TFS Financial CORP
Form 10-K
November 27, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2009

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 Identification No.)**
Incorporation or Organization)	
7007 Broadway Avenue	
Cleveland, Ohio	**44105**
(Address of Principal Executive Offices)	**(Zip Code)**

(216) 441-6000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share

(Title of class)

The NASDAQ Stock Market, LLC

(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer 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 by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ¨ No x.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on March 31, 2009, as reported by the NASDAQ Global Select Market, was approximately $983.8 million.

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

At November 23, 2009 there were 308,378,500 shares of the Registrant s common stock, par value $0.01 per share, outstanding, of which 227,119,132 shares, or 73.65% of the Registrant s common stock, were held by Third Federal Savings and Loan Association of Cleveland, MHC, the Registrant s mutual holding company.

DOCUMENTS INCORPORATED BY REFERENCE (to the Extent Indicated Herein)

Portions of the registrant s Proxy Statement for the 2010 Annual Meeting of Shareholders are incorporated by reference in Part III hereof.

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PART I

Item 1. Business
Forward Looking Statements

This report contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include:

- statements of our goals, intentions and expectations;
- statements regarding our business plans and prospects and growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors that could affect the actual outcome of future events:

- significantly increased competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- decreased demand for our products and services and lower revenue and earnings because of a recession;
- adverse changes and volatility in the securities markets;
- adverse changes and volatility in credit markets;
- legislative or regulatory changes that adversely affect our business;
- our ability to enter new markets successfully and take advantage of growth opportunities, and the possible short-term dilutive effect of potential acquisitions or de novo branches, if any;

changes in consumer spending, borrowing and savings habits;

changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board and the Public Company Accounting Oversight Board;

future adverse developments concerning Fannie Mae or Freddie Mac;

changes in monetary and fiscal policy of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board;

changes in policy and/or assessment rates of taxing authorities that adversely affect us;

changes in laws or governmental regulations affecting financial institutions, including changes in regulatory costs and capital requirements;

the timing and the amount of revenue that we may recognize;

changes in expense trends (including, but not limited to trends affecting non-performing assets, chargeoffs and provisions for loan losses);

changes in consumer spending, borrowing and spending habits;

the impact of the current governmental effort to restructure the U.S. Financial and regulatory system;

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inability of third-party providers to perform their obligations to us;

changes in our organization, or compensation and benefit plans; and

the strength or weakness of the real estate markets and of the consumer and commercial credit sectors and its impact on the credit quality of our loans and other assets.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Please see **Item 1A. Risk Factors**, for a discussion of certain risks related to our business.

TFS FINANCIAL CORPORATION

TFS Financial Corporation (we us our or the Company) was organized in 1997 as the mid-tier stock holding company for Third Federal Saving and Loan Association of Cleveland (Third Federal Savings and Loan or the Association). We completed our initial public stock offering on April 20, 2007 and issued 100,199,618 shares of common stock, or 30.16% of our post-offering outstanding common stock, to subscribers in the offering. Additionally, at the time of the public offering, 5,000,000 shares of our common stock, or 1.50% of our outstanding shares, were issued to our newly formed charitable foundation, Third Federal Foundation (the Foundation). Third Federal Savings and Loan Association of Cleveland, MHC (Third Federal Savings, MHC), our mutual holding company parent, holds the remainder of our outstanding common stock (227,119,132 shares). Net proceeds from our initial public stock offering were approximately $886 million and reflected the costs we incurred in completing the offering as well as a $106.5 million loan to the Third Federal Employee Stock Ownership Plan related to its acquisition of shares in the initial public stock offering.

Our ownership of the Association remains our primary business activity.

We also operate Third Capital, Inc. as a wholly-owned subsidiary.

As the holding company of Third Federal Savings and Loan, we are authorized to pursue other business activities permitted by applicable laws and regulations for savings and loan holding companies, which include making equity investments and the acquisition of banking and financial services companies.

Our cash flow depends primarily on earnings from the investment of the portion of the net offering proceeds we retained, and any dividends we receive from Third Federal Savings and Loan and Third Capital, Inc. The majority of our officers are also officers of the Association. In addition, we use the services of the support staff of the Association from time to time. We may hire additional employees, as needed, to the extent we expand our business in the future.

