30, 2009	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Beginning balance	$5,646,950	5.29 %	$5,379,845	5.66 %
Originations and refinances				
Fixed	401,213	4.95	732,934	5.14
Adjustable	110,697	4.54	93,359	4.97
Purchases				
Fixed	48,869	5.24	85,143	5.24
Adjustable	61,965	3.80	211,956	5.02
Repayments	(701,200)		(817,369)	
Transfer of loans to LHFS, net (1)	(194,759)		(94,672)	
Other (2)	(12,263)		(4,066)	
Ending balance	$5,361,472	5.14 %	$5,587,130	5.36 %

(1) "Transfer of loans to LHFS" in the December 31, 2009 quarter and the nine months ended June 30, 2010 includes loans related to the loan swap transaction.

(2) "Other" consists of transfers to REO, modification fees advanced, and reductions in commitments.

The following table presents the Company's loan portfolio at the dates indicated. The weighted average portfolio rate decreased 15 basis points from September 30, 2009 to June 30, 2010 as a result of loan modifications and refinances, originations of loans at rates less than the weighted average portfolio rate, ARMs repricing downwards, and repayments of loans at rates higher than the weighted average portfolio rate.

	June 30, 2010			March 31, 2010			September 30, 2009		
	Amount	Average Rate	% of Total	Amount	Average Rate	% of Total	Amount	Average Rate	% of Total
	(Dollars in thousands)								
Real Estate Loans:									
One- to four-family	$ 5,061,758	5.11%	94.4 %	$ 5,122,227	5.16 %	94.4 %	$ 5,321,935	5.26 %	94.2 %
Multi-family and commercial	67,122	6.24	1.3	70,447	6.18	1.3	80,493	6.01	1.4
Construction	36,312	5.05	0.7	34,297	5.11	0.6	39,535	5.20	0.7
Total real estate loans	5,165,192	5.12	96.4	5,226,971	5.17	96.3	5,441,963	5.27	96.3
Consumer Loans:									
Home equity	188,365	5.58	3.5	189,959	5.61	3.5	195,557	5.63	3.5
Other	7,915	5.71	0.1	8,528	5.86	0.2	9,430	6.11	0.2
Total consumer loans	196,280	5.58	3.6	198,487	5.62	3.7	204,987	5.65	3.7
Total loans receivable	5,361,472	5.14%	100.0 %	5,425,458	5.19 %	100.0 %	5,646,950	5.29 %	100.0 %
Less:									
Undisbursed loan funds	18,042			18,995			20,649		
Unearned loan fees and deferred costs	11,581			10,872			12,186		
ALLL	15,677			14,739			10,150		
Total loans receivable, net	$ 5,316,172			$ 5,380,852			$ 5,603,965		

The following table presents the contractual maturity of our loan portfolio at June 30, 2010. Loans which have adjustable 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
	(Dollars in thousands)										
Amounts due:											
Within one year(1)	$2,217	5.72%	$7,688	6.05%	$20,996	5.12%	$538	6.44%	$971	4.91%	$32,410
After one year:											
Over one to two	4,720	5.67	815	5.71	15,316	4.95	437	6.76	823	8.12	22,111
Over two to three	17,716	5.19	4,342	6.38	--	--	576	6.93	1,216	6.37	23,850
Over three to five	27,939	5.38	319	5.79	--	--	4,841	5.22	4,571	5.06	37,670
Over five to ten	445,460	5.15	17,727	6.24	--	--	21,811	6.13	307	8.84	485,305
Over 10 to 15	898,397	4.90	22,190	6.26	--	--	36,944	4.87	27	6.50	957,558
After 15 years	3,665,309	5.15	14,041	6.33	--	--	123,218	5.69	--	--	3,802,568
Total due after one year	5,059,541	5.11	59,434	6.27	15,316	4.95	187,827	5.58	6,944	5.82	5,329,062
Total loans	$5,061,758	5.11%	$67,122	6.24%	$36,312	5.05%	$188,365	5.58%	$7,915	5.71%	5,361,472
Less:											
Undisbursed loan funds											18,042
Unearned loan fees and deferred costs											11,581
ALLL											15,677
Total loans receivable, net											$5,316,172

