

WASHINGTON FEDERAL INC  
Form 10-Q  
May 03, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended March 31, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-34654

WASHINGTON FEDERAL, INC.  
(Exact name of registrant as specified in its charter)

Washington 91-1661606  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

425 Pike Street Seattle, Washington 98101  
(Address of principal executive offices and zip  
code)  
(206) 624-7930  
(Registrant's telephone number, including area  
code)

(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class: at May 2, 2016

Common stock, \$1.00 par value 91,069,431

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I

Item 1. Financial Statements (Unaudited)

The Consolidated Financial Statements of Washington Federal, Inc. and Subsidiaries filed as a part of the report are as follows:

Consolidated Statements of Financial Condition as of March 31, 2016 and September 30, 2015 3

Consolidated Statements of Operations for the three and six months ended March 31, 2016 and March 31, 2015 4

Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2016 and March 31, 2015 5

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
(UNAUDITED)

	March 31, 2016	September 30, 2015
	(In thousands, except share data)	
<b>ASSETS</b>		
Cash and cash equivalents	\$276,084	\$284,049
Available-for-sale securities, at fair value	2,097,086	2,380,563
Held-to-maturity securities, at amortized cost	1,558,087	1,643,216
Loans receivable, net	9,545,322	9,170,634
Interest receivable	37,571	40,429
Premises and equipment, net	299,125	276,247
Real estate owned	38,770	61,098
FHLB and FRB stock	113,187	107,198
Bank owned life insurance	204,655	102,496
Intangible assets, including goodwill of \$291,503	298,113	299,358
Federal and state income tax assets, net	11,544	14,513
Other assets	191,279	188,523
	<b>\$14,670,823</b>	<b>\$14,568,324</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Customer accounts		
Transaction deposit accounts	\$5,876,244	\$5,820,878
Time deposit accounts	4,667,140	4,810,825
	10,543,384	10,631,703
FHLB advances	1,980,000	1,830,000
Advance payments by borrowers for taxes and insurance	23,863	50,224
Accrued expenses and other liabilities	161,116	100,718
	12,708,363	12,612,645
<b>Stockholders' equity</b>		
Common stock, \$1.00 par value, 300,000,000 shares authorized; 134,092,173 and 133,695,803 shares issued; 91,270,241 and 92,936,395 shares outstanding	134,092	133,696
Paid-in capital	1,651,397	1,643,712
Accumulated other comprehensive (loss) income, net of taxes	(8,586	) 353
Treasury stock, at cost; 42,821,932 and 40,759,408 shares	(696,283	) (651,836 )
Retained earnings	881,840	829,754
	1,962,460	1,955,679
	<b>\$14,670,823</b>	<b>\$14,568,324</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
	(In thousands, except share data)		(In thousands, except share data)	
<b>INTEREST INCOME</b>				
Loans	\$ 113,211	\$ 109,274	\$ 226,074	\$ 217,567
Mortgage-backed securities	16,846	18,143	33,833	37,318
Investment securities and cash equivalents	5,006	5,213	10,280	11,029
	135,063	132,630	270,187	265,914
<b>INTEREST EXPENSE</b>				
Customer accounts	13,071	12,574	25,788	26,018
FHLB advances and other borrowings	15,667	16,176	31,205	33,832
	28,738	28,750	56,993	59,850
Net interest income	106,325	103,880	213,194	206,064
Provision for (release of) allowance for loan losses	(1,500)	(3,949)	(1,500)	(9,449)
Net interest income after provision for (release of) allowance for loan losses	107,825	107,829	214,694	215,513
<b>OTHER INCOME</b>				
Loan fee income	1,166	2,048	2,683	4,112
Deposit fee income	5,350	5,405	11,267	11,383
Other income	4,213	3,388	7,414	726
	10,729	10,841	21,364	16,221
<b>OTHER EXPENSE</b>				
Compensation and benefits	29,184	30,469	58,883	59,629
Occupancy	8,969	8,239	17,561	16,374
FDIC insurance premiums	2,785	2,380	5,374	3,055
Product delivery	4,294	5,420	9,817	11,047
Information technology	7,453	3,882	16,163	7,912
Other expense	6,541	6,934	15,937	12,909
	59,226	57,324	123,735	110,926
Gain on real estate owned, net	3,894	1,473	5,314	1,788
Income before income taxes	63,222	62,819	117,637	122,596
Income tax expense	21,499	22,458	40,816	43,828
<b>NET INCOME</b>	<b>\$ 41,723</b>	<b>\$ 40,361</b>	<b>\$ 76,821</b>	<b>\$ 78,768</b>
<b>PER SHARE DATA</b>				
Basic earnings per share	\$ 0.45	\$ 0.42	\$ 0.83	\$ 0.81
Diluted earnings per share	0.45	0.42	0.83	0.81
Dividends paid on common stock per share	0.14	0.13	0.27	0.28
Basic weighted average number of shares outstanding	91,777,771	96,373,366	92,385,367	97,270,403
Diluted weighted average number of shares outstanding	92,147,998	96,725,234	92,860,052	97,635,201