THIRD CAPITAL, INC.

Third Capital, Inc. is a Delaware corporation that was organized in 1998 as our wholly-owned subsidiary. At September 30, 2009, Third Capital, Inc. had consolidated assets of $78.3 million, and for the fiscal year ended September 30, 2009, Third Capital, Inc. had consolidated net income of $2.2 million. Third Capital, Inc. has no separate operations other than as the holding company for its operating subsidiaries, and as a minority investor or partner in other entities including minority investments in private equity funds. The following is a description of the entities, other than the private equity funds, in which Third Capital, Inc. is the owner, an investor or a partner.

Hazelmere Investment Group I, Ltd. This entity engages in net lease transactions of commercial buildings in targeted United States markets. Third Capital, Inc. is a partner of this entity, receives a preferred return on amounts contributed to acquire investment properties and has a 70% ownership interest in remaining earnings. James Gascoigne, a director of the Company, indirectly owns or controls the majority of the remaining 30% ownership interest of this entity. A similar structured entity, Hazelmere of California Limited Partnership, which sold its commercial building in 2007 and has had minimal subsequent activity, was dissolved during fiscal 2009. Overall, the Hazelmere entities had pre-tax income of $1.5 million during fiscal 2009.

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Third Cap Associates, Inc. This Ohio corporation also maintains minority investments in private equity funds, and owns between 49% and 60% of two title agencies that provide escrow and settlement services in the State of Ohio, primarily to customers of Third Federal Savings and Loan. For the fiscal year ended September 30, 2009, Third Cap Associates, Inc. recorded net income of $2.1 million.

Third Capital Mortgage Insurance Company. This Vermont corporation reinsures private mortgage insurance on residential mortgage loans originated by Third Federal Savings and Loan. For the fiscal year ended September 30, 2009, Third Capital Mortgage Insurance Company recorded net income of $463 thousand.

THIRD FEDERAL SAVINGS AND LOAN ASSOCIATION OF CLEVELAND

General

Third Federal Savings and Loan is a federally chartered savings and loan association headquartered in Cleveland, Ohio that was organized in 1938. In May 1997, the Association reorganized into its current two-tier mutual holding company structure. The Association s principal business consists of originating residential real estate mortgage loans and equity loans and lines of credit and attracting retail savings deposits.

The Association s business strategy is to originate mortgage loans with interest rates that are competitive with those of similar products offered by other financial institutions in its markets. Similarly, the Association offers high-yield checking accounts and high-yield savings accounts and certificate of deposit accounts, each bearing interest rates that are competitive with similar products offered by other financial institutions in its markets. The Association expects to continue to pursue this business philosophy. While this strategy does not enable it to earn the highest rates of interest on loans it offers or pay the lowest rates on its deposit accounts, the Association believes that this strategy is the primary reason for its successful growth in the past.

The Association attracts retail deposits from the general public in the areas surrounding its main office and its branch offices. It also utilizes its internet website and its telephone call center to generate loan applications and attract retail deposits. In addition to residential real estate mortgage loans and equity loans and lines of credit, the Association originates residential construction loans. The Association retains in its portfolio a large portion of the loans that it originates. Loans that the Association sells consist primarily of long-term, fixed-rate residential real estate mortgage loans. The Association retains the servicing rights on all loans that it sells. The Association s revenues are derived primarily from interest on loans and, to a lesser extent, interest on interest-bearing deposits in other financial institutions, federal funds sold, and investment securities including mortgage-backed securities. The Association also generates revenues from fees and service charges. The Association s primary sources of funds are deposits, borrowings, principal and interest payments on loans and securities and proceeds from loan sales.

The Association s website address is www.thirdfederal.com. Filings of the Company made with the Securities and Exchange Commission are available for free on the Association s website. Information on that website is not and should not be considered a part of this document.