(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 June 30, 2010, the amount of loans, net of undisbursed loan funds, due after June 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	$4,108,505	$951,036	$5,059,541
Multi-family and commercial	59,216	218	59,434
Construction	13,357	1,959	15,316
Consumer Loans:			
Home equity	49,468	138,359	187,827
Other	3,196	3,748	6,944
Total	$4,233,742	$1,095,320	$5,329,062

Asset Quality – Loans and REO

The Bank's traditional underwriting guidelines have provided the Bank with generally low delinquencies and low levels of non-performing assets compared to national levels. Of particular importance is the complete 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. See additional discussion regarding underwriting standards in "Lending Practices and Underwriting Standards" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

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. All delinquent balances are reviewed by collection personnel once the loan is 16 or more 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 employee. 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. Once 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 SVAs. The servicers handle collection efforts per the terms of the servicing agreement. In the event of a foreclosure, the servicer obtains our approval prior to initiating foreclosure proceedings, and handles all aspects of the repossession and disposition of the repossessed property, which is also governed by the terms of the servicing agreement.

The following matrix shows the balance of one- to four-family mortgage loans as of June 30, 2010 cross-referenced 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, BPO or AVM, 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 June 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 June 30, 2010 was 58% and 741, respectively. The average LTV ratio and credit score for our one- to four-family originated loans at June 30, 2010 was 66% and 761, 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%	$120,349	2.4 %	$132,960	2.6 %	$400,925	7.9 %	$1,956,772	38.6 %	$2,611,006	51.5 %
70% to 80%	107,808	2.1	114,100	2.3	330,266	6.5	1,147,369	22.7	1,699,543	33.6
More than 80%	78,932	1.6	71,150	1.4	186,641	3.7	414,486	8.2	751,209	14.9
Total	$307,089	6.1 %	$318,210	6.3 %	$917,832	18.1 %	$3,518,627	69.5 %	$5,061,758	100.0 %

Delinquent and non-performing loans and REO

The following tables present the Company's 30 to 89 day delinquent loans, non-performing loans, and REO at the dates indicated. Purchased loans include loans purchased from nationwide lenders. Correspondent 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. At all dates presented, there were no loans 90 or more days delinquent that were still accruing interest. TDRs are not included in delinquent or non-performing loans unless the restructured loans are 30-89 days or 90 or more days delinquent. Non-performing assets include non-performing loans and REO.

	June 30, 2010		March 31, 2010		December 31, 2009		September 30, 2009		June 30, 2009	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
30 to 89 days delinquent					(Dollars in thousands)					
One- to four-family:										
Originated	154	$15,581	143	$14,574	184	$19,468	159	$15,488	140	$12,981
Purchased	31	6,629	39	9,846	44	11,464	41	10,556	49	13,225
Multi-family and commercial	--	--	--	--	1	5	--	--	--	--
Construction	--	--	--	--	--	--	--	--	--	--
Consumer Loans:										
Home equity	44	806	35	670	49	1,021	40	708	38	746
Other	17	96	13	62	24	114	15	89	15	98
	246	$23,112	230	$25,152	302	$32,072	255	$26,841	242	$27,050
30 to 89 days delinquent as a percentage of total loans		0.43 %		0.47 %		0.59 %		0.48 %		0.49 %

34

	June 30, 2010		March 31, 2010		December 31, 2009		September 30, 2009		June 30, 2009	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)									
Non-performing loans:										
One- to four-family:										
Originated	105	$10,538	107	$9,892	104	$10,040	99	$9,248	108	$11,332
Purchased	73	22,090	76	23,407	70	21,912	70	21,259	59	17,270
Multi-family and commercial	--	--	--	--	--	--	--	--	--	--
Construction	--	--	--	--	--	--	--	--	--	--
Consumer Loans:										
Home equity	31	516	41	720	32	516	22	367	29	448
Other	9	36	6	18	6	9	8	45	7	60
	218	33,180	230	34,037	212	32,477	199	30,919	203	29,110
Non-performing loans as a percentage of total loans		0.62 %		0.63 %		0.60 %		0.55 %		0.53 %
REO:										
One- to four-family:										
Originated (1)	59	4,738	59	5,450	50	4,726	48	5,702	35	3,950
Purchased	11	2,412	8	1,411	9	1,911	8	1,702	5	1,127
Multi-family and commercial	--	--	--	--	--	--	--	--	--	--
Construction	--	--	--	--	--	--	--	--	--	--
Consumer Loans:										
Home equity	--	--	--	--	--	--	--	--	--	--
Other	--	--	--	--	--	--	--	--	--	--
	70	7,150	67	6,861	59	6,637	56	7,404	40	5,077
Total non-performing assets	288	$40,330	297	$40,898	271	$39,114	255	$38,323	243	$34,187
Non-performing assets as a percentage of total assets		0.47 %		0.48 %		0.47 %		0.46 %		0.41 %

(1) Real estate related consumer loans where we also hold the first mortgage are included in the one- to four-family category as the underlying collateral is one- to four-family property.