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(UNAUDITED)

	Three Months		Six Months Ended	
	Ended March 31,		March 31,	
	2016	2015	2016	2015
	(In thousands)		(In thousands)	
Net income	\$41,723	\$40,361	\$76,821	\$78,768
Other comprehensive income (loss) net of tax:				
Net unrealized gain (loss) on available-for-sale securities	6,916	5,063	(3,445 )	13,623
Related tax benefit (expense)	(2,542 )	(1,860 )	1,266	(5,006 )
	4,374	3,203	(2,179 )	8,617
Net unrealized gain (loss) on long-term borrowing hedge	(13,483 )	(4,985 )	(10,688 )	(9,233 )
Related tax benefit (expense)	4,955	1,832	3,928	3,393
	(8,528 )	(3,153 )	(6,760 )	(5,840 )
Other comprehensive income (loss) net of tax	(4,154 )	50	(8,939 )	2,777
Comprehensive income	\$37,569	\$40,411	\$67,882	\$81,545

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(UNAUDITED)

(in thousands)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at October 1, 2015	\$ 133,696	\$ 1,643,712	\$ 829,754	\$ 353	\$(651,836)	\$ 1,955,679
Net income			76,821			76,821
Other comprehensive income (loss)				(8,939)		(8,939)
Dividends on common stock			(24,735)			(24,735)
Compensation expense related to common stock options		600				600
Proceeds from exercise of common stock options	250	5,149				5,399
Restricted stock expense	146	1,936				2,082
Treasury stock acquired					(44,447)	(44,447)
Balance at March 31, 2016	\$ 134,092	\$ 1,651,397	\$ 881,840	\$ (8,586)	\$(696,283)	\$ 1,962,460

(in thousands)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at October 1, 2014	\$ 133,323	\$ 1,638,211	\$ 706,149	\$ 20,708	\$(525,108)	\$ 1,973,283
Net income			78,768			78,768
Other comprehensive income (loss)				2,777		2,777
Dividends on common stock			(12,406)			(12,406)
Compensation expense related to common stock options		600				600
Proceeds from exercise of common stock options	35	457				492
Restricted stock expense	265	1,716				1,981
Treasury stock acquired					(77,355)	(77,355)
Balance at March 31, 2015	\$ 133,623	\$ 1,640,984	\$ 772,511	\$ 23,485	\$(602,463)	\$ 1,968,140

