TFS Financial CORP
Form 10-Q
May 09, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended March 31, 2011

or

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

For transition period from to

Commission File Number 001-33390

TFS FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

United States of America	**52-2054948**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
7007 Broadway Avenue	
Cleveland, Ohio	**44105**
(Address of Principal Executive Offices)	**(Zip Code)**

(216) 441-6000

Registrant s telephone number, including area code:

Not Applicable

(Former name or former address, 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 x No ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (do not check if a smaller reporting company)	Smaller Reporting Company	¨

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

As of May 4, 2011 there were 308,430,893 shares of the Registrant s common stock, par value $0.01 per share, outstanding, of which 227,119,132 shares, or 73.64% of the Registrant s common stock, were held by Third Federal Savings and Loan Association of Cleveland, MHC, the Registrant s mutual holding company.

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

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TFS Financial Corporation

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements
TFS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CONDITION (unaudited)

(In thousands, except share data)

	March 31, 2011	September 30, 2010
ASSETS		
Cash and due from banks	$ 36,236	$ 38,804
Other interest-bearing cash equivalents	152,755	704,936
Cash and cash equivalents	188,991	743,740
Investment securities:		
Available for sale (amortized cost $17,102 and $24,480, respectively)	17,105	24,619
Held to maturity (fair value $481,666 and $657,076, respectively)	476,604	646,940
	493,709	671,559
Mortgage loans held for sale (includes $8,080 and $0 measured at fair value, respectively)	8,080	25,027
Loans held for investment, net:		
Mortgage loans	9,905,703	9,323,073
Other loans	6,695	7,199
Deferred loan fees, net	(18,069)	(15,283)
Allowance for loan losses	(150,747)	(133,240)
Loans, net	9,743,582	9,181,749
Mortgage loan servicing assets, net	32,004	38,658
Federal Home Loan Bank stock, at cost	35,620	35,620
Real estate owned	18,612	15,912
Premises, equipment, and software, net	61,390	62,685
Accrued interest receivable	35,907	36,282
Bank owned life insurance contracts	167,552	164,334
Other assets	99,613	100,461
TOTAL ASSETS	$ 10,885,060	$ 11,076,027
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits	$ 8,755,942	$ 8,851,941
Borrowed funds	168,148	70,158
Borrowers advances for insurance and taxes	49,742	51,401
Principal, interest, and related escrow owed on loans serviced	102,750	284,425

Accrued expenses and other liabilities	55,496	65,205
Total liabilities	9,132,078	9,323,130
Commitments and contingent liabilities		
Preferred stock, $0.01 par value, 100,000,000 shares authorized, none issued and outstanding	0	0
Common stock, $0.01 par value, 700,000,000 shares authorized; 332,318,750 shares issued; 308,418,393 and 308,395,000 outstanding at March 31, 2011 and September 30, 2010, respectively	3,323	3,323
Paid-in capital	1,689,086	1,686,062
Treasury stock, at cost; 23,900,357 and 23,923,750 shares at March 31, 2011 and September 30, 2010, respectively	(288,083)	(288,366)
Unallocated ESOP shares	(81,251)	(82,699)
Retained earnings substantially restricted	447,502	452,633
Accumulated other comprehensive loss	(17,595)	(18,056)
Total shareholders equity	1,752,982	1,752,897
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 10,885,060	$ 11,076,027

See accompanying notes to unaudited interim consolidated financial statements.

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TFS Financial Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME (LOSS) (unaudited)

(In thousands, except share and per share data)

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010	For the Six Months Ended March 31, 2011	For the Six Months Ended March 31, 2010
INTEREST INCOME:				
Loans, including fees	$ 102,394	$ 104,763	$ 205,594	$ 211,811
Investment securities available for sale	44	153	155	266
Investment securities held to maturity	2,793	4,892	6,130	9,965
Other interest and dividend earning assets	502	580	1,295	1,149
Total interest and dividend income	105,733	110,388	213,174	223,191
INTEREST EXPENSE:				
Deposits	44,386	52,320	91,664	107,333
Borrowed funds	446	474	923	959
Total interest expense	44,832	52,794	92,587	108,292
NET INTEREST INCOME	60,901	57,594	120,587	114,899
PROVISION FOR LOAN LOSSES	22,500	25,000	57,000	41,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	38,401	32,594	63,587	73,899
NON-INTEREST INCOME				
Fees and service charges, net of amortization	4,418	5,562	7,322	11,032
Mortgage servicing assets recovery	302	118	18	45
Net gain on the sale of loans	271	2,708	271	5,749
Increase in and death benefits from bank owned life insurance contracts	1,579	1,589	3,219	3,197
Income on private equity investments	31	231	214	346
Other	1,666	1,441	4,042	2,913
Total non-interest income	8,267	11,649	15,086	23,282
NON-INTEREST EXPENSE				
Salaries and employee benefits	19,815	20,485	37,300	41,656
Marketing services	2,103	2,026	4,204	4,051
Office property, equipment and software	4,887	5,362	9,997	10,615
Federal insurance premium	5,847	4,314	11,832	8,523
State franchise tax	1,428	1,338	2,367	2,380
Real estate owned expense, net	1,987	927	3,912	2,662
Other operating expenses	7,908	4,881	17,307	9,545
Total non-interest expense	43,975	39,333	86,919	79,432

INCOME (LOSS) BEFORE INCOME TAXES		2,693		4,910		(8,246)		17,749
INCOME TAX EXPENSE (BENEFIT)		469		1,988		(3,122)		5,901
NET INCOME (LOSS)	$	2,224	$	2,922	$	(5,124)	$	11,848
Earnings (loss) per share - basic and diluted	$	0.01	$	0.01	$	(0.02)	$	0.04
Weighted average shares outstanding								
Basic		300,215,753		299,693,766		300,177,749		299,675,952
Diluted		300,957,564		300,299,201		300,177,749		300,224,745

See accompanying notes to unaudited interim consolidated financial statements.

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TFS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (unaudited)

Six Months Ended March 31, 2011 and 2010

(In thousands)

	Common stock	Paid-in capital	Treasury stock	Unallocated common stock held by ESOP	Retained earnings	Accumulated other comprehensive income (loss) Unrealized gains/(losses) on securities	Pension obligation	Total shareholders equity
Balance at September 30, 2009	$ 3,323	1,679,000	(287,514)	(87,896)	456,875	240	(18,163)	$ 1,745,865
Comprehensive Income								
Net income					11,848			11,848
Change in unrealized losses on securities available for sale						(76)		(76)
Change in pension obligation							678	678
Total comprehensive income								12,450
Purchase of treasury stock (161,400 shares)			(1,810)					(1,810)
ESOP shares allocated or committed to be released		574		2,551				3,125
Compensation costs for stock-based plans		3,186						3,186
Excess tax effect from stock-based compensation		81						81
Dividends paid to common shareholders ($0.14 per common share)					(10,360)			(10,360)
Balance at March 31, 2010	$ 3,323	1,682,841	(289,324)	(85,345)	458,363	164	(17,485)	$ 1,752,537
Balance at September 30, 2010	$ 3,323	1,686,062	(288,366)	(82,699)	452,633	90	(18,146)	$ 1,752,897
Comprehensive Income								
Net loss					(5,124)			(5,124)
Change in unrealized losses on securities available for sale						(88)		(88)
Change in pension obligation							549	549
Total comprehensive loss								(4,663)
ESOP shares allocated or committed to be released		(305)		1,448				1,143
Compensation costs for stock-based plans		3,625	(3)					3,622
Excess tax effect from stock-based compensation		(17)						(17)
Treasury stock allocated to restricted stock plan		(279)	286		(7)			
Balance at March 31, 2011	$ 3,323	1,689,086	(288,083)	(81,251)	447,502	2	(17,597)	$ 1,752,982

See accompanying notes to unaudited interim consolidated financial statements.