Market Area

Third Federal Savings and Loan conducts its operations from its main office in Cleveland, Ohio, and from 39 additional, full-service branches and eight loan production offices located throughout the states of Ohio and Florida. In Ohio, the Association s 22 full-service offices are located in the northeast Ohio counties of Cuyahoga, Lake, Lorain, Medina and Summit, four loan production offices are located in the central Ohio county of Franklin (Columbus, Ohio) and four loan production offices are located in the southern Ohio counties of Butler and Hamilton (Cincinnati, Ohio). In Florida, 17 full-service branches are located in the counties of Pasco, Pinellas, Hillsborough, Sarasota, Lee, Collier, Palm Beach and Broward. The economies and housing markets in Ohio and Florida have been seriously impacted by the current economic downturn. Both states have experienced dramatic increases in foreclosures and reductions in employment rates and housing values. The depressed housing market and employment uncertainties have created an aura of pessimism and apprehension, which is manifested in suppressed consumer housing demand. Additionally, a number of troubled financial institutions, both national and regional, that compete in our markets have targeted retail deposit gathering as an alternative funding source as the wholesale funding markets that they previously utilized have either ceased to function or have imposed punitive pricing parameters. These institutions have significantly increased their interest rates paid to depositors. The combination of reduced demand by borrowers and higher rates paid to depositors has created an increasingly competitive marketplace that could adversely affect future operating results.

The Association also provides savings products in all 50 states and offers secured lines of credit in 18 states through its internet site.

Competition

The Association faces intense competition in its market areas both in making loans and attracting deposits. Its market areas have a high concentration of financial institutions, including large money center and regional banks, community banks and credit unions, and it faces additional competition for deposits from money market funds, brokerage firms, mutual funds and insurance companies. Some of its competitors offer products and services that the Association currently does not offer, such as commercial business loans, trust services and private banking.

The majority of the Association s deposits are held in its offices located in Cuyahoga County, Ohio. As of June 30, 2009 (the latest date for which information is publicly available), the Association had $4.97 billion of deposits in Cuyahoga County, and ranked third among all financial institutions with offices in the county in terms of deposits, with a market share of 9.27%. As of that date, the Association had $6.19 billion of deposits in the State of Ohio, and ranked 9th among all financial institutions in the state in terms of deposits, with a market share of 2.63%. As of June 30, 2009, the Association had $2.58 billion of deposits in the State of Florida, and ranked 24th among all financial institutions in terms of deposits, with a market share of 0.64%.

From January 2009 through September 2009, the Association had the largest market share of conventional purchase mortgage loans originated in Cuyahoga County, Ohio. For the same period, it also had the largest market share of conventional purchase mortgage loans originated in four of the largest northeast Ohio counties. In addition, based on the same statistic, the Association has consistently been one of the six largest lenders in Franklin County (Columbus, Ohio) and Hamilton County (Cincinnati, Ohio) since it entered those markets in 1999.

The Association s primary strategy for increasing and retaining its customer base is to offer competitive deposit and loan rates and other product features, delivered with exceptional customer service, in each of the markets it serves.

We rely on our more than 70-year history of serving our customers and the communities in which we operate, our high capital levels, and liquidity alternatives to maintain and nurture customer and marketplace confidence. Our high capital ratio continues to reflect the beneficial impact of our April 2007 initial public offering, which raised net proceeds of $886 million. At September 30, 2009, our ratio of shareholders equity to total assets was 16.5%. Our liquidity alternatives include management and monitoring of the level of liquid assets held in our portfolio as well as the maintenance of alternative wholesale funding sources. At September 30, 2009, our liquidity ratio was 8.42% and we had the ability to immediately borrow an additional $898.4 million from the Federal Home Loan Bank of Cincinnati (FHLB of Cincinnati) under existing credit arrangements along with $399.9 million from the Federal Reserve Bank of Cleveland (Federal Reserve). See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation Liquidity and Capital Resources.

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We continue to utilize a multifaceted approach to support our efforts to instill customer and marketplace confidence. First, we provide thorough and timely information to all of our associates so as to prepare them for their day-to-day interactions with customers and other individuals who are not part of the Company. We believe that it is important that our customers and others sense the comfort level and confidence of our associates throughout their dealings. Second, we encourage our management team to maintain a presence and to be available in our branches and other areas of customer contact, so as to provide more opportunities for informal contact and interaction with our customers and community members. Third, our CEO remains accessible to both local and national media, as a spokesman for our institution as well as an observer and interpreter of financial marketplace situations and events. Fourth, we periodically include advertisements in local newspapers that display our strong capital levels and history of service. We also continue to emphasize our traditional tagline STRONG * STABLE * SAFE in our advertisements and branch displays. Finally, for customers who adhere to the old adage of trust but verify, we refer them to the safety/security rankings of a nationally recognized, independent rating organization that specializes in the evaluation of financial institutions which has awarded Third Federal Savings and Loan with its highest rating.