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Six Months Ended March 31,	
	2016	2015
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$76,821	\$78,768
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, accretion and restricted stock expense	11,082	10,566
Cash received from (paid to) FDIC under loss share	2,153	(738 )
Stock option compensation expense	600	600
Release of provision for loan losses	(1,500 )	(9,449 )
Loss (gain) on investment securities and real estate owned	(6,629 )	(12,338 )
Decrease (increase) in accrued interest receivable	2,858	11,678
Decrease (increase) in federal and state income tax receivable	8,163	6,995
Decrease (increase) in cash surrender value of bank owned life insurance	(2,159 )	(961 )
Decrease (increase) in other assets	(5,551 )	(26,667 )
Increase (decrease) in accrued expenses and other liabilities	49,710	586
Net cash provided by operating activities	135,548	59,040
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Origination of loans and principal repayments, net	(321,573 )	(78,301 )
Loans purchased	(51,646 )	(146,832 )
FHLB & FRB stock purchased	(32,329 )	—
FHLB & FRB stock redemption	26,340	7,921
Available-for-sale securities purchased	(50,741 )	(163,126 )
Principal payments and maturities of available-for-sale securities	328,188	466,991
Principal payments and maturities of held-to-maturity securities	82,536	65,913
Proceeds from sales of real estate owned	38,347	37,404
Purchase of bank owned life insurance	(100,000 )	(100,000 )
Premises and equipment purchased and REO improvements	(34,248 )	(16,897 )
Net cash provided by (used in) investing activities	(115,126 )	73,073
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in customer accounts	(88,243 )	(24,227 )
Proceeds from borrowings	818,000	—
Repayments of borrowings	(668,000 )	(100,000 )
Proceeds from exercise of common stock options and related tax benefit	5,399	492
Dividends paid on common stock	(24,735 )	(26,806 )
Treasury stock purchased	(44,447 )	(77,355 )
Increase (decrease) in advance payments by borrowers for taxes and insurance	(26,361 )	(10,996 )
Net cash provided by (used in) financing activities	(28,387 )	(238,892 )
Increase (decrease) in cash and cash equivalents	(7,965 )	(106,779 )
Cash and cash equivalents at beginning of period	284,049	781,843
Cash and cash equivalents at end of period	\$276,084	\$675,064

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SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Six Months Ended March 31, 2016 2015 (In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities		
Real estate acquired through foreclosure	\$ 10,535	\$ 19,927
Cash paid during the period for		
Interest	57,325	62,193
Income taxes	27,245	32,517

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies

Nature of Operations - Washington Federal, Inc. is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through a federally-insured national bank subsidiary. The Bank is principally engaged in the business of attracting deposits from the general public and investing these funds, together with borrowings and other funds, in one-to-four family residential mortgage and construction loans, home equity loans, lines of credit, commercial and industrial loans, multi-family and other forms of real estate loans. As used throughout this document, the terms "Washington Federal" or the "Company" refer to Washington Federal, Inc. and its consolidated subsidiaries and the term "Bank" refers to the operating subsidiary Washington Federal, National Association.

Basis of Presentation - The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal. All intercompany transactions and accounts have been eliminated in consolidation. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2015 Consolidated Statement of Financial Condition was derived from audited financial statements.

The information included in this Form 10-Q should be read in conjunction with the financial statements and related notes in the Company's 2015 Annual Report on Form 10-K ("2015 Form 10-K"). Interim results are not necessarily indicative of results for a full year.

Summary of Significant Accounting Policies - The significant accounting policies used in preparation of the Company's consolidated financial statements are disclosed in its 2015 Form 10-K. There have not been any material changes in our significant accounting policies compared to those contained in our 2015 Form 10-K disclosure for the year ended September 30, 2015.

Off-Balance-Sheet Credit Exposures – The only material off-balance-sheet credit exposures are loans in process and unused lines of credit, which had a combined balance of \$929,028,000 and \$816,014,000 at March 31, 2016 and September 30, 2015, respectively. The Company estimates losses on off-balance-sheet credit exposures by allocating a loss percentage derived from historical loss factors for each asset class.

NOTE B – New Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation- Improvements to Employee Share-Based Payment Accounting, which involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the guidance, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity should also recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits should be classified along with other income tax cash flows as an operating activity. In regards to forfeitures, the entity may make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. This ASU is effective for fiscal years beginning after December 15, 2016 including interim periods within that reporting period, however early adoption is permitted. The Company is currently evaluating the guidance to determine its adoption method and does not expect this guidance to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The guidance also simplifies the accounting for sale and leaseback transactions. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
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The Company is currently evaluating the provisions of this ASU to determine the potential impact the new standard will have on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, to require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this ASU also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017 including interim periods within that reporting period. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. The amendments in ASU 2015-16 require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in ASU 2015-16 are effective for years beginning after December 15, 2015. Early adoption is permitted for reporting periods for which financial statements have not been issued. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Customer's Accounting for Fees Paid in Cloud Computing Arrangement. The ASU was issued to clarify a customer's accounting for fees paid in a cloud computing arrangement. The amendments provide guidance to customers in determining whether a cloud computing arrangement includes a software license that should be accounted for as internal-use software. If the arrangement does not contain a software license, it would be accounted for as a service contract. The guidance in this ASU are effective for interim and annual periods beginning after December 15, 2015 and can be adopted either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update was to be effective for interim and annual periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, which delayed the effective date of ASU 2014-09 by one year and permits companies to voluntarily adopt the new standard as of the original effective date. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

NOTE C – Dividends and Share Repurchases

On February 12, 2016, the Company paid its 132nd consecutive quarterly cash dividend on common stock of \$0.14 per share. Dividends per share were \$0.14 and \$0.13 for the quarters ended March 31, 2016 and 2015, respectively.