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TFS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(In thousands)

	For the Six Months Ended March 31, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (5,124)	$ 11,848
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
ESOP and stock-based compensation expense	4,765	6,311
Depreciation and amortization	12,125	7,656
Deferred income taxes	800	0
Provision for loan losses	57,000	41,000
Net gain on the sale of loans	(271)	(5,749)
Other net losses	2,068	7,258
Principal repayments on and proceeds from sales of loans held for sale	5,290	113,310
Loans originated for sale	(13,231)	(118,295)
Increase in bank owned life insurance contracts	(3,226)	(3,195)
Net increase in interest receivable and other assets	(122)	(51,122)
Net decrease in accrued expenses and other liabilities	(8,868)	(217)
Other	428	411
Net cash provided by operating activities	51,634	9,216
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans originated	(1,634,641)	(1,119,012)
Principal repayments on loans	1,021,391	838,686
Proceeds from sales, principal repayments and maturities of:		
Securities available for sale	9,457	4,399
Securities held to maturity	167,970	146,475
Proceeds from sale of:		
Loans	8,023	289,721
Real estate owned	6,882	10,011
Purchases of:		
Securities available for sale	(2,148)	(7,948)
Securities held to maturity	0	(195,212)
Premises and equipment	(1,597)	(2,554)
Other	(360)	122
Net cash used in investing activities	(425,023)	(35,312)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in deposits	(95,999)	132,704
Net decrease in borrowers advances for insurance and taxes	(1,659)	(4,885)
Net (decrease) increase in principal and interest owed on loans serviced	(181,675)	5,304
Net increase in short term borrowed funds	99,990	5
Net decrease in long term borrowed funds	(2,000)	0
Purchase of treasury shares	0	(1,810)
Excess tax (provision) benefit related to stock-based compensation	(17)	81
Dividends paid to common shareholders	0	(10,360)

Net cash (used in) provided by financing activities	(181,360)	121,039
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(554,749)	94,943
CASH AND CASH EQUIVALENTS Beginning of period	743,740	307,046
CASH AND CASH EQUIVALENTS End of period	$ 188,991	$ 401,989
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest on deposits	$ 92,370	$ 109,199
Cash paid for interest on borrowed funds	927	954
Cash paid for income taxes	4,500	8,800
SUPPLEMENTAL SCHEDULES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of loans to real estate owned	11,316	13,548
Transfer of loans from held for sale to held for investment	25,027	0

See accompanying notes to unaudited interim consolidated financial statements.

TFS FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands unless otherwise indicated)

1. BASIS OF PRESENTATION

TFS Financial Corporation (the Holding Company), a federally chartered stock holding company, conducts its principal activities through its wholly owned subsidiaries. The principal line of business of TFS Financial Corporation and its subsidiaries (collectively, TFS Financial or the Company) is retail consumer banking, including mortgage lending, deposit gathering, and other insignificant financial services. On March 31, 2011, approximately 74% of the Holding Company s outstanding shares were owned by a federally chartered mutual holding company, Third Federal Savings and Loan Association of Cleveland, MHC (Third Federal Savings, MHC). The thrift subsidiary of TFS Financial is Third Federal Savings and Loan Association of Cleveland (the Association).

The accounting and reporting policies followed by the Company conform in all material respects to accounting principles generally accepted in the United States of America (U.S. GAAP) and to general practices in the financial services industry. The preparation of financial statements in conformity with U.S. GAAP requires management 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. Actual results could differ from those estimates. The allowance for loan losses, the valuation of mortgage loan servicing rights, the valuation of deferred tax assets, and the determination of pension obligations and stock-based compensation are particularly subject to change.

The unaudited interim consolidated financial statements were prepared without an audit and reflect all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly the consolidated financial condition of TFS Financial at March 31, 2011, and its results of operations and cash flows for the periods presented. In accordance with Regulation S-X for interim financial information, these statements do not include certain information and footnote disclosures required for complete audited financial statements. The Holding Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2010 contains consolidated financial statements and related notes, which should be read in conjunction with the accompanying interim consolidated financial statements. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2011.

2. EARNINGS PER SHARE

The following is a summary of our earnings per share calculations.

	For the Three Months ended March 31,					
	2011			2010		
	Income	Shares	Per share amount	Income	Shares	Per share amount
	(Dollars in thousands, except per share data)					
Net income	$ 2,224			$ 2,922		
Less: income allocated to restricted stock units	12			101		
Basic earnings per share:						
Income available to common shareholders	$ 2,212	300,215,753	$ 0.01	$ 2,821	299,693,766	$ 0.01
Diluted earnings per share:						
Effect of dilutive potential common shares		741,811			605,435	

Income available to common shareholders	$ 2,212	300,957,564	$ 0.01	$ 2,821	300,299,201	$ 0.01

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	For the Six Months ended March 31,					
	2011			2010		
	Income	Shares	Per share amount	Income	Shares	Per share amount
	(Dollars in thousands, except per share data)					
Net (loss) income	$ (5,124)			$ 11,848		
Less: (loss) income allocated to restricted stock units	(29)			241		
Basic (loss) earnings per share:						
(Loss) income available to common shareholders	$ (5,095)	300,177,749	$ (0.02)	$ 11,607	299,675,952	$ 0.04
Diluted (loss) earnings per share:						
Effect of dilutive potential common shares		0			548,793	
(Loss) income available to common shareholders	$ (5,095)	300,177,749	$ (0.02)	$ 11,607	300,224,745	$ 0.04

Earnings per share is computed by dividing the income available to common stockholders by the weighted average number of shares outstanding for the period. Outstanding shares include shares held by Third Federal Savings, MHC, shares held by the Third Federal Foundation, shares held by the Employee Stock Ownership Plan (ESOP), stock options and restricted stock units with a dilutive impact granted under the Company s 2008 Equity Incentive Plan and shares held by the public, except that shares held by the ESOP that have not been allocated to participants or committed to be released for allocation to participants are excluded from the computations.

Outstanding stock options and restricted stock units are excluded from the computation of diluted earnings (loss) per share when their inclusion would be anti-dilutive. The diluted earnings per share calculation for the three months ended March 31, 2011 excludes 4,849,809 unvested outstanding stock options and 159,241 vested outstanding stock options and for the three months ended March 31, 2010 excludes 4,598,800 unvested outstanding stock options because their inclusion would be anti-dilutive. The diluted loss per share calculation for the six months ended March 31, 2011 excludes all common stock equivalents, including 1,636,950 outstanding restricted stock units, 4,849,809 unvested outstanding stock options and 159,241 vested outstanding stock options and for the six months ended March 31, 2010 excludes 4,598,800 unvested outstanding stock options because their inclusion would be anti-dilutive.