The following table presents, as of June 30, 2010, the average percentage of one- to four-family loans, by principal balance, that entered the 30-89 days delinquent category during the 12 months prior to June 30, 2010, that paid off, returned to performing status, stayed 30-89 days delinquent, or progressed to the non-performing or REO categories. Purchased loans include loans purchased from nationwide lenders. Correspondent loans are included with originated loans.

	Paid Off	Performing	30-89 Days Delinquent	Non-Performing	REO	Total
Originated	4.7%	41.5%	34.4%	17.2%	2.2%	100.0%
Purchased	2.0	26.3	39.0	32.0	0.7	100.0
Total Portfolio Average	3.6%	35.3%	36.1%	23.4%	1.6%	100.0%

Non-performing loans increased $2.3 million from $30.9 million at September 30, 2009 to $33.2 million at June 30, 2010. The balance of non-performing loans continues to remain at historically high levels due to the continued elevated level of unemployment coupled with the decline in real estate values, particularly in some of the states in which we have purchased loans. At June 30, 2010, one- to four-family non-performing loans totaled $32.6 million, 43% of which had LTV ratios greater than 80%. At origination, these loans generally had LTV ratios less than 80%, but as a result of declines in real estate values as reflected in updated appraisals, BPOs and AVMs, the LTV ratios are now in excess of 80%. Of these loans, 28% have private mortgage insurance ("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 $10.0 million at June 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, BPO or AVM, if available.

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 June 30, 2010. Purchased loans include loans purchased from nationwide lenders. Correspondent loans are included with originated loans. 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 Loans
			(Dollars in thousands)			
2002 and prior	$ 673,471	$ 14,292	$ 687,763	$ 2,768	$ 363	$ 3,131
2003	379,592	30,393	409,985	885	290	1,175
2004	293,294	199,393	492,687	1,740	6,224	7,964
2005	379,958	188,219	568,177	778	15,202	15,980
2006	399,756	18,507	418,263	2,671	11	2,682
2007	528,978	154	529,132	1,229	--	1,229
2008	595,897	72,056	667,953	467	--	467
2009	925,166	77,450	1,002,616	--	--	--
2010	278,725	6,457	285,182	--	--	--
	$ 4,454,837	$ 606,921	$ 5,061,758	$ 10,538	$ 22,090	$ 32,628

The following table presents the top twelve states where the properties securing our one- to four-family mortgages are located and the corresponding balance of 30-89 day delinquent loans, non-performing loans and the weighted average LTV ratios for non-performing loans at June 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, BPO or AVM, 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 SVAs 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	$3,707,019	73.2 %	$11,441	51.5 %	$9,099	27.9 %	76 %
Missouri	766,175	15.2	4,538	20.4	1,461	4.5	106
Illinois	69,639	1.4	145	0.7	3,038	9.3	77
Texas	46,996	0.9	85	0.4	430	1.3	78
New York	44,499	0.9	--	--	720	2.2	126
Florida	45,145	0.9	1,154	5.2	3,574	11.0	103
Colorado	31,402	0.6	736	3.3	830	2.5	83
Arizona	29,668	0.6	1,656	7.5	3,230	9.9	81
Connecticut	28,664	0.6	--	--	149	0.5	93
Virginia	26,672	0.5	566	2.5	1,402	4.3	83
New Jersey	25,657	0.5	316	1.4	355	1.1	68
Minnesota	26,455	0.5	620	2.8	592	1.8	84
Other states	213,767	4.2	953	4.3	7,748	23.7	95
	$5,061,758	100.0 %	$22,210	100.0 %	$32,628	100.0 %	87 %

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 $53.9 million at June 30, 2010, compared to $41.4 million at September 30, 2009.

