

WASHINGTON FEDERAL INC  
Form 10-Q  
February 09, 2009  
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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 December 31, 2008

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 0-25454

**WASHINGTON FEDERAL, INC.**

(Exact name of registrant as specified in its charter)

**Washington**  
(State or other jurisdiction of  
incorporation or organization)

**425 Pike Street Seattle, Washington 98101**

(Address of principal executive offices and zip code)

**(206) 624-7930**

(Registrant's telephone number, including area code)

**91-1661606**  
(I.R.S. Employer  
Identification No.)

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(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 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

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

<b>Title of class:</b>	<b>at February 6, 2009</b>
Common stock, \$1.00 par value	88,046,938

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART I**

Item 1. Financial Statements (Unaudited)

The Condensed 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 December 31, 2008 and September 30, 2008 Page 3

Consolidated Statements of Operations for the quarters ended December 31, 2008 and 2007 Page 4

Consolidated Statements of Cash Flows for the quarters ended December 31, 2008 and 2007 Page 5

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**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(UNAUDITED)**

	December 31, 2008	September 30, 2008
	(In thousands, except share data)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 153,045	\$ 82,600
Available-for-sale securities, including encumbered securities of \$805,285 and \$762,857, at fair value	1,980,730	1,476,067
Held-to-maturity securities, including encumbered securities of \$97,041 and \$98,917, at amortized cost	121,735	124,537
Loans receivable, net	9,635,434	9,501,620
Interest receivable	57,433	54,365
Premises and equipment, net	134,557	133,357
Real estate held for sale	61,932	37,107
FHLB stock	144,491	144,874
Intangible assets, net	220,375	221,294
Other assets	12,151	20,604
	<b>\$ 12,521,883</b>	<b>\$ 11,796,425</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Customer accounts		
Savings and demand accounts	\$ 7,251,043	\$ 7,146,045
Repurchase agreements with customers	33,700	23,494
	7,284,743	7,169,539
FHLB advances	2,743,026	1,998,308
Other borrowings	800,600	1,177,600
Advance payments by borrowers for taxes and insurance	16,192	37,206
Federal and state income taxes	25,768	
Accrued expenses and other liabilities	69,847	81,098
	<b>10,940,176</b>	<b>10,463,751</b>
<b>Stockholders equity</b>		
Common stock, \$1.00 par value, 300,000,000 shares authorized; 105,093,965 and 105,092,724 shares issued; 87,917,527 and 87,916,286 shares outstanding	105,094	105,093
Preferred stock, 200,000 shares issued and outstanding	197,944	
Paid-in capital	1,263,700	1,261,032
Accumulated other comprehensive income, net of taxes	35,276	2,472
Treasury stock, at cost; 17,176,438 shares	(210,250)	(210,250)
Retained earnings	189,943	174,327
	<b>1,581,707</b>	<b>1,332,674</b>
	<b>\$ 12,521,883</b>	<b>\$ 11,796,425</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

	Quarter Ended December 31,	
	2008	2007
	(In thousands, except per share data)	
<b>INTEREST INCOME</b>		
Loans	\$ 152,319	\$ 140,505
Mortgage-backed securities	25,312	21,962
Investment securities and cash equivalents	908	4,125
	<b>178,539</b>	<b>166,592</b>
<b>INTEREST EXPENSE</b>		
Customer accounts	55,908	65,970
FHLB advances and other borrowings	32,619	35,329
	<b>88,527</b>	<b>101,299</b>
<b>Net interest income</b>	<b>90,012</b>	<b>65,293</b>
Provision for loan losses	35,000	1,000
<b>Net interest income after provision for loan losses</b>	<b>55,012</b>	<b>64,293</b>
<b>OTHER INCOME</b>	<b>3,835</b>	<b>4,387</b>
<b>OTHER EXPENSE</b>		
Compensation and fringe benefits	14,805	11,118
Occupancy	3,174	2,239
Other	6,268	3,862
	<b>24,247</b>	<b>17,219</b>
Gain (loss) on real estate acquired through foreclosure, net	(1,239)	(24)
<b>Income before income taxes</b>	<b>33,361</b>	<b>51,437</b>
Income taxes	11,843	18,389
<b>NET INCOME</b>	<b>21,518</b>	<b>33,048</b>
Preferred dividends accrued	1,349	
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>	<b>\$ 20,169</b>	<b>\$ 33,048</b>
<b>PER SHARE DATA</b>		
Basic earnings	\$ 0.23	\$ 0.38
Diluted earnings	.23	.38
Cash dividends	.05	.21
Basic weighted average number of shares outstanding	87,966,308	87,435,408
Diluted weighted average number of shares outstanding, including dilutive stock options	88,028,272	87,614,498