3. INVESTMENT SECURITIES

Investments securities available for sale are summarized as follows:

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency obligations	$ 2,000	$ 0	$ (75)	$ 1,925
Real estate mortgage investment conduits (REMICs)	6,463	84	(6)	6,541
Money market accounts	8,639	0	0	8,639
	$ 17,102	$ 84	$ (81)	$ 17,105

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency obligations	$ 7,000	$ 63	$ 0	$ 7,063
REMICs	8,718	90	(14)	8,794
Money market accounts	8,762	0	0	8,762

$ 24,480	$ 153	$ (14)	$ 24,619

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Investments held to maturity are summarized as follows:

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Freddie Mac certificates	$ 3,161	$ 193	$ 0	$ 3,354
Ginnie Mae certificates	20,853	410	0	21,263
REMICs	444,268	3,915	(216)	447,967
Fannie Mae certificates	8,322	760	0	9,082
	$ 476,604	$ 5,278	$ (216)	$ 481,666

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Freddie Mac certificates	$ 4,441	$ 231	$ 0	$ 4,672
Ginnie Mae certificates	22,375	598	0	22,973
REMICs	611,000	8,754	(268)	619,486
Fannie Mae certificates	9,124	821	0	9,945
	$ 646,940	$ 10,404	$ (268)	$ 657,076

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans held for investment consist of the following:

	March 31, 2011	September 30, 2010
Real estate loans:		
Residential non-Home Today	$ 6,940,155	$ 6,138,454
Residential Home Today	272,186	280,533
Home equity loans and lines of credit	2,643,302	2,848,690
Construction	87,729	100,404
Real estate loans	9,943,372	9,368,081
Consumer and other loans	6,695	7,199
Less:		
Deferred loan fees net	(18,069)	(15,283)
Loans-in-process (LIP)	(37,669)	(45,008)
Allowance for loan losses	(150,747)	(133,240)
Loans held for investment, net	$ 9,743,582	$ 9,181,749

A large concentration of the Company s lending is in Ohio. As of March 31, 2011 and September 30, 2010, the percentages of residential real estate loans held in Ohio were 81% and 80%, respectively. As of March 31, 2011 and September 30, 2010, the percentage of residential real estate loans held in Florida was 18%. As of March 31, 2011 and September 30, 2010, the home equity loans and lines of credit held were concentrated in the states of Ohio, 40% and 40%, Florida, 29% and 28%, and California, 12% and 11%, respectively. The economic conditions and market for real estate in those states have a significant impact on the ability of borrowers in those areas to repay their loans. Effective June 28, 2010, the Association suspended the acceptance of new equity line of credit applications.

Home Today is an affordable housing program targeted to benefit low- and moderate-income home buyers. Through this program, prior to March 27, 2009, the Association provided loans to borrowers who would not otherwise qualify for our loan products, generally because of low credit scores. Although the credit profiles of borrowers in the Home Today program prior to March 27, 2009 might be described as sub-prime, Home Today loans generally contain the same features as loans offered to our non-Home Today borrowers. Borrowers in the Home Today program must complete financial

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management education and counseling and must be referred to the Association by a sponsoring organization with which the Association has partnered as part of the program. Borrowers must also meet a minimum credit score threshold. Because prior to March 27, 2009 the Association applied less stringent underwriting and credit standards to these loans, loans originated under the Home Today program prior to that date have greater credit risk than its traditional residential real estate mortgage loans. Effective March 27, 2009, the Home Today underwriting guidelines are substantially the same as our traditional first mortgage product. As of March 31, 2011, the balance of Home Today loans originated prior to March 27, 2009 was $270,093. The Association does not offer, and has not offered, loan products frequently considered to be designed to target sub-prime borrowers containing features such as higher fees or higher rates, negative amortization, a loan-to-value ratio greater than 100%, or option adjustable-rate mortgages.

The recorded investment of loan receivables in non-accrual status is summarized in the following table. Balances are net of deferred fees.

	March 31, 2011	September 30, 2010
Real estate loans:		
Residential non-Home Today	$ 130,038	$ 135,109
Residential Home Today	79,628	91,985
Home equity loans and lines of credit	44,045	54,481
Construction	4,173	4,994
Total real estate loans	257,884	286,569
Consumer and other loans	1	1
Total non-accrual loans	$ 257,885	$ 286,570

Loans are placed in nonaccrual status when they are contractually 90 days or more past due. Loans modified in troubled debt restructurings that were in nonaccrual status prior to the restructurings remain in nonaccrual status for a minimum of six months. Accrued interest on loans in non-accrual status is reversed by a charge to interest income and income is subsequently recognized only to the extent cash payments are received. A nonaccrual loan is returned to accrual status when, in management s judgment, the borrower s ability to make periodic interest and principal payments is back to normal. Total nonaccrual loans at March 31, 2011 and September 30, 2010 includes $21,198 and $32,365, respectively, in troubled debt restructurings which are current but included with nonaccrual loans for a minimum period of six months from the restructuring date due to their nonaccrual status prior to restructuring.

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Age analysis of the recorded investment in loan receivables that are past due at March 31, 2011 and September 30, 2010 is summarized in the following tables. Balances are net of deferred fees and any applicable LIP.

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
March 31, 2011						
Real estate loans:						
Residential non-Home Today	$ 18,423	$ 14,530	$ 121,491	$ 154,444	$ 6,755,191	$ 6,909,635
Residential Home Today	8,907	6,507	67,062	82,476	188,513	270,989
Home equity loans and lines of credit	11,649	5,233	43,959	60,841	2,596,851	2,657,692
Construction	1,121	124	4,172	5,417	43,901	49,318
Total real estate loans	40,100	26,394	236,684	303,178	9,584,456	9,887,634
Consumer and other loans	0	0	1	1	6,694	6,695
Total	$ 40,100	$ 26,394	$ 236,685	$ 303,179	$ 9,591,150	$ 9,894,329
September 30, 2010						
Real estate loans:						
Residential non-Home Today	$ 20,748	$ 9,933	$ 121,601	$ 152,282	$ 5,955,965	$ 6,108,247
Residential Home Today	12,836	8,970	74,831	96,637	182,515	279,152
Home equity loans and lines of credit	14,144	7,233	53,948	75,325	2,790,611	2,865,936
Construction	558	0	3,980	4,538	49,917	54,455
Total real estate loans	48,286	26,136	254,360	328,782	8,979,008	9,307,790
Consumer and other loans	0	0	1	1	7,198	7,199
Total	$ 48,286	$ 26,136	$ 254,361	$ 328,783	$ 8,986,206	$ 9,314,989

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Activity in the allowance for loan losses is summarized as follows:

	For the Three Months Ended March 31, 2011				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential non-Home Today	$ 48,737	$ 4,495	$ (3,896)	$ 83	$ 49,419
Residential Home Today	18,143	8,053	(1,528)	17	24,685
Home equity loans and lines of credit	76,759	10,310	(14,958)	399	72,510
Construction	4,606	(358)	(126)	10	4,132
Total real estate loans	$ 148,245	$ 22,500	$ (20,508)	$ 509	$ 150,746
Consumer and other loans	1	0	0	0	1
Total	$ 148,246	$ 22,500	$ (20,508)	$ 509	$ 150,747