Lending Activities

The Association s principal lending activity is the origination of first mortgage loans to purchase or refinance residential real estate. Its current policies generally provide that it will maintain between 40% and 70% of its assets in fixed-rate, residential real estate, first mortgage loans and up to 20% of its assets in adjustable-rate, residential real estate, first mortgage loans, subject to its liquidity levels and the credit demand of its customers. The Association also originates a significant amount of equity loans and equity lines of credit, and, to a lesser extent, residential construction loans. At September 30, 2009, residential real estate mortgage loans totaled $6.28 billion, or 67.1% of our loan portfolio, equity loans and lines of credit totaled $2.98 billion, or 31.8% of our loan portfolio, and residential construction loans totaled $94.3 million, or 1.0% of our loan portfolio.

Loan Portfolio Composition. The following table sets forth the composition of the Association s loan portfolio, by type of loan at the dates indicated, excluding loans held for sale.

	At September 30,									
	2009		2008		2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Real estate loans:										
Residential non-Home Today	$ 5,990,283	64.0%	$ 6,399,492	68.7%	$ 5,842,827	71.5%	$ 5,278,290	69.4%	$ 5,257,601	67.5%
Residential Home Today	291,692	3.1	303,153	3.3	304,046	3.7	285,492	3.8	250,068	3.2
Equity loans and lines of credit(1)	2,983,003	31.8	2,488,054	26.7	1,867,899	22.8	1,803,900	23.7	1,965,604	25.2
Construction	94,287	1.0	115,323	1.2	150,695	1.8	207,634	2.7	270,136	3.5
Commercial							2,335	0.0	2,383	0.0
Consumer loans:										
Automobile	35	0.0	1,044	0.0	5,627	0.1	15,676	0.2	33,410	0.4
Other	7,072	0.1	6,555	0.1	9,065	0.1	12,793	0.2	10,847	0.2
Total loans receivable	$ 9,366,372	100.0%	$ 9,313,621	100.0%	$ 8,180,159	100.0%	$ 7,606,120	100.0%	$ 7,790,049	100.0%
Deferred loan costs (fees)	(10,463)		(14,596)		(19,174)		(18,698)		(22,783)	
Loans in process	(41,076)		(46,493)		(62,167)		(89,676)		(127,944)	
Allowance for loan losses	(95,248)		(43,796)		(25,111)		(20,705)		(18,601)	
Total loans receivable, net	$ 9,219,585		$ 9,208,736		$ 8,073,707		$ 7,477,041		$ 7,620,721	

(1) Includes bridge loans.

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Loan Portfolio Maturities. The following table summarizes the scheduled repayments of the Association s loan portfolio at September 30, 2009. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in the fiscal year ending September 30, 2010. Maturities are based on the final contractual payment date and do not reflect the impact of prepayments and scheduled principal amortization.

Due During the Years Ending September 30,	Residential Real Estate Non-Home Today	Residential Real Estate Home Today	Equity Loans and Lines of Credit(1)	Construction Loans	Automobile Loans	Other Consumer Loans	Total
			(In thousands)				
2010	$ 8,689	$	$ 19,312	$ 35,812	$ 35	$ 5,295	$ 69,143
2011	5,351		4,275	5,791			15,417
2012	4,697		9,477				14,174
2013 to 2014	59,132	30	14,850			391	74,403
2015 to 2019	372,970	2,772	72,601			1,386	449,729
2020 to 2024	690,039	5,166	353,502	3,177			1,051,884
2025 and beyond	4,849,405	283,724	2,508,986	49,507			7,691,622
Total	$ 5,990,283	$ 291,692	$ 2,983,003	$ 94,287	$ 35	$ 7,072	$ 9,366,372

(1) Includes bridge loans.

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at September 30, 2009 that are contractually due after September 30, 2010.