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	Quarter Ended	
	December 31, 2008	December 31, 2007
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 20,169	\$ 33,048
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization (accretion) of fees, discounts, premiums and intangible assets, net	621	103
Depreciation	1,275	885
Stock option compensation expense	300	272
Provision for loan losses	35,000	1,000
Loss on investment securities and real estate held for sale, net	1,055	24
Decrease (increase) in accrued interest receivable	(3,068)	403
Increase in income taxes payable	11,855	18,407
FHLB stock dividends	(11)	(39)
Decrease (increase) in other assets	3,305	(1,292)
Increase (decrease) in accrued expenses and other liabilities	(11,251)	359
Net cash provided by operating activities	59,250	53,170
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loans originated		
Single-family residential loans	(218,519)	(217,466)
Construction loans - speculative	(28,573)	(62,430)
Construction loans - custom	(64,752)	(64,062)
Land - acquisition & development	(12,693)	(25,146)
Land - consumer lot loans	(3,790)	(6,873)
Multi-family loans	(27,287)	(19,160)
Commercial real estate	(50,607)	(2,813)
Commercial & industrial	(60,229)	(2,100)
HELOC	(24,715)	(5,061)
Consumer	(12,765)	(698)
	(503,930)	(405,809)
Savings account loans originated	(889)	(1,826)
Loan principal repayments	353,585	331,555
Decrease in undisbursed loans in process	(55,740)	(92,899)
Loans purchased	(146)	(915)
FHLB stock redemption	394	352
Available-for-sale securities purchased	(489,454)	(151,093)
Principal payments and maturities of available-for-sale securities	36,596	33,733
Principal payments and maturities of held-to-maturity securities	2,824	3,394
Proceeds from sales of real estate held for sale	13,058	1,269
Premises and equipment purchased	(2,475)	(1,463)
Net cash used by investing activities	(646,177)	(283,702)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in customer accounts	115,204	69,146
Net increase in borrowings	367,718	192,933
Proceeds from exercise of common stock options	17	540
Dividends paid	(4,553)	(18,358)



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Proceeds from issuance of preferred stock and related warrants	200,000	
Decrease in advance payments by borrowers for taxes and insurance	(21,014)	(18,328)
Net cash provided by financing activities	657,372	225,933
<b>Increase (decrease) in cash and cash equivalents</b>	<b>70,445</b>	<b>(4,599)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>82,600</b>	<b>61,378</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 153,045</b>	<b>\$ 56,779</b>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

**Non-cash investing activities**

Real estate acquired through foreclosure	\$ 38,938	\$ 2,076
<b>Cash paid during the period for</b>		
Interest	95,393	101,593
Income taxes	275	8

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***

***QUARTERS ENDED DECEMBER 31, 2008 AND 2007***

**(UNAUDITED)**

**NOTE A Basis of Presentation**

The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal, Inc. ( Company ). 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 accruals) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2008 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 Company s 2008 Annual Report on Form 10-K ( 2008 Form 10-K ) as filed with the SEC. Interim results are not necessarily indicative of results for a full year.

References to Net Income in this document refer to Net Income Available to Common Shareholders.

Certain reclassifications have been made to the financial statements to conform prior periods to current classifications.

**NOTE B Preferred Stock Issuance**

On November 14, 2008, the Company entered into a Letter Agreement with the United States Department of the Treasury ( Treasury ) to participate in the Troubled Asset Relief Program Capital Purchase Program ( CPP ). Pursuant to the Agreement, the Company issued and sold to the Treasury (i) 200,000 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, and (ii) a warrant to purchase 1,707,456 shares of the Company s common stock, par value \$1.00 per share, for an aggregate purchase price for both the preferred stock and warrants of \$200 million in cash. The Preferred Stock qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter.