	For the Three Months Ended March 31, 2010				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential non-Home Today	$ 26,612	$ 2,174	$ (1,765)	$ 190	$ 27,211
Residential Home Today	9,683	138	(1,407)	0	8,414
Home equity loans and lines of credit	56,208	18,656	(13,823)	99	61,140
Construction	4,776	4,032	(1,269)	0	7,539
Total real estate loans	$ 97,279	$ 25,000	$ (18,264)	$ 289	$ 104,304
Consumer and other loans	1	0	0	0	1
Total	$ 97,280	$ 25,000	$ (18,264)	$ 289	$ 104,305

	For the Six Months Ended March 31, 2011				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential non-Home Today	$ 41,246	$ 15,969	$ (7,960)	$ 164	$ 49,419
Residential Home Today	13,331	14,641	(3,347)	60	24,685
Home equity loans and lines of credit	73,780	26,690	(28,773)	813	72,510
Construction	4,882	(300)	(483)	33	4,132
Total real estate loans	$ 133,239	$ 57,000	$ (40,563)	$ 1,070	$ 150,746
Consumer and other loans	1	0	0	0	1
Total	$ 133,240	$ 57,000	$ (40,563)	$ 1,070	$ 150,747

For the Six Months Ended March 31, 2010

	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential non-Home Today	$ 22,678	$ 8,880	$ (4,542)	$ 195	$ 27,211
Residential Home Today	9,232	1,585	(2,426)	23	8,414
Home equity loans and lines of credit	57,594	27,288	(24,060)	318	61,140
Construction	5,743	3,247	(1,452)	1	7,539
Total real estate loans	$ 95,247	$ 41,000	$ (32,480)	$ 537	$ 104,304
Consumer and other loans	1	0	0	0	1
Total	$ 95,248	$ 41,000	$ (32,480)	$ 537	$ 104,305

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The recorded investment in loan receivables at March 31, 2011 and September 30, 2010 is summarized in the following table. The table provides details of the recorded balances according to the method of evaluation used for determining the allowance for loan losses, distinguishing between determinations made by evaluating individual loans and determinations made by evaluating groups of loans not individually evaluated. Balances of recorded investments are net of deferred fees and any applicable LIP.

	March 31, 2011			September 30, 2010		
	Individually	Collectively	Total	Individually	Collectively	Total
Real estate loans:						
Residential non-Home Today	$ 156,425	$ 6,753,210	$ 6,909,635	$ 147,002	$ 5,961,245	$ 6,108,247
Residential Home Today	134,003	136,986	270,989	129,721	149,431	279,152
Home equity loans and lines of credit	47,170	2,610,522	2,657,692	56,108	2,809,828	2,865,936
Construction	7,504	41,814	49,318	7,881	46,574	54,455
Total real estate loans	345,102	9,542,532	9,887,634	340,712	8,967,078	9,307,790
Consumer and other loans	1	6,694	6,695	1	7,198	7,199
Total	$ 345,103	$ 9,549,226	$ 9,894,329	$ 340,713	$ 8,974,276	$ 9,314,989

An analysis of the allowance for loan losses at March 31, 2011 and September 30, 2010 is summarized in the following table. The analysis provides details of the allowance for loan losses according to the method of evaluation, distinguishing between allowances for loan losses determined by evaluating individual loans and allowances for loan losses determined by evaluating groups of loans not individually evaluated.

	March 31, 2011			September 30, 2010		
	Individually	Collectively	Total	Individually	Collectively	Total
Real estate loans:						
Residential non-Home Today	$ 20,195	$ 29,224	$ 49,419	$ 15,790	$ 25,456	$ 41,246
Residential Home Today	14,159	10,526	24,685	9,752	3,579	13,331
Home equity loans and lines of credit	17,955	54,555	72,510	18,508	55,272	73,780
Construction	1,643	2,489	4,132	1,988	2,894	4,882
Total real estate loans	53,952	96,794	150,746	46,038	87,201	133,239
Consumer and other loans	1	0	1	1	0	1
Total	$ 53,953	$ 96,794	$ 150,747	$ 46,039	$ 87,201	$ 133,240

The allowance for loan losses is assessed on a quarterly basis and provisions for loan losses are made in order to maintain the allowance at a level sufficient to absorb credit losses in the portfolio. Mortgage loan portfolios are evaluated as homogeneous pools based on similarities in credit profile, product and property types. Through the evaluation, general allowances for loan losses are assessed based on historical loan loss experience for each homogeneous pool. General allowances are adjusted to address other factors that affect estimated probable losses, including current delinquency statistics; the status of loans in foreclosure, real estate in judgment and real estate owned; national, regional and local economic factors and trends; and asset disposition loss statistics (both current and historical). Specific allowances are assessed on impaired loans as described later in this footnote.

Residential non-Home Today mortgage loans represent the largest piece of our residential real estate portfolio. We believe overall credit risk is low based on nature, composition, collateral, products, lien position and performance of the portfolio. The portfolio does not include loan types or structures that are experiencing the most severe performance problems (sub-prime, no documentation, pay option arms).

As described earlier in this footnote, Home Today loans, particularly those originated prior to March 27, 2009, have greater credit risk than traditional residential real estate mortgage loans. At March 31, 2011, more than 54% of Home Today loans include private mortgage insurance coverage.

Equity lines of credit represent a significant portion of our residential real estate portfolio. The state of the economy and low housing prices continue to have an adverse impact on this portfolio since the equity lines generally are in a second lien position. Effective June 28, 2010, due to the perceived deterioration in the overall housing conditions including concerns for loans and lines in a second lien position, equity lines of credit and home equity loans are no longer offered.

Construction loans generally have greater credit risk than traditional residential real estate mortgage loans. The repayment of these loans depends upon the sale of the property to third parties or the availability of permanent financing upon completion of all improvements. In the event we make a loan on property that is not yet approved for the planned development, there is the risk that approvals will not be granted or will be delayed. These events may adversely affect the

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borrower and the collateral value of the property. Construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

Consumer loans include $1 of auto loans at March 31, 2011 and September 30, 2010. The remaining balance is comprised of loans secured by certificate of deposit accounts, which are fully recoverable in the event of non-payment.

Loans are charged off when less than the full payment is accepted as satisfaction for a loan; a foreclosure action is completed and the fair value of the collateral received is insufficient to satisfy the loan; management concludes the costs of foreclosure exceed the potential recovery; or, in the case of equity loans and lines of credit, management determines the collateral is not sufficient to satisfy the loan.

The recorded investment and the unpaid principal balance of impaired loans, including those whose terms have been modified in troubled debt restructurings, as of March 31, 2011 and September 30, 2010 are summarized as follows. Balances of recorded investments are net of deferred fees.