	Due After September 30, 2010 Fixed	Adjustable	Total
		(In thousands)	
Real estate loans:			
Residential non-Home Today	$ 5,332,892	$ 648,702	$ 5,981,594
Residential Home Today	291,457	235	291,692
Equity Loans and Lines of Credit(1)	152,672	2,811,019	2,963,691
Construction	52,292	6,183	58,475
Consumer Loans:			
Other	1,777		1,777
Total	$ 5,831,090	$ 3,466,139	$ 9,297,229

(1) Includes bridge loans.

Residential Real Estate Mortgage Loans. The Association s primary lending activity is the origination of residential real estate mortgage loans. At September 30, 2009, $6.28 billion, or 67.1% of its total loan portfolio, consisted of residential real estate mortgage loans. A comparison of 2009 data to the corresponding 2008 data and the Company s expectations for 2009 can be found in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation. The Association offers conforming and non-conforming, fixed-rate and adjustable-rate residential real estate mortgage loans with maturities of up to 30 years and maximum loan amounts generally of up to $650,000.

The Association currently offers fixed-rate conventional mortgage loans with terms of up to 30 years that are fully amortizing with monthly loan payments, and adjustable-rate mortgage loans that amortize over a period of up to 30 years, provide an initial fixed interest rate for one, three, or five years and then adjust annually. The Association originates fixed-rate mortgage loans with terms of less than 15 years, but at rates applicable to our 15-year loans. Effective March 11, 2009, the Association stopped offering interest only residential real estate mortgage loans, where the borrower pays interest for an initial period (one, three or five years), after which the

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loan converts to a fully amortizing loan. At September 30, 2009, interest only residential real estate mortgage loans totaled $150.2 million. The Association s Lowest Rate Guarantee program provides that, subject to the terms and conditions of the guarantee program, if a loan applicant finds a lower fixed interest rate on a residential real estate mortgage loan than the rate the Association offers, the Association will offer a lower rate or, after the applicant closes a loan with another lender at the lower interest rate, pay the loan applicant $1,000.

Residential real estate mortgage loans are generally underwritten according to Fannie Mae guidelines, and the Association refers to loans that conform to such guidelines as conforming loans. The Association generally originates both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Office of Federal Housing Enterprise Oversight, which is currently $417,000 for single-family homes in most of our lending markets. The Association also originates loans above the lending limit for conforming loans, which the Association refers to as jumbo loans. The Association generally underwrites jumbo loans in a manner similar to conforming loans. These jumbo loans are generally eligible for sale to various firms that specialize in purchasing non- conforming loans although activity in the sales market for jumbo loans has decreased dramatically during 2008 and 2009. Jumbo loans are not uncommon in the Association s market areas.

The Association has always considered the promotion of home ownership a primary goal. In that regard, it offers affordable housing programs in all of its market areas. These programs are targeted toward low- and moderate-income home buyers. The Association s primary program is called Home Today and is described in detail below. Prior to March 27, 2009, loans originated under the Home Today program had higher risk characteristics. The Association did not classify it as a sub-prime lending program based on the exclusion provided to community development loans in the Office of Thrift Supervision s *Expanded Guidance for Sub-prime Lending*. Recently, attention has focused on sub-prime lending and its negative effect on borrowers and financial markets. Borrowers in the Home Today program are not charged higher fees or interest rates than non-Home Today borrowers. These loans are not interest only or negative amortizing and contain no low initial payment features or adjustable interest rates, which are features often associated with sub-prime lending. While the credit risk profiles of the Association s borrowers in the Home Today program are generally higher risk than the credit risk profiles of its non-Home Today borrowers, the Association attempts to mitigate that higher risk through the use of private mortgage insurance and continued pre- and post-purchase counseling. The Association s philosophy has been to provide borrowers the opportunity for home ownership within their financial means. Effective March 27, 2009, the Home Today underwriting guidelines were revised so as to be substantially the same as for our traditional first mortgage product.