**NOTE C Dividends**

On January 16, 2009 the Company paid its 104<sup>th</sup> consecutive quarterly cash dividend on common stock. Dividends per share were \$.05 for the quarter ended December 31, 2008 compared to \$.21 for the same period one year ago.

**NOTE D Comprehensive Income**

The Company s comprehensive income includes all items which comprise net income plus the unrealized gains (losses) on available-for-sale securities. Total comprehensive income for the quarters ended December 31, 2008 and 2007 totaled \$52,973,000 and \$41,313,000, respectively. The difference between the Company s net income and total comprehensive income for the quarter ended December 31, 2008 was \$32,804,000, which equals the change in the net unrealized gain on available-for-sale securities of \$51,865,000, less tax of \$19,061,000.

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**(UNAUDITED)**

**NOTE E Allowance for Losses on Loans**

The following table summarizes the activity in the allowance for loan losses for the quarters ended December 31, 2008 and 2007:

	<b>Quarter Ended December 31, 2008      2007</b>	
	<b>(In thousands)</b>	
Balance at beginning of period	\$ 85,058	\$ 28,520
Provision for loan losses	35,000	1,000
Charge-offs	(15,387)	(150)
Recoveries	164	
Acquired reserves		
Balance at end of period	\$ 104,835	\$ 29,370

**Provision for Loan Losses:** The Company recorded a \$35,000,000 provision for loan losses during the quarter ended December 31, 2008, while a \$1,000,000 provision was recorded for the same quarter one year ago. Non-performing assets amounted to \$305,066,000 or 2.44% of total assets at December 31, 2008 compared to \$39,741,000 or .38% of total assets one year ago. The Company had net charge-offs of \$15,223,000 for the quarter ended December 31, 2008 compared with \$150,000 of net charge-offs for the same quarter one year ago. This significant increase in the provision for loan losses is in response to three primary factors: first, the overall deterioration in the housing market in general in the Company's eight western state territory, second, the significant increase in the combined balance of non-performing assets in our land A&D and speculative construction portfolios, and finally, the material increase in net charge-offs for the quarter. Management expects the provision to remain at elevated levels until non-performing assets and charge-offs improve.

**NOTE F New Accounting Pronouncement**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ). This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement establishes a fair value hierarchy for the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. No additional fair value measurements are required under this statement. The Company adopted this statement effective October 1, 2008. See Note G for disclosures related to the adoption of this statement.

**NOTE G Fair Value Measurements**

As discussed in Note F, SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active exchange markets that the entity has the ability to access as of the measurement date.

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**Level 2:** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.

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**Level 3:** Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following is a description of the valuation methodologies used to measure and report fair value of financial assets and liabilities on a recurring or nonrecurring basis:

**Measured on a Recurring Basis***Securities*

Securities available for sale are recorded at fair value on a recurring basis. Fair value is determined with quoted prices for similar assets or liabilities, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data (Level 2).

The following table presents the balance of assets measured at fair value on a recurring basis at December 31, 2008:

	Fair Value at December 31, 2008			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
<b>Available-for-sale securities</b>				
U.S. government and agency securities	\$	\$ 40,214	\$	\$ 40,214
Mortgage-backed securities Agency pass-through certificates		1,940,516		1,940,516
Balance at end of period	\$	\$ 1,980,730	\$	\$ 1,980,730

**Measured on a Nonrecurring Basis***Impaired Loans*

From time to time, and on a nonrecurring basis, fair value adjustments to collateral dependent loans are recorded to reflect write-downs of principal balances based on the current appraised or estimated value of the collateral. This new estimated fair value is net of anticipated selling costs.

*REO*

Real estate owned consists principally of properties acquired through foreclosure and are carried at the lower of cost or estimated fair value less anticipated selling costs.

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**(UNAUDITED)**

The following table presents the balance of assets measured at estimated fair value on a nonrecurring basis during the quarter ended December 31, 2008, and the total losses resulting from these fair value adjustments for the quarter ended December 31, 2008:

	Carrying Value at December 31, 2008				Quarter Ended December 31, 2008
	Level 1	Level 2	Level 3	Total	Total Losses
	(In thousands)				
Impaired loans (1)	\$	\$	\$ 81,639	\$ 81,639	\$ 24,308
REO (2)			29,326	29,326	4,277
Balance at end of period	\$	\$	\$ 110,965	\$ 110,965	\$ 28,585

(1) The loss represents remeasurements of collateral dependent loans.