	March 31, 2011			September 30, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Residential non-Home Today	$ 40,409	$ 40,587	$ 0	$ 39,429	$ 39,624	$ 0
Residential Home Today	26,955	27,074	0	37,458	37,643	0
Home equity loans and lines of credit	15,332	15,249	0	20,378	20,255	0
Construction	195	197	0	192	194	0
Consumer and other loans	0	0	0	0	0	0
Total	$ 82,891	$ 83,107	$ 0	$ 97,457	$ 97,716	$ 0
With an allowance recorded:						
Residential non-Home Today	$ 116,016	$ 116,529	$ 20,195	$ 107,572	$ 108,104	$ 15,790
Residential Home Today	107,049	107,522	14,158	92,263	92,719	9,752
Home equity loans and lines of credit	31,837	31,665	17,955	35,732	35,517	18,508
Construction	7,309	7,371	1,644	7,689	7,762	1,988
Consumer and other loans	1	1	1	1	1	1
Total	$ 262,212	$ 263,088	$ 53,953	$ 243,257	$ 244,103	$ 46,039
Total impaired loans:						
Residential non-Home Today	$ 156,425	$ 157,116	$ 20,195	$ 147,001	$ 147,728	$ 15,790
Residential Home Today	134,004	134,596	14,158	129,721	130,362	9,752
Home equity loans and lines of credit	47,169	46,914	17,955	56,110	55,772	18,508
Construction	7,504	7,568	1,644	7,881	7,956	1,988
Consumer and other loans	1	1	1	1	1	1
Total	$ 345,103	$ 346,195	$ 53,953	$ 340,714	$ 341,819	$ 46,039

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The average recorded investment in impaired loans and the amount of interest income recognized during the time within the period that the loans were impaired are summarized below. Interest income recognized represents interest recognized on troubled debt restructurings. Interest recognized on other impaired loans is immaterial for the three and six months ended March 31, 2011 and 2010. Balances of average recorded investments are net of deferred fees.

	Three Months Ended March 31,			
	2011		2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Residential non-Home Today	$ 41,507	$ 0	$ 53,972	$ 0
Residential Home Today	30,761	0	47,682	0
Home equity loans and lines of credit	16,760	0	26,996	0
Construction	152	0	0	0
Consumer and other loans	0	0	0	0
Total	$ 89,180	$ 0	$ 128,650	$ 0
With an allowance recorded:				
Residential non-Home Today	$ 112,467	$ 593	$ 57,346	$ 193
Residential Home Today	103,197	564	54,427	269
Home equity loans and lines of credit	33,774	40	32,666	68
Construction	6,990	9	177	0
Consumer and other loans	1	0	1	0
Total	$ 256,429	$ 1,206	$ 144,617	$ 530
Total impaired loans:				
Residential non-Home Today	$ 153,974	$ 593	$ 111,318	$ 193
Residential Home Today	133,958	564	102,109	269
Home equity loans and lines of credit	50,534	40	59,662	68
Construction	7,142	9	177	0
Consumer and other loans	1	0	1	0
Total	$ 345,609	$ 1,206	$ 273,267	$ 530

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	Six Months Ended March 31,			
	2011		2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Residential non-Home Today	$ 39,919	$ 0	$ 50,773	$ 0
Residential Home Today	32,206	0	45,128	0
Home equity loans and lines of credit	17,855	0	26,649	0
Construction	194	0	0	0
Consumer and other loans	0	0	0	0
Total	$ 90,174	$ 0	$ 122,550	$ 0
With an allowance recorded:				
Residential non-Home Today	$ 111,794	$ 1,107	$ 52,157	$ 433
Residential Home Today	99,656	1,059	47,929	497
Home equity loans and lines of credit	33,785	101	31,717	106
Construction	7,499	18	117	0
Consumer and other loans	1	0	1	0
Total	$ 252,735	$ 2,285	$ 131,921	$ 1,036
Total impaired loans:				
Residential non-Home Today	$ 151,713	$ 1,107	$ 102,930	$ 433
Residential Home Today	131,862	1,059	93,057	497
Home equity loans and lines of credit	51,640	101	58,366	106
Construction	7,693	18	117	0
Consumer and other loans	1	0	1	0
Total	$ 342,909	$ 2,285	$ 254,471	$ 1,036

Loans identified by management as having significant weaknesses, such that a loss is probable, are separately evaluated for impairment. Specific allowances are established for any impaired individually-evaluated loan for which the recorded investment in the loan exceeds the measured value of the collateral or, alternatively, the present value of expected future cash flows for the loan. The valuation is based on the fair value of the collateral when it is probable that repayment will not come from the borrower but from liquidation of the collateral, including but not limited to foreclosure and repossession. In light of housing market deterioration, the unfavorable delinquency statistics and the current instability in employment and economic prospects, an expanded loan level evaluation of equity lines of credit which were delinquent 90 days or more and residential real estate loans and equity loans which were delinquent 180 days or more has been conducted. This expanded loan level evaluation supplemented, and was in addition to, traditional evaluation procedures. Previously, these loans were part of large groups of homogenous loans which were collectively evaluated by portfolio for impairment in accordance with U.S. GAAP. Beginning September 30, 2010, equity loans, bridge loans, and loans modified in troubled debt restructurings were included in loans individually evaluated at 90 or more days past due.

Loans modified in troubled debt restructurings are separately evaluated for impairment at the time of restructuring and at each subsequent reporting date for as long as they are reported as troubled debt restructurings. The impairment evaluation is based on the present value of expected future cash flows discounted at the effective interest rates of the original loans. Valuation allowances are recorded for the excess of the recorded investments over the result of the cash flow analyses. A loan modified in a troubled debt restructuring is classified as an impaired loan for a minimum of one year. After one year, a loan is no longer included in the balance of impaired loans if the loan was modified to yield a market rate for loans of similar credit risk at the time of restructuring and the loan is not impaired based on the terms of restructuring agreement.

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The following tables provide information about the credit quality of residential loan receivables by an internally assigned grade. Balances are net of deferred fees and any applicable LIP.

	Pass	Special Mention	Substandard	Loss	Total
March 31, 2011					
Real Estate Loans:					
Residential non-Home Today	$ 6,778,474	$ 0	$ 112,460	$ 18,701	$ 6,909,635
Residential Home Today	189,846	0	69,544	11,599	270,989
Home equity loans and lines of credit	2,597,144	12,007	30,717	17,824	2,657,692
Construction	42,810	0	5,059	1,449	49,318
Total	$ 9,608,274	$ 12,007	$ 217,780	$ 49,573	$ 9,887,634
September 30, 2010					
Real Estate Loans					
Residential non-Home Today	$ 5,968,435	$ 0	$ 125,105	$ 14,707	$ 6,108,247
Residential Home Today	189,426	0	83,044	6,682	279,152
Home equity loans and lines of credit	2,789,966	18,224	39,906	17,840	2,865,936
Construction	46,521	0	6,217	1,717	54,455
Total	$ 8,994,348	$ 18,224	$ 254,272	$ 40,946	$ 9,307,790

Residential loans are internally assigned a grade using the standard grades and classifications outlined in the Office of Thrift Supervision Examination Handbook for Asset Quality. Pass loans are assets well protected by the current paying capacity of the borrower and the value of the underlying collateral. Special Mention loans have a potential weakness that we feel deserves management s attention and may result in further deterioration in their repayment prospects and/or the Association s credit position. Substandard loans are inadequately protected by the current payment capacity of the borrower or the collateral pledged with a defined weakness that jeopardizes the liquidation of the debt. Loss loans are considered uncollectible and continuing to carry the asset without a specific valuation allowance or charge-off is not warranted.

The following table provides information about the credit quality of consumer loan receivables by payment activity.

	March 31, 2011	September 30, 2010
Performing	$ 6,694	$ 7,198
Nonperforming	1	1
Total	$ 6,695	$ 7,199

Consumer loans are internally assigned a grade of performing or nonperforming when they become 90 days or more past due.