A TDR 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 TDRs 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 TDRs that have not been performing under the modified loan terms for 12 consecutive months are considered to be impaired loans. TDRs are not reported as non-performing loans, unless the restructured loans are more than 90 days delinquent. At June 30, 2010, the balance of TDRs was $22.3 million, all of which was included in the impaired loan balance above. Of this amount, $1.6 million was greater than 90 days delinquent and therefore was included in the non-performing loan balance at June 30, 2010. The June 30, 2010 TDR balance was composed of $19.0 million of originated loans and $3.3 million of purchased loans. Loans are removed from the TDR classification after 12 consecutive months of satisfactory repayment performance under the modified loan terms.

Classified assets

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 SVAs, classified as special mention or substandard at June 30, 2010. At June 30, 2010, we had no assets, less SVAs, classified as doubtful or loss. Definitions of these classification categories are continued in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009 under "Item 1. Business – Asset Quality – Classified Assets." Purchased loans and purchased REO represent loans purchased from nationwide lenders. Correspondent loans are included with originated loans.

	Special Mention		Substandard	
	Number	Amount	Number	Amount
Real Estate Loans:				
One- to four-family				
Originated	70	$12,019	143	$16,742
Purchased	2	610	78	20,020
Multi-family and commercial	2	7,676	--	--
Construction	--	--	--	--
Consumer Loans:				
Home equity	6	68	40	885
Other	--	--	11	68
Total loans	80	20,373	272	37,715
REO				
Originated	--	--	59	4,738
Purchased	--	--	11	2,412
Total REO	--	--	70	7,150
Trust preferred securities	--	--	1	3,155
Total classified assets	80	$20,373	343	$48,020

Allowance for loan losses

The following table presents the Company's activity for the ALLL and related ratios at the dates and for the periods indicated. Charge-offs represent losses on loans transferred to REO and losses on short sales. Recoveries represent amounts recovered after a loan has been charged-off. Once a loan enters REO, any future write downs or recoveries are reported in REO operations in other expenses on the consolidated statement of income; therefore, recoveries of charge-offs are rare.

	For the Three Months Ended			For the Nine Months Ended	
	June 30, 2010	March 31, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(Dollars in thousands)				
Balance at beginning of period	$14,739	$12,207	$7,464	$10,150	$5,791
Charge-offs:					
One- to four-family loans--originated	128	142	35	309	57
One- to four-family loans--purchased	742	693	293	2,291	1,241
Multi-family and commercial loans	--	--	--	--	--
Construction	--	--	--	--	--
Home equity	5	--	--	28	--
Other consumer loans	3	5	6	13	19
Total charge-offs	878	840	334	2,641	1,317
Recoveries					
One- to four-family loans--originated	--	--	--	--	--
One- to four-family loans--purchased	--	172	--	172	--
Multi-family and commercial loans	--	--	--	--	--
Construction	--	--	--	--	--
Home equity	--	--	--	--	--
Other consumer loans	--	--	--	--	--
Recoveries	--	172	--	172	--
Net charge-offs	878	668	334	2,469	1,317
ALLL on loans in the loan swap transaction	--	--	--	(135)	--
Provision for loan losses	1,816	3,200	3,112	8,131	5,768
Balance at end of period	$15,677	$14,739	$10,242	$15,677	$10,242
Ratio of net charge-offs during the period to average loans outstanding during the period	0.02 %	0.01 %	0.01 %	0.05 %	0.02 %
Ratio of net charge-offs during the period to average non-performing assets	2.16	1.67	1.07	6.28	4.97
ALLL to non-performing loans	47.25	43.30	35.18		
ALLL to loans receivable, net	0.29	0.27	0.18		

Historically, our charge-offs have been low due to our low level of non-performing loans and the amount of underlying equity in the properties collateralizing one- to four-family loans. The increase in non-performing loans and the decline in real estate and housing markets have resulted in higher charge-offs, primarily related to purchased loans.