(2) The loss represents charge-offs on REO.

There were no material liabilities carried at fair value, measured on a recurring or nonrecurring basis, at December 31, 2008.

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART I Financial Information**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**FORWARD LOOKING STATEMENTS**

In addition to historical information, this Quarterly Report on Form 10-Q includes certain forward-looking statements, as defined in the Securities Act of 1933 and the Securities Exchange Act of 1934, based on current management expectations. Actual results could differ materially from those management expectations. Such forward-looking statements include statements regarding the Company's intentions, beliefs or current expectations as well as the assumptions on which such statements are based. Stockholders and potential stockholders are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Factors that could cause future results to vary from current management expectations include, but are not limited to: general economic conditions; legislative and regulatory changes; monetary fiscal policies of the federal government; changes in tax policies; rates and regulations of federal, state and local tax authorities; changes in interest rates; deposit flows; cost of funds; demand for loan products; demand for financial services; competition; changes in the quality or composition of the Company's loan and investment portfolios; changes in accounting principles; policies or guidelines and other economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and fees. The Company undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

**GENERAL**

Washington Federal, Inc. ( Company ) is a savings and loan holding company. The Company's primary operating subsidiary is Washington Federal Savings.

**INTEREST RATE RISK**

The Company assumes a high level of interest rate risk as a result of its policy to originate and hold for investment fixed-rate single-family home loans, which are longer-term in nature than the short-term characteristics of its liabilities of customer accounts and borrowed money. At December 31, 2008, the Company had a negative one-year maturity gap of approximately 37% of total assets, an increase from the 34% negative one-year gap as of September 30, 2008. This increase was primarily due to two factors: first, \$300,000,000 of borrowings are now within one year of maturity; as of September 30, 2008, these same borrowings had maturities of over one year, and second, there was an increase in short-term borrowings as the Company took advantage of reduced short-term borrowing rates.

The interest rate spread increased to 2.91% at December 31, 2008 from 2.85% at September 30, 2008. The spread increased primarily because of a general decrease in rates on customer deposits. Since the Federal Reserve began decreasing short-term rates in September 2007, market rates for short-term deposits have fallen. As a result, deposits are repricing to lower rates, which contributes to an increasing spread.

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART I Financial Information**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

As of December 31, 2008, the weighted average rates on earning assets decreased by 15 basis points since September 30, 2008, while the weighted average rates on customer accounts and borrowings decreased by 21 basis points over the same period. As of December 31, 2008, the Company had grown total assets by \$725,458,000, or 6.1%, from \$11,796,425,000 at September 30, 2008, by deploying funds obtained through lower cost short-term deposits and borrowings, as well as the \$200,000,000 of CPP funds (see Note B above). For the quarter ended December 31, 2008, cash and cash equivalents increased \$70,445,000, or 85.3%, loans increased \$133,814,000, or 1.41%, and investment securities increased \$501,861,000, or 31.4%. Cash and cash equivalents of \$153,045,000 and stockholders' equity of \$1,581,707,000 provides management with flexibility in managing interest rate risk.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's net worth at December 31, 2008 was \$1,581,707,000, or 12.63% of total assets. This was an increase of \$249,033,000 from September 30, 2008 when net worth was \$1,332,674,000, or 11.30% of total assets. The increase in the Company's net worth included \$200,000,000 from the issuance of preferred stock and a related warrant to purchase common stock to the U.S. Treasury (see Note B for further discussion). The increase also included \$20,169,000 from net income and a \$32,804,000 increase in accumulated other comprehensive income as a result of a net increase in market value of the Company's available-for-sale investments. The vast majority of the Company's available for sale investments are fixed rate. As a result of market interest rates decreasing, the value of fixed rate investments generally increased. Net worth was reduced by \$4,553,000 of cash dividend payments.

Management believes this strong net worth position will help the Company manage its interest rate risk and enable it to compete more effectively for controlled growth through acquisitions, de novo expansion and increased customer deposits. To be categorized as well capitalized, Washington Federal Savings must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. During the quarter the Company reduced its quarterly cash dividend on common stock from \$.21 to \$.05 to conserve capital due to deterioration in the housing market and general economic conditions.