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For the three months ended March 31, 2016, the Company repurchased 1,639,442 shares at an average price of \$21.05. For the three months ended March 31, 2015, the Company repurchased 2,500,018 shares at an average price of \$21.21. As of March 31, 2016, there are 2,138,706 remaining shares that can be repurchased under the current Board approved program.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

## NOTE D – Loans Receivable

The following table is a summary of loans receivable (including loans in process, net of charge offs.)

	March 31, 2016		September 30, 2015	
	(In thousands)		(In thousands)	
Non-Acquired loans				
Single-family residential	\$5,618,954	54.5 %	\$5,651,845	57.6 %
Construction	785,846	7.6	200,509	2.0
Construction - custom	398,797	3.9	396,307	4.0
Land - acquisition & development	101,605	1.0	94,208	1.0
Land - consumer lot loans	100,856	1.0	103,989	1.1
Multi-family	1,073,222	10.4	1,125,722	11.6
Commercial real estate	833,570	8.1	986,270	10.0
Commercial & industrial	805,272	7.8	612,836	6.2
HELOC	130,459	1.3	127,646	1.3
Consumer	164,672	1.6	194,655	2.0
Total non-acquired loans	10,013,253	97.2 %	9,493,987	96.8 %
Acquired loans	152,572	1.5	166,293	1.6
Credit impaired acquired loans	106,637	1.0	87,081	0.9
Covered loans	34,211	0.3	75,909	0.7
Total gross loans	10,306,673	100.0 %	9,823,270	100.0 %
Less:				
Allowance for loan losses	109,919		106,829	
Loans in process	591,667		476,796	
Discount on acquired loans	21,120		30,095	
Deferred net origination fees	38,645		38,916	
Total loan contra accounts	761,351		652,636	
Net Loans	\$9,545,322		\$9,170,634	

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(UNAUDITED)

The following table sets forth information regarding non-accrual loans.

	March 31, 2016		September 30, 2015	
	(In thousands)			
Non-accrual loans:				
Single-family residential	\$42,395	77.7 %	\$59,074	87.1 %
Construction	—	—	754	1.1
Construction - custom	67	0.1	732	1.1
Land - acquisition & development	477	0.9	—	—
Land - consumer lot loans	940	1.7	1,273	1.9
Multi-family	1,520	2.8	2,558	3.8
Commercial real estate	7,701	14.1	2,176	3.2
Commercial & industrial	596	1.1	—	—
HELOC	554	1.0	563	0.8
Consumer	309	0.6	680	1.0
Total non-accrual loans	\$54,559	100 %	\$67,810	100 %

The Company recognized interest income on nonaccrual loans of approximately \$3,219,000 in the six months ended March 31, 2016. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately \$1,315,000 for the six months ended March 31, 2016. The recognized interest income includes more than six months of interest for some of the loans that were brought current.

The following tables provide details regarding delinquent loans.

March 31, 2016 Type of Loan	Amount of Loans Delinquent Based on \$ Amount of Loans						% based on \$
	Net of LIP & CIP	30 Days Overdue	60 Days Overdue	90 Days Overdue	Total		
	(In thousands)						
Non-acquired loans							
Single-Family Residential	\$5,624,134	\$5,558,731	\$18,000	\$7,785	\$39,618	\$65,403	1.16 %
Construction	396,322	396,181	—	—	141	141	0.04
Construction - Custom	212,067	209,153	1,047	1,800	67	2,914	1.37
Land - Acquisition & Development	92,467	90,541	1,445	—	481	1,926	2.08
Land - Consumer Lot Loans	101,372	99,379	563	490	940	1,993	1.97
Multi-Family	1,077,248	1,075,662	970	—	616	1,586	0.15
Commercial Real Estate	889,342						