5. DEPOSITS

Deposit account balances are summarized as follows:

	March 31, 2011	September 30, 2010

Negotiable order of withdrawal accounts	$ 993,253	$ 967,645
Savings accounts	1,629,395	1,579,065
Certificates of deposit	6,132,348	6,303,585
	8,754,996	8,850,295
Accrued interest	946	1,646
Total deposits	$ 8,755,942	$ 8,851,941

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6. INCOME TAXES

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and city jurisdictions. With a few immaterial exceptions, we are no longer subject to federal and state income tax examinations for tax years prior to 2007. The Internal Revenue Service is currently conducting an audit of the Company s 2008 federal tax return. The State of Ohio has examined the Association through 2006 with no adjustment.

The Company recognizes interest and penalties on income tax assessments or income tax refunds, where applicable, in the financial statements as a component of its provision for income taxes.

7. DEFINED BENEFIT PLAN

The Third Federal Savings Retirement Plan (the Plan) is a defined benefit pension plan. Effective December 31, 2002, the Plan was amended to limit participation to employees who met the Plan s eligibility requirements on that date. After December 31, 2002, employees not participating in the Plan, upon meeting the applicable eligibility requirements, participate in a separate tier of the Company s defined contribution 401(k) Savings Plan. Benefits under the Plan are based on years of service and the employee s average annual compensation (as defined in the Plan). The funding policy of the Plan is consistent with the funding requirements of U.S. federal and other governmental laws and regulations.

The components of net periodic benefit cost recognized in the statements of income are as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Service cost	$ 1,084	$ 995	$ 2,168	$ 1,990
Interest cost	984	894	1,968	1,788
Expected return on plan assets	(841)	(726)	(1,683)	(1,451)
Amortization of net loss	438	537	876	1,074
Amortization of prior service cost	(15)	(15)	(30)	(30)
Net periodic benefit cost	$ 1,650	$ 1,685	$ 3,299	$ 3,371

Minimum employer contribution paid during the six months ended March 31, 2011 was $2,284. Minimum employer contributions expected during the remainder of the fiscal year are $3,492.

8. EQUITY INCENTIVE PLAN

During the six months ended March 31, 2011 and 2010, the Company recorded $3,625 and $3,186, respectively, of stock-based compensation expense, comprised of stock option expense of $1,426 and $1,228, respectively, and restricted stock units expense of $2,199 and $1,959, respectively.

At March 31, 2011, 5,009,050 shares were subject to options, with a weighted average exercise price of $11.96 per share and a weighted average grant date fair value of $3.04 per share. Expected future expense related to the 4,849,809 non-vested options outstanding as of March 31, 2011 is $8,325 over a weighted average of 3.5 years. At March 31, 2011, 1,624,400 restricted stock units, with a weighted average grant date fair value of $11.94 per unit are unvested. Expected future compensation expense relating to the 1,636,950 restricted stock units outstanding as of March 31, 2011 is $9,103 over a weighted average period of 4.1 years. Each unit is equivalent to one share of common stock.

9. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company enters into commitments with off-balance-sheet risk to meet the financing needs of its customers. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract.

Commitments to originate loans generally have fixed expiration dates of 60 to 360 days or other termination clauses and may require payment of a fee. Unfunded commitments related to home equity lines of credit generally expire ten years following the date that the line of credit was established, subject to various conditions including compliance with payment obligation, adequacy of collateral securing the line and maintenance of a satisfactory credit profile by the borrower. Since some of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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Off-balance sheet commitments to extend credit involve elements of credit risk and interest rate risk in excess of the amount recognized in the consolidated statements of condition. The Company s exposure to credit loss in the event of nonperformance by the other party to the commitment is represented by the contractual amount of the commitment. The Company generally uses the same credit policies in making commitments as it does for on-balance-sheet instruments. Interest rate risk on commitments to extend credit results from the possibility that interest rates may have moved unfavorably from the position of the Company since the time the commitment was made.

At March 31, 2011, the Company had commitments to originate loans as follows:

Fixed-rate mortgage loans	$ 71,437
Adjustable-rate mortgage loans	102,301
Bridge loans	1,349
Total	$ 175,087

At March 31, 2011, the Company had unfunded commitments outstanding as follows:

Home equity lines of credit (excluding commitments for suspended accounts)	$ 1,561,386
Construction loans	37,669
Private equity investments	13,813
Total	$ 1,612,868

At March 31, 2011, the unfunded commitment on home equity lines of credit, including commitments for accounts suspended as a result of material default or a decline in equity is $1,817,718.

The Company provides mortgage reinsurance on certain mortgage loans in its own portfolio, including Home Today loans and loans in its servicing portfolio, through contracts with two primary mortgage insurance companies. Under these contracts, the Company absorbs mortgage insurance losses in excess of a specified percentage of the principal balance of a given pool of loans, subject to a contractual limit, in exchange for a portion of the pools mortgage insurance premiums. At March 31, 2011, the maximum losses under the reinsurance contracts were limited to $15,451. The Company has incurred $2,119 of losses under these reinsurance contracts and has provided a liability for the remaining estimated losses totaling $4,408 as of March 31, 2011. Management believes it has made adequate provision for estimated losses. Based upon notice from our two primary mortgage insurance companies, no new contracts are being added to the Company s risk exposure. Our insurance partners will retain all new mortgage insurance premiums and all new risk.

In management s opinion, the above commitments will be funded through normal operations.

10. FAIR VALUE

Under U.S. GAAP, fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date and a fair value framework is established whereby assets and liabilities measured at fair value are grouped into three levels of a fair value hierarchy, based on the transparency of inputs and the reliability of assumptions used to estimate fair value. The Company s policy is to recognize transfers between levels of the hierarchy as of the end of the quarter in which the transfer occurs. The three levels of inputs are defined as follows:

Level 1 quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets with few transactions, or model-based valuation techniques using assumptions that are observable in the market.

Level 3 a company s own assumptions about how market participants would price an asset or liability.

As permitted under U.S. GAAP, the Company elects to measure at fair value mortgage loans classified as held for sale that are subject to pending loan securitization contracts. This election is expected to reduce volatility in earnings related to timing issues on loan securitization contracts.

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At March 31, 2011 and September 30, 2010, respectively, loans held for sale subject to pending securitization contracts had a fair value of $8,080 and $0 and an aggregate outstanding principal balance of $7,979 and $0. For the three months ended March 31, 2011 and 2010, respectively, net gain on the sale of loans includes $5 of net gain and $858 of net loss and for the six months ended March 31, 2011 and 2010, respectively, net gain on the sale of loans includes $5 and $392 of net gain related to changes during the period in the fair value of loans held for sale subject to pending securitization contracts that are fully offset by an equal amount of gains and losses on the derivative securitization contracts. Interest income on mortgage loans held for sale is recorded in interest income on loans. Mortgage loans held for sale not included in securitization contracts continue to be recorded at the lower of cost or fair value. At March 31, 2011 and September 30, 2010, these loans were reported at cost, $0 and $25,027, respectively.

Presented below is a discussion of the methods and significant assumptions used by the Company to estimate fair value.