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	Actual		Capital Adequacy Guidelines		Well Capitalized Under Prompt Corrective Action Provisions	
	Capital	Ratio	Capital	Ratio	Capital	Ratio
(In thousands)						
<b>December 31, 2008</b>						
Total capital to risk-weighted assets	1,389,865	19.70%	564,549	8.00%	705,686	10.00%
Tier I capital to risk-weighted assets	1,336,668	18.94%	N/A	N/A	423,412	6.00%
Core capital to adjusted tangible assets	1,336,668	10.92%	N/A	N/A	611,980	5.00%
Core capital to total assets	1,336,668	10.92%	367,188	3.00%	N/A	N/A
Tangible capital to tangible assets	1,336,668	10.92%	183,594	1.50%	N/A	N/A
<b>September 30, 2008</b>						
Total capital to risk-weighted assets	\$ 1,168,709	17.18%	\$ 544,064	8.00%	\$ 680,080	10.00%
Tier I capital to risk-weighted assets	1,118,152	16.44%	N/A	N/A	408,048	6.00%
Core capital to adjusted tangible assets	1,118,152	9.66%	N/A	N/A	578,579	5.00%
Core capital to total assets	1,118,152	9.66%	347,147	3.00%	N/A	N/A
Tangible capital to tangible assets	1,118,152	9.66%	173,574	1.50%	N/A	N/A

**CHANGES IN FINANCIAL CONDITION**

**Available-for-sale and held-to-maturity securities:** Available-for-sale securities increased \$504,663,000, or 34.2%, during the quarter ended December 31, 2008, which included the purchase of \$489,454,000 of available-for-sale investment securities. During the same period there were no sales of available-for-sale securities, nor were there any purchases or sales of held-to-maturity securities. As of December 31, 2008, the Company had net unrealized gains on available-for-sale securities of \$35,276,000, net of tax, which were recorded as part of stockholders equity. The Company increased its investment portfolio to protect against a potential refinancing surge resulting from historically low mortgage rates, which were influenced by US government participation in the mortgage-backed securities market.

**Loans receivable:** During the quarter ended December 31, 2008, the balance of loans receivable increased 1.4% to \$9,635,434,000 compared to \$9,501,620,000 at September 30, 2008. This growth is consistent with management's strategy to grow the loan portfolio to mitigate the decreasing weighted average rates on earning assets. If the current low rates on 30 year fixed-rate mortgages persists, management will consider shrinking its loan portfolio. The following table shows the loan portfolio by category for the last three quarters.

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## Loan Portfolio by Category

(In thousands)

	AS OF 6/30/08		AS OF 9/30/08		AS OF 12/31/08	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
Single-family residential	\$ 6,709,942	68.2%	\$ 6,868,956	69.5%	\$ 7,032,028	70.3%
Construction - speculative	548,376	5.6	439,616	4.4	385,074	3.8
Construction - custom	307,461	3.1	317,894	3.2	298,381	3.0
Land - acquisition & development	737,931	7.5	724,421	7.3	706,151	7.1
Land - consumer lot loans	214,674	2.2	210,816	2.1	206,276	2.1
Multi-family	692,963	7.0	683,508	6.9	695,164	6.9
Commercial real estate	264,599	2.7	282,138	2.8	303,321	3.0
Commercial & industrial	160,422	1.6	151,844	1.5	137,057	1.4
HELOC	68,638	0.7	80,407	0.8	94,581	0.9
Consumer	142,786	1.4	153,072	1.5	151,858	1.5
	9,847,792	100%	9,912,672	100%	10,009,891	100%
Less:						
ALL	54,059		85,058		104,835	
Loans in Process	330,556		288,579		232,839	
Deferred Net Origination Fees	37,303		37,415		36,783	
	421,918		411,052		374,457	
	\$ 9,425,874		\$ 9,501,620		\$ 9,635,434	