Provisions for loan losses are charged to income in order to maintain the ALLL at a level management considers adequate to absorb known and inherent losses in the loan portfolio. Our ALLL methodology considers a number of quantitative and qualitative factors, including the trend and composition of our delinquent and non-performing loans, historical losses and net charge-offs, and the status and trends of the local and national economies and housing markets. The amount of the ALLL is based on estimates, and the ultimate losses may vary from such estimates as more information becomes available or conditions change. See "Critical Accounting Policies – Allowance for Loan Losses." The $8.1 million provision for loan loss recorded in the current fiscal year primarily reflects increases in the level of certain factors in our general valuation allowance model to account for continued negative economic conditions, the relatively recent loss experience on our purchased loan portfolio, and the establishment of and increases in SVAs on non-performing purchased loans. Despite the current economic operating environment and some deterioration in our portfolio, particularly the purchased loan portfolio, we believe that our overall credit quality continued to compare favorably to the industry and our peers. Although management believes the ALLL is established and maintained at adequate levels, additions may be necessary if economic conditions fail to improve or if other adverse developments occur.

The following table presents the Company's allocation of the ALLL to each respective loan category at June 30, 2010 and September 30, 2009.

	At June 30, 2010				At September 30, 2009			
	Amount of ALLL	% of ALLL to Total ALLL	Total Loans	% of Loans to Total Loans	Amount of ALLL	% of ALLL to Total ALLL	Total Loans	% of Loans to Total Loans
	(Dollars in thousands)							
One- to four-family:								
Originated	$ 4,281	27.3 %	$ 4,454,837	83.1 %	$ 3,604	35.5 %	$ 4,625,065	81.9 %
Purchased	10,865	69.3	606,921	11.3	5,972	58.8	696,870	12.3
Multi-family and commercial	277	1.8	67,122	1.3	227	2.2	80,493	1.4
Construction	13	0.1	36,312	0.7	22	0.2	39,535	0.7
Home equity	178	1.1	188,365	3.5	268	2.7	195,557	3.5
Other consumer	63	0.4	7,915	0.1	57	0.6	9,430	0.2
	$ 15,677	100.0 %	$ 5,361,472	100.0 %	$ 10,150	100.0 %	$ 5,646,950	100.0 %

Securities. The following table presents the distribution of our MBS and investment securities portfolios, at amortized cost, at the dates indicated. Overall, fixed-rate securities comprised 72% of these portfolios at June 30, 2010. The weighted average life ("WAL") is the estimated remaining maturity after projected prepayment speeds and projected call option assumptions have been applied. The decrease in the WAL between September 30, 2009 and June 30, 2010 was due primarily to the purchase of shorter-term securities, which were purchased with principal repayments from MBS, deposits, and loans. The MBS in the portfolio generally have longer WALs than the securities purchased, so repayments on MBS also contributed to the decrease in the WAL. The decrease in the yield between September 30, 2009 and June 30, 2010 was primarily a result of prepayments of MBS with yields higher than that of the MBS portfolio which were reinvested in lower-yielding securities. Yields on tax-exempt securities are not calculated on a taxable equivalent basis.

	June 30, 2010			September 30, 2009			June 30, 2009		
	Balance	WAL	Yield	Balance	WAL	Yield	Balance	WAL	Yield
				(Dollars in thousands)					
Fixed-rate securities:									
MBS	$ 798,037	3.11	4.79 %	$ 976,895	3.37	4.81 %	$ 254,424	1.01	1.49 %
GSE debentures	1,125,910	0.57	1.58	404,137	0.86	1.74	1,025,056	3.07	4.84
Municipal bonds	73,552	3.02	2.95	73,194	3.53	3.01	65,530	4.02	3.23
Total fixed-rate securities	1,997,499	1.67	2.92	1,454,226	2.68	3.87	1,345,010	2.73	4.13
Adjustable-rate securities:									
MBS	763,878	4.92	3.47	960,718	6.00	4.02	1,036,566	6.03	4.34
Trust preferred securities	3,735	26.98	2.20	3,774	27.73	1.96	3,789	27.98	2.29
Total adjustable-rate securities	767,613	5.06	3.46	964,492	6.11	4.01	1,040,355	6.11	4.33
Total investment portfolio, at amortized cost	$ 2,765,112	2.61	3.07 %	$ 2,418,718	4.05	3.92 %	$ 2,385,365	4.20	4.22 %

The following table sets forth the composition of our MBS and investment securities portfolios at the dates indicated. At June 30, 2010 our MBS and investment securities portfolios did not contain securities of any issuer with an aggregate book value in excess of 10% of our stockholders' equity, excluding those issued by the U.S. government or government-sponsored entities.

June 30, 2010	September 30, 2009	June 30, 2009