Investment Securities Available for Sale Investment securities available for sale are recorded at fair value on a recurring basis. At March 31, 2011 and September 30, 2010, respectively, this includes $8,466 and $15,857 of sequentially structured, highly liquid collateralized mortgage obligations (CMOs) issued by Fannie Mae, Freddie Mac, and Ginnie Mae and $8,639 and $8,762 of secured institutional money market deposits insured by the FDIC up to the current coverage limits, with any excess collateralized by the holding institution. Both are measured using the market approach. The fair value of the CMOs is obtained from third party independent nationally recognized pricing services using pricing models or quoted prices of securities with similar characteristics and is included in Level 2 of the hierarchy. The carrying amount of the money market deposit accounts is considered a reasonable estimate of their fair value because they are cash deposits in interest bearing accounts valued at par. These accounts are included in Level 1 of the hierarchy.

Mortgage Loans Held for Sale included in Pending Securitization Contracts The fair value of mortgage loans held for sale is estimated using a market approach based on quoted secondary market pricing for loan portfolios with similar characteristics, including that portion which is included in pending securitization contracts. As described above, the Company elects the fair value measurement option for mortgage loans held for sale subject to pending securitization contracts. These loans are included in Level 2 of the hierarchy.

Impaired Loans Impaired loans represent certain loans held for investment that are subject to a fair value measurement under U.S. GAAP because they are individually evaluated for impairment and that impairment is measured using a fair value measurement, such as the observable market price of the loan or the fair value of the collateral less estimated costs to sell. Impairment is measured using the market approach based on the fair value of the collateral less estimated costs to sell for loans the Company considers to be collateral-dependent due to a delinquency status or other adverse condition severe enough to indicate that the borrower can no longer be relied upon as the continued source of repayment.

The fair value of the collateral for a collateral-dependent loan is estimated using an exterior appraisal in the majority of instances. Only if supporting market data is unavailable or the appraiser is unable to complete the assignment will an alternative valuation method be used. Typically that would entail obtaining a Broker Price Opinion (BPO). If neither of these methods is available, a commercially available automated valuation model (AVM) will be used to estimate value. These models are independently developed and regularly updated. Third Federal has engaged an independent firm to assist with the validation of automated valuation models.

Updated property valuations are obtained for all collateral-dependent impaired loans that become contractually 180 days past due, except that updated appraisals are obtained for equity lines of credit, equity loans, bridge loans, and loans modified in troubled debt restructurings that become contractually 90 days past due. Subsequently, updated appraisals are obtained at least annually for all loans that remain delinquent.

To calculate impairment of collateral-dependent loans, the fair market values are generally reduced by a calculated cost to sell derived from historical experience and recent market conditions to reflect our average net proceeds. A valuation allowance is recorded by a charge to income for any indicated impairment loss. When no impairment loss is indicated, the carrying amount is considered to approximate the fair value of that loan to the Company because contractually that is the maximum recovery the Company can expect. Loans individually evaluated for impairment based on the fair value of the collateral are included in Level 3 of the hierarchy with assets measured at fair value on a non-recurring basis.

Loans held for investment that have been restructured in troubled debt restructurings and are performing according to the modified terms of the loan agreement are individually evaluated for impairment using the present value of future cash

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flows based on the loan s effective interest rate, which is not a fair value measurement. At March 31, 2011 and September 30, 2010, respectively, this included $133,658 and $122,971 in unpaid principal balances of loans with related allowances for loss of $5,368 and $5,086.

Real Estate Owned Real estate owned includes real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at the lower of acquisition cost or fair value less estimated costs to sell. Fair value is estimated under the market approach using independent third party appraisals. As these properties are actively marketed, estimated fair values may be adjusted by management to reflect current economic and market conditions. At March 31, 2011 and September 30, 2010, respectively, there was $11,177 and $9,421 of real estate owned included in Level 3 of the hierarchy with assets measured at fair value on a non-recurring basis; the acquisition costs exceeded the fair values less estimated costs to sell of these properties. Real estate owned, as reported in the consolidated statements of condition, includes estimated costs to sell of $502 and $514 related to these properties at March 31, 2011 and September 30, 2010, respectively.

Mortgage Loan Servicing Assets Mortgage loan servicing assets are initially recorded at fair value and subsequently amortized over the estimated period of servicing income. The servicing assets are assessed for impairment, based on fair value, on a quarterly basis using a discounted cash flow model incorporating assumptions market participants would use including estimated prepayment speeds, discount factors, and estimated costs to service. For measurement purposes, servicing assets are separated into strata segregated primarily by the predominant risk characteristics of the loans serviced, such as type, fixed and adjustable rates, original terms, and interest rates. When the carrying value of the servicing asset for an individual stratum exceeds the fair value, the stratum is considered impaired. The amount of impairment is recognized through a valuation allowance recorded in current earnings and the stratum is included in Level 3 of the hierarchy with assets measured at fair value on a non-recurring basis.

Land held for development Land held for development includes real estate surrounding the Company s main office in Cleveland, Ohio, acquired to preserve and redevelop the community. It is carried at the lower of acquisition cost or fair value less estimated costs to sell or develop and is included in other assets on the Consolidated Statement of Condition. Fair value is estimated under the market approach using values for comparable projects, adjusted by management to reflect current economic and market conditions. At March 31, 2011 and September 30, 2010, respectively, there was $2,517 and $2,467 of land held for development included in Level 3 of the hierarchy with assets measured at fair value on a non-recurring basis. The acquisition costs of these properties exceeded their fair values less estimated cost to sell or develop by $1,500.

Derivatives Derivative instruments include interest rate locks on commitments to originate loans for the held for sale portfolio and forward commitments on contracts to deliver mortgage-backed securities. Derivatives are reported at fair value in other assets or other liabilities on the Consolidated Statement of Condition with changes in value recorded in current earnings. Fair value is estimated using quoted secondary market pricing for loan portfolios with similar characteristics. The fair value of interest rate lock commitments is adjusted by a closure rate based on the estimated percentage of commitments that will result in closed loans. Because the closure rate is a significantly unobservable assumption, interest rate lock commitments are included in Level 3 of the hierarchy. Forward commitments on contracts to deliver mortgage-backed securities are included in Level 2 of the hierarchy.

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Assets and liabilities carried at fair value on a recurring basis on the Consolidated Statement of Condition at March 31, 2011 and September 30, 2010 are summarized below.

		Recurring Fair Value Measurements at Reporting Date Using		
	March 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investment securities available for sale:				
U.S. government and agency obligations	$ 1,925	$ 0	$ 1,925	$ 0
REMIC s	6,541	0	6,541	0
Other	8,639	8,639	0	0
Mortgage loans held for sale	8,080	0	8,080	0
Total	$ 25,185	$ 8,639	$ 16,546	$ 0
Liabilities				
Derivatives				
Forward commitments for the sale of mortgage loans	$ 5	$ 0	$ 5	$ 0
Total	$ 5	$ 0	$ 5	$ 0

	September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investment securities available for sale:				
U.S. government and agency obligations	$ 7,063	$ 0	$ 7,063	$ 0
REMIC s	8,794	0	8,794	0
Other	8,762	8,762	0	0
Mortgage loans held for sale	0	0	0	0
Total	$ 24,619	$ 8,762	$ 15,857	$ 0
Liabilities				
Derivatives				
Forward commitments for the sale of mortgage loans	$ 0	$ 0	$ 0	$ 0
Total	$ 0	$ 0	$ 0	$ 0

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Summarized in the table below are those assets measured at fair value on a nonrecurring basis. This includes loans held for investment that are individually evaluated for impairment, certain strata of mortgage loan servicing assets identified as having a fair value below amortized cost, and properties included in real estate owned that are carried at fair value less estimated costs to sell at the reporting date.