Prior to March 27, 2009, through the Home Today program, the Association originated loans with its standard terms to borrowers who might not have otherwise qualified for such loans. After March 27, 2009 borrowers under the Home Today program are subject to the same qualification requirements as non-Home Today borrowers. To qualify for the Association s Home Today program, a borrower must complete financial 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 meet a minimum credit score threshold. The Association will originate loans with a loan-to-value ratio of up to 90% through its Home Today program, provided that any loan originated through this program with a loan-to-value ratio in excess of 80% must meet the underwriting criteria mandated by its private mortgage insurance carrier. Because the Association previously applied less stringent underwriting and credit standards to these loans, the vast majority of the loans originated under the Home Today program generally have greater credit risk than traditional residential real estate mortgage loans. Effective October 2007, the private mortgage insurance carrier that provides coverage for the Home Today loans with loan-to-value ratios in excess of 80% imposed more restrictive lending requirements that have decreased the volume of Home Today lending, which we expect will continue through 2010. As of September 30, 2009, the Association had $291.7 million of loans outstanding that were originated through its Home Today program. Originations under the Home Today program have effectually stopped as a result of these new requirements. See Non-performing and Problem Assets Delinquent Loans for a discussion of the asset quality of this portion of the Association s loan portfolio.

Prior to November 25, 2008 the Association also originated loans under its High LTV program. These loans have loan-to-value ratios of 90% or greater, and may be as high as 95%. To qualify for this program, the loan applicant was required to satisfy more stringent underwriting criteria (credit score, income qualification, and other criteria). Borrowers do not obtain private mortgage insurance with respect to these loans. High LTV loans were originated with higher interest rates than the Association s other residential real estate loans. The higher credit quality of this portion of the Association s portfolio offsets the risk of not requiring private mortgage insurance. While these loans were not initially covered by private mortgage insurance, the Association had negotiated with a private mortgage insurance carrier a contract under which, at the Association s option, a pre-determined dollar amount of qualifying loans may be grouped and submitted to the carrier for pooled private mortgage insurance coverage. As of September 30, 2009, the Association had $379.0 million of loans outstanding that were originated through its High LTV program, $330.7 million of which the Association has insured through a mortgage insurance carrier. The High LTV program was suspended November 25, 2008.

For loans with loan-to-value ratios in excess of 80% but equal to or less than 90%, the Association requires private mortgage insurance.

The Association actively monitors its interest rate risk position to determine the desirable level of investment in fixed-rate mortgages. Depending on market interest rates and its capital and liquidity positions, the Association may retain all of its newly originated longer-term fixed-rate residential mortgage loans, the Association may sell all or a portion of such loans in the secondary mortgage market to governmental entities such as Fannie Mae or other purchasers, or the Association may securitize such loans by selling the loans in exchange for mortgage-backed securities. These securities can be sold more readily to meet its liquidity or interest rate risk management needs, and have a lower risk-weight than the underlying loans, which reduces the Association s regulatory capital requirements. Almost all of the loans that the Association securitizes are fixed-rate mortgage loans.

During the financial market upheaval of 2008, concern arose about the financial health of Fannie Mae and Freddie Mac, the value of their guarantees and; therefore, the continued existence of the secondary market for mortgage loans upon which the Association relies for liquidity and interest rate risk management. This market was preserved when, in September 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship. Shortly after taking control, the U.S. Treasury Department established financing agreements to ensure Fannie Mae and Freddie Mac meet their obligations to holders of mortgage-backed securities that they have issued or guaranteed.

During periods of low market interest rates, the Association may sell a substantial portion of its newly originated fixed-rate residential real estate mortgage loans. The Association currently retains the servicing rights on all loans sold in order to generate fee income and reinforce its commitment to customer service. For the fiscal years ended September 30, 2009 and 2008, the Association recognized servicing fees, net of amortization, related to these servicing rights of $16.5 million and $21.5 million, respectively. As of September 30, 2009 and 2008, the principal balance of loans serviced for others totaled $7.50 billion and $6.93, billion respectively.

The Association currently offers adjustable-rate mortgage loan products secured by residential properties with interest rates that are fixed for an initial period ranging from one year to five years, after which the interest rate generally resets every year based upon a contractual spread or margin above the average yield on U.S. Treasury securities, adjusted to a constant maturity of one year, as published weekly by the Federal Reserve Board, subject to periodic and lifetime limitations on interest rate changes. Previously, the Association offered mortgage loans where the borrower paid only interest for a portion of the loan term. All of its adjustable-rate mortgage loans with initial fixed-rate periods of one, three or five years have initial and periodic caps of two percentage points on interest rate changes, with a cap of six percentage points for the life of the loan. Previously, the Association also offered adjustable-rate mortgage loans with an initial fixed-rate period of seven years. Loans originated under that program had an initial cap of five percentage points on the changes in interest rate, with a two percentage point cap on subsequent changes and a cap of five percentage points for the life of the loan. Many of the borrowers who select adjustable-rate mortgage loans have shorter-term credit needs than those who select long-term, fixed-rate mortgage loans. The Association will permit borrowers to convert adjustable-rate mortgage loans into fixed-rate mortgage loans at no cost to the borrower. The Association does not offer Option ARM loans, where borrowers can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan.

Adjustable-rate mortgage loans generally present different credit risks than fixed-rate mortgage loans primarily because the underlying debt service payments of the borrowers increase as interest rates increase, thereby increasing the potential for default. Interest-only loans present different credit risks than fully amortizing loans, as the principal balance of the loan does not decrease during the interest-only period. As a result, the Association s exposure to loss of principal in the event of default does not decrease during this period. These adjustable rate, interest only, loans comprise less than 3% of our residential loans.

The Association requires title insurance on all of its residential real estate mortgage loans, and the Association also requires that borrowers maintain fire and extended coverage casualty insurance (and, if appropriate, flood insurance) in an amount at least equal to the lesser of the loan balance or the replacement cost of the improvements. A majority of its residential real estate mortgage loans have a mortgage escrow account from which disbursements are made for real estate taxes and flood insurance. The Association does not conduct environmental testing on residential real estate mortgage loans unless specific concerns for hazards are identified by the appraiser used in connection with the origination of the loan.

Equity Loans and Equity Lines of Credit. The Association offers equity loans and equity lines of credit, which are primarily secured by a second mortgage on residences. The Association also offers an equity lending product that is secured by a third mortgage, although the Association only originates this loan to borrowers where the Association also holds the second mortgage. At September 30, 2009, equity loans totaled $318.0 million, or 3.4% of total loans receivable, and equity lines of credit totaled $2.66 billion, or 28.4% of total loans receivable. Additionally, at September 30, 2009, the unadvanced amounts of equity lines of credit totaled $2.35 billion. The Association s equity lending products include bridge loans, where a borrower can utilize the existing equity in their current home to fund the purchase of a new home before the current home is sold. As of September 30, 2009, bridge loans totaled $18.9 million, or 0.2% of total loans receivable, which is included in the total for equity loans above.

The underwriting standards for equity loans and equity lines of credit include an evaluation of the applicant s credit history, employment and income verification, an assessment of the applicant s ability to meet existing obligations and payments on the proposed loan and the value of the collateral securing the loan. In the summer of 2008, the combined loan-to-value ratio (first and second mortgage liens) for equity loans and equity lines of credit was reestablished at a limit of 80%, (from a limit of 85% that was generally in effect from the fall of 2007 through the summer of 2008). The Association originates its equity loans and equity lines of credit without application fees (except for bridge loans) or borrower-paid closing costs. Equity loans are offered with fixed interest rates, are fully amortizing and have terms of up to 15 years. The Association s equity lines of credit are offered with adjustable rates of interest indexed to the prime rate, as reported in *The Wall Street Journal*. The Association s Lowest Rate Guarantee program provides that, subject to the terms and conditions of the guarantee program, if a loan applicant or current equity line of credit borrower finds and qualifies for a better interest rate on a similar product with another lender, the Association will offer a lower rate or, if they close under the rate and terms presented with respect to the other lender, the Association will pay the loan applicant or borrower $1,000.

Bridge loans are originated for a one-year term, with no prepayment penalties. These loans have fixed interest rates, and are currently limited to a combined 80% loan-to-value ratio (first and second mortgage liens). The Association charges a closing fee with respect to bridge loans.

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Construction Loans. The Association originates construction loans for the purchase of developed lots and for the construction of single-family residences. Construction loans are offered to individuals for the construction of their personal residences by a qualified builder (construction/permanent loans), and to qualified builders (builder loans). At September 30, 2009, construction loans totaled $94.3 million, or 1.0% of total loans receivable. At September 30, 2009, the unadvanced portion of these construction loans totaled $41.1 million.

The Association s construction/permanent loans generally provide for disbursements to the builder or sub-contractors during the construction phase as work progresses. During the construction phase, the borrower only pays interest on the drawn balance. Upon completion of construction, the loan converts to a permanent amortizing loan without the expense of a second closing. The Association offers construction/permanent loans with fixed or adjustable rates, and a current maximum loan-to-completed-appraised value ratio of 80%. At September 30, 2009, the Association s construction/permanent loans totaled $52.7 million, or 0.6% of total loans receivable.

The Association s builder loans consist of loans for homes that have been pre-sold as well as loans to developers that build homes before a buyer has been identified. The Association does not make land loans to developers for the acquisition and development of raw land. Construction loans to developers are currently limited to an 80% loan-to-completed-appraised value ratio for homes that are under contract for purchase and a 70% loan-to-completed-appraised value ratio for loans where no buyer has been identified. The interest rates are based on and adjust with the prime rate of interest, and are for terms of up to two years. As of September 30, 2009, the Association s builder loans totaled $41.6 million, or 0.4% of total loans receivable.

Before making a commitment to fund a construction loan, the Association requires an appraisal of the property by an independent licensed appraiser. The Association generally also reviews and inspects each property before disbursement of funds during the term of the construction loan.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, the Association may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. This is more likely to occur in a recession where home prices are falling, like our current economic environment.

Loan Originations, Purchases, Sales, Participations and Servicing. Lending activities are conducted primarily by the Association s loan personnel (all of whom are salaried employees) operating at our main and branch office locations and at our loan production offices. All loans that the Association originates are underwritten pursuant to its policies and procedures, which incorporate Fannie Mae underwriting guidelines to the extent applicable. The Association originates both adjustable-rate and fixed-rate loans. Its ability to originate fixed- or adjustable-rate loans is dependent upon the relative customer demand for such loans, which is affected by current market interest rates as well as anticipated future market interest rates. The Association s loan origination and sales activity may be adversely affected by a rising interest rate environment or economic recession, which typically results in decreased loan demand. Most of the Association s residential real estate mortgage loan originations are generated by its in-house loan representatives, by referrals from existing or past customers, by referrals from local builders and real estate brokers, from calls to its telephone call center and from the internet. The Association has a relationship with only one mortgage broker, which is affiliated with a national builder. During the fiscal year ended September 30, 2009, the Association originated $44.9 million of loans through this relationship. All such loans are underwritten to conform to the Association s loan underwriting policies and procedures. The Association also advertises extensively throughout its market area.

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The Association decides whether to retain the loans that it originates, sell loans in the secondary market or securitize loans after evaluating current and projected market interest rates, its interest rate risk objectives, its liquidity needs and other factors. The Association securitized and sold $2.22 billion of residential real estate mortgage loans (all fixed-rate loans, and primarily with 30-year terms) during the fiscal year ended September 30, 2009, and it held $40.0 million of loans committed for sale in the secondary market at September 30, 2009. The fixed-rate mortgage loans that the Association originated and retained during the fiscal year ended September 30, 2009 consisted primarily of loans with 30-year terms.

The Association primarily sells its loans without recourse. Historically, the Association has retained the servicing rights on all residential real estate mortgage loans that it has sold, and intends to continue this practice in the future. At September 30, 2009, the Association serviced loans owned by others with a principal balance of $7.50 billion. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent borrowers, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans. The Association retains a portion of the interest paid by the borrower on the loans it services as consideration for its servicing activities. The Association did not enter into any loan participations during the fiscal year ended September 30, 2009 and does not expect to do so in the near future.

***Loan Approval Procedures and Authority*.** The Association s lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by its board of directors. The loan approval process is intended to assess the borrower s ability to repay the loan and the value of the property that will secure the loan. To assess the borrower s ability to repay, the Association reviews the borrower s employment and credit history and information on the historical and projected income and expenses of the borrower.

The Association s policies and loan approval limits are established by its board of directors. The Association s board of directors has delegated authority to its Executive Committee (consisting of the Association s Chief Executive Officer and three directors) to review and assign lending authorities to certain individuals of the Association to consider and approve loans within their designated authority. Residential real estate mortgage loans