**Non-performing assets:** Non-performing assets increased significantly during the quarter ended December 31, 2008 to \$305,006,000 from \$164,191,000 at September 30, 2008, an 85.8% increase. A disproportionate share of our non-performing assets come from the land A&D and speculative construction portfolios. These assets have seen the largest declines in value in our loan portfolio. The overall increase in our non-performing assets is attributable to the weakening economy and housing market throughout our eight state branch network. Non-performing assets as a percentage of total assets was 2.44% at December 31, 2008 compared to 1.39% at September 30, 2008. During the last ten and twenty years the Company's average ratio of non-performing assets to total assets was .40% and .49%, respectively. While our non-performing assets have increased significantly over the last 3 months based on current conditions in the real estate marketplace, the Company anticipates non-performing assets will continue to increase in the future until the residential real estate market stabilizes and values recover.

**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****PART I Financial Information****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The following table sets forth information regarding restructured and nonaccrual loans and REO held by the Company at the dates indicated.

	December 31, 2008	September 30, 2008
	(In thousands)	
Restructured loans (1)	\$ 11,667	\$ 6,210
Nonaccrual loans:		
Single-family residential	54,597	38,017
Construction - speculative	29,035	33,003
Construction - custom	1,405	1,315
Land - acquisition & development	150,674	51,562
Land - consumer lot loans		
Multi-family	5,964	748
Commercial real estate	397	1,929
Commercial & industrial	215	
HELOC		
Consumer	892	535
<b>Total nonaccrual loans (2)</b>	<b>243,179</b>	<b>127,109</b>
<b>Total REO (3)</b>	<b>61,887</b>	<b>37,082</b>
<b>Total non-performing assets</b>	<b>\$ 305,066</b>	<b>\$ 164,191</b>
<b>Total non-performing assets and restructured loans</b>	<b>\$ 316,733</b>	<b>\$ 170,401</b>
<b>Total non-performing assets and restructured loans as a percentage of total assets</b>	<b>2.53%</b>	<b>1.44%</b>

(1) Performing in accordance with restructured terms.

(2) The Company recognized interest income on nonaccrual loans of approximately \$2,983,000 in the quarter ended December 31, 2008. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately \$9,650,000 for the quarter ended December 31, 2008.

In addition to the nonaccrual loans reflected in the above table, at December 31, 2008, the Company had \$173,666,000 of loans that were less than 90 days delinquent but which it had classified as substandard for one or more reasons. If these loans were deemed non-performing, the Company's ratio of total non-performing assets and restructured loans as a percent of total assets would have increased to 3.92% at December 31, 2008.

**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****PART I Financial Information****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

(3) Total REO (included in real estate held for sale on the Statement of Financial Condition) includes real estate held for sale acquired in settlement of loans.

Allocation of the allowance for loan losses: The following table shows the allocation of the Company's allowance for loan losses at the dates indicated.

	December 31, 2008		September 30, 2008	
	Amount	Loans to Total Loans <sup>1</sup>	Amount	Loans to Total Loans <sup>1</sup>
(In thousands)				
Single-family residential	\$ 19,345	70.3%	\$ 17,055	69.5%
Construction - speculative	12,104	3.8	10,069	4.4
Construction - custom	852	3.0	1,328	3.2
Land - acquisition & development	47,404	7.1	28,679	7.3
Land - consumer lot loans	2,345	2.1	2,279	2.1
Multi-family	3,394	6.9	4,514	6.9
Commercial real estate	2,585	3.0	4,536	2.8
Commercial & industrial	2,830	1.4	3,807	1.5
HELOC	1,713	0.9	1,338	0.8
Consumer	12,263	1.5	11,453	1.5
	\$ 104,835	100.0%	\$ 85,058	100.0%

<sup>1</sup> The percentage is based on gross loans before allowance for loan losses, loans in process and deferred loan origination costs.

**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****PART I Financial Information****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

**Customer accounts:** Customer accounts increased \$115,204,000, or 1.6%, to \$7,284,743,000 at December 31, 2008 compared with \$7,169,539,000 at September 30, 2008. The following table shows the composition of our customer accounts as of the dates shown:

**Deposits by Type**

(In thousands)

	December 31, 2008			September 30, 2008		
	Amount	%	Wtd. Avg. Rate	Amount	%	Wtd. Avg. Rate
Checking (noninterest)	\$ 119,868	1.6%	0.00%	\$ 119,460	1.7%	0.00%
NOW (interest)	401,710	5.5	0.96%	397,512	5.5	1.48%
Savings (passbook/stmt)	190,086	2.6	0.75%	188,546	2.6	1.22%
Money Market	1,202,728	16.5	1.82%	1,231,542	17.2	2.48%
CD s	5,370,351	73.8	3.55%	5,232,479	73.0	3.72%
Total	\$ 7,284,743	100.0%	2.99%	\$ 7,169,539	100.0%	3.25%

**FHLB advances and other borrowings:** Total borrowings increased \$367,718,000, or 11.6%, to \$3,543,626,000 at December 31, 2008 compared with \$3,175,908,000 at September 30, 2008. Total short-term borrowings (due within 30 days) at December 31, 2008 were \$650,000,000 compared with \$377,000,000 at September 30, 2008. See Interest Rate Risk on page 10.

**RESULTS OF OPERATIONS**

**Net Income:** The quarter ended December 31, 2008, produced net income of \$20,169,000 compared to \$33,048,000 for the same quarter one year ago, a 39.0% decrease. The decrease for the quarter resulted primarily from the significant increase in the provision for loan losses.

**Net Interest Income:** The largest component of the Company's earnings is net interest income, which is the difference between the interest and dividends earned on loans and other investments and the interest paid on customer deposits and borrowings. Net interest income is impacted primarily by two factors; first, the volume of earning assets and liabilities and second, the rate earned on those assets or the rate paid on those liabilities.

The following table sets forth certain information explaining changes in interest income and interest expense for the periods indicated compared to the same periods one year ago. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in volume (changes in volume multiplied by old rate) and (2) changes in rate (changes in rate multiplied by old volume). The change in interest income and interest expense attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****PART I Financial Information****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Rate / Volume Analysis:**

	Comparison of Quarters Ended 12/31/08 and 12/31/07		
	Volume	Rate	Total
	(In thousands)		
Interest income:			
Loan portfolio	\$ 21,354	\$ (9,540)	\$ 11,814
Mortgaged-backed securities	3,466	(116)	3,350
Investments(1)	(1,177)	(2,040)	(3,217)
All interest-earning assets	23,643	(11,696)	11,947
Interest expense:			
Customer accounts	10,906	(20,968)	(10,062)
FHLB advances and other borrowings	4,865	(7,575)	(2,710)
All interest-bearing liabilities	15,771	(28,543)	(12,772)
Change in net interest income	\$ 7,872	\$ 16,847	\$ 24,719

(1) Includes interest on cash equivalents and dividends on FHLB stock

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART I Financial Information**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

**Provision for Loan Losses:** The Company recorded a \$35,000,000 provision for loan losses during the quarter ended December 31, 2008, while a \$1,000,000 provision was recorded for the same quarter one year ago. Non-performing assets amounted to \$305,066,000 or 2.44% of total assets at December 31, 2008 compared to \$39,741,000 or .38% of total assets one year ago. The Company had net charge-offs of \$15,223,000 for the quarter ended December 31, 2008 compared with \$150,000 of net charge-offs for the same quarter one year ago. This significant increase in the provision for loan losses is in response to three primary factors: first, the overall deterioration in the housing market in general in the Company's eight western state territory, second, the significant increase in the combined balance of non-performing assets in our land A&D and speculative construction portfolios, and finally, the material increase in net charge-offs for the quarter. Management expects the provision to remain at elevated levels until non-performing assets and charge-offs improve.

The Company's believes that higher non-performing assets and charge-offs may continue going forward until the housing market and general economic conditions begin to recover.

**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****PART I Financial Information****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The following table analyzes the Company's allowance for loan losses at the dates indicated.

	Quarter Ended December 31,	
	2008	2007
	(In thousands)	
Beginning balance	\$ 85,058	\$ 28,520
Charge-offs:		
Single-family residential	3,079	7
Construction - speculative	4,503	75
Construction - custom		
Land - acquisition & development	3,557	54
Land - consumer lot loans	720	
Multi-family		
Commercial real estate		
Commercial & industrial	2,171	14
HELOC		
Consumer	1,357	
	15,387	150
Recoveries:		
Single-family residential	2	
Construction - speculative		
Construction - custom		
Land - acquisition & development	16	
Land - consumer lot loans		
Multi-family		
Commercial real estate		
Commercial & industrial	43	
HELOC		
Consumer	103	
	164	
Net charge-offs	15,223	150
Provision for loan losses	35,000	1,000
Acquired reserves		
Ending balance	\$ 104,835	\$ 29,370
Ratio of net charge-offs to average loans outstanding	0.16%	0.00%

**Other Income:** The quarter ended December 31, 2008 produced total other income of \$3,835,000 compared to \$4,387,000 for the same quarter one year ago, a decrease of \$552,000. The quarter ended December 31, 2007 included a \$1,246,000 gain on the sale of real estate.



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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART I Financial Information**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

**Other Expense:** The quarter ended December 31, 2008 produced total other expense of \$24,247,000 compared to \$17,219,000 for the same quarter one year ago, a 40.8% increase. The increase in total other expense over the same comparable period one year ago was primarily the result of two factors, the first being an increase in compensation and other direct costs related to the February 2008 acquisition of First Mutual Bancshares, Inc. ( FMB ), which operated historically with a significantly higher cost structure than Washington Federal. The Company has already reduced costs substantially and believes more savings may occur as the full integration occurs over time. The second factor is additional investment in our information technology upgrade initiative known as Project Tritan. Total other expense for the quarters ended December 31, 2008 and 2007 equaled .80% and .66%, respectively, of average assets. The number of staff, including part-time employees on a full-time equivalent basis, was 1,103 at December 31, 2008 and 879 at December 31, 2007; the increase primarily due to the acquisition of FMB.

**Taxes:** Income taxes decreased \$6,546,000, or 35.6%, for the quarter ended December 31, 2008 when compared to the same period one year ago. This decrease was a result of lower pretax income. The effective tax rate for the quarter ended December 31, 2008 was 35.50%, compared to 35.75% for the same period one year ago.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Management believes that there have been no material changes in the Company's quantitative and qualitative information about market risk since September 30, 2008. For a complete discussion of the Company's quantitative and qualitative market risk, see Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's 2008 Form 10-K.

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART I Financial Information**

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer along with the Company's Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 ( Exchange Act ) Rule 13a-15. Based upon that evaluation, the Company's President and Chief Executive Officer, along with the Company's Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings. There have been no significant changes in the Company's internal controls or in other factors that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Disclosure controls and procedures are Company controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****PART II Other Information****Item 1. Legal Proceedings**

From time to time the Company or its subsidiaries are engaged in legal proceedings in the ordinary course of business, none of which are considered to have a material impact on the Company's financial position or results of operations.

**Item 1A. Risk Factors**

Not applicable

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information with respect to purchases made by or on behalf of the Company of the Company's common stock during the three months ended December 31, 2008. It needs to be noted that under the terms of the CPP (see Note B above), the Company has agreed to not repurchase any stock until the preferred stock is retired. Please see the Form S-3 filed with the SEC on December 12, 2008 for terms of the CPP.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plan <sup>(1)</sup></b>	<b>Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period</b>
October 1, 2008 to October 31, 2008		\$		2,888,314
November 1, 2008 to November 30, 2008				2,888,314
December 1, 2008 to December 31, 2008				2,888,314
Total				2,888,314

<sup>(1)</sup> The Company's only stock repurchase program was publicly announced by the Board of Directors on February 3, 1995 and has no expiration date. Under this ongoing program, a total of 21,956,264 shares have been authorized for repurchase.

**Item 3. Defaults Upon Senior Securities**

Not applicable

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART II Other Information**

**Item 4. Submission of Matters to a Vote of Security Holders**  
Not applicable

**Item 5. Other Information**  
Not applicable

**Item 6. Exhibits**

(a) Exhibits

31.1 Section 302 Certification by the Chief Executive Officer

31.2 Section 302 Certification by the Chief Financial Officer

32 Section 906 Certification by the Chief Executive Officer and the Chief Financial Officer

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

February 9, 2009

/s/ Roy M. Whitehead  
ROY M. WHITEHEAD  
Chairman, President and Chief Executive Officer

February 9, 2009

/s/ Brent J. Beardall  
BRENT J. BEARDALL  
Executive Vice President and Chief Financial Officer