		Nonrecurring Fair Value Measurements at Reporting Date Using		
	March 31, 2011	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Impaired loans, net of allowance	$ 163,952	$ 0	$ 0	$ 163,952
Real estate owned[1]	11,177	0	0	11,177
Land held for development	2,517	0	0	2,517
Total	$ 177,646	$ 0	$ 0	$ 177,646

[1] Amounts represent fair value measurements of properties before deducting estimated costs to sell.

	September 30, 2010	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Impaired loans, net of allowance	$ 177,895	$ 0	$ 0	$ 177,895
Real estate owned[1]	9,421	0	0	9,421
Land held for development	2,467	0	0	2,467
Mortgage loan servicing assets	237			237
Total	$ 190,020	$ 0	$ 0	$ 190,020

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The following table presents the estimated fair value of the Company s financial instruments. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	At March 31, 2011		At September 30, 2010	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets:				
Cash and due from banks	$ 36,236	$ 36,236	$ 38,804	$ 38,804
Other interest bearing cash equivalents	152,755	152,755	704,936	704,936
Investment securities:				
Available for sale	17,105	17,105	24,619	24,619
Held to maturity	476,604	481,666	646,940	657,076
Mortgage loans held for sale	8,080	8,080	25,027	26,109
Loans-net:				
Mortgage loans held for investment	9,736,888	9,725,271	9,174,550	9,436,025
Other loans	6,695	7,463	7,199	8,186
Federal Home Loan Bank stock	35,620	35,620	35,620	35,620
Private equity investments	1,981	1,981	2,327	2,327
Accrued interest receivable	35,907	35,907	36,282	36,282
Liabilities:				
NOW and passbook accounts	$ 2,622,648	$ 2,622,648	$ 2,546,710	$ 2,546,710
Certificates of deposit	6,133,294	6,285,487	6,305,231	6,548,319
Borrowed funds	168,148	169,744	70,158	72,829
Borrowers advances for taxes and insurance	49,742	49,742	51,401	51,401
Principal, interest and escrow owed on loans serviced	102,750	102,750	284,425	284,425

Cash and Due from Banks, Interest Bearing Cash Equivalents The carrying amount is a reasonable estimate of fair value.

Investment and Mortgage-Backed Securities Estimated fair value for investment and mortgage-backed securities is based on quoted market prices, when available. If quoted prices are not available, management will use as part of their estimation process fair values which are obtained from third party independent nationally recognized pricing services using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Mortgage Loans Held for Sale Fair value of mortgage loans held for sale is estimated based on quoted secondary market pricing for loan portfolios with similar characteristics.

Loans For mortgage loans held for investment and other loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Federal Home Loan Bank Stock The fair value is estimated to be the carrying value, which is par. All transactions in capital stock of the FHLB of Cincinnati are executed at par.

Private Equity Investments Private equity investments are initially valued based upon transaction price. The carrying value is subsequently adjusted when it is considered necessary based on current performance and market conditions. The carrying values are adjusted to reflect expected exit values. These investments are included in Other assets in the accompanying statements of condition at fair value.

Deposits The fair value of demand deposit accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using discounted cash flows and rates currently offered for deposits of similar remaining maturities.

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Borrowed Funds Estimated fair value for borrowed funds is estimated using discounted cash flows and rates currently charged for borrowings of similar remaining maturities.

Accrued Interest Receivable, Borrowers Advances for Insurance and Taxes, and Principal, Interest and Escrow Owed on Loans Serviced The carrying amount is a reasonable estimate of fair value.

11. DERIVATIVE INSTRUMENTS

The Company may enter into forward commitments for the sale of mortgage loans principally to protect against the risk of adverse interest rate movements on net income. The Company recognizes the fair value of such contracts when the characteristics of those contracts meet the definition of a derivative. Such derivatives are not designated in a hedging relationship; therefore, gains and losses are recognized immediately in the statement of income. In addition, the Company may enter into commitments to originate loans, which when funded, will be classified as held for sale. Such commitments meet the definition of a derivative and are not designated in a hedging relationship; therefore, gains and losses are recognized immediately in the statement of income. The Company had no derivatives designated as hedging instruments under FASB ASC 815, Derivatives and Hedging, at March 31, 2011 or September 30, 2010.

The following table provides the locations within the Consolidated Statements of Condition and the fair values for derivatives not designated as hedging instruments. The Company had no interest rate lock commitments on loans held for sale at March 31, 2011 or September 30, 2010.

	Liability Derivatives			
	At March 31, 2011		At September 30, 2010	
	Location	Fair Value	Location	Fair Value
Forward commitments for the sale of mortgage loans	Other Liabilities	$ 5	Other Liabilities	$ 0

The following table summarizes the effects on income of derivative instruments not designated as hedging instruments.

	Location of Gain or (Loss) Recognized in	Amount of Gain or (Loss) Recognized in Income on Derivative			
		Three Months Ended March 31,		Six Months Ended March 31,	
	Income	2011	2010	2011	2010
Interest rate lock commitments	Other income	$ 0	$ 161	$ 0	$ 40
Forward commitments for the sale of mortgage loans	Net gain on the sale of loans	(5)	(858)	(5)	392
Total		$ (5)	$ (697)	$ (5)	$ 432

12. RECENT ACCOUNTING PRONOUNCEMENTS

FASB Accounting Standards Update (ASU) 2011-02, Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring provides additional guidance to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring (TDR). It requires creditors to evaluate modifications and restructurings of receivables using a more principles-based approach. Financial reporting implications of being classified as a TDR are that the creditor is required to: consider the receivable impaired when calculating the allowance for credit losses and provide additional disclosures about its troubled debt restructuring activities in accordance with the requirements of ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses as described below. ASU 2011-02 clarifies the existing guidance on whether (1) the creditor has granted a concession and (2) whether the debtor is experiencing financial difficulties, which are the two criteria used to determine whether a modification or restructuring is a TDR. ASU 2011-02 and the TDR disclosures required by ASU 2010-20 are effective for the first interim or annual reporting period beginning on or after June 15, 2011,

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and early adoption is permitted. The Company expects to adopt ASU 2011-02 and provide the TDR disclosures required by ASU 2010-20 for the interim period beginning April 1, 2011 with no material impact on its consolidated financial statements.

FASB ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses expands disclosures about the credit quality of financing receivables and the allowance for credit losses, requiring such disclosures be presented on a disaggregated basis, either by portfolio segment, which is defined as the level at which an entity determines its allowance for credit losses, or by class, which is defined on the basis of the initial measurement attribute, the risk characteristics, and the method for monitoring and assessing credit risk. The new guidance requires an entity to present, by portfolio segment, a roll forward of the allowance for credit losses and the recorded investment of the related financing receivables, and significant purchases and sales of financing receivables. Disclosures required by class of financing receivables include nonaccrual status, impaired balances, credit quality indicators, the aging of past dues, the nature and extent of troubled debt restructurings that occurred during the reporting period along with their impact on the allowance for credit losses, and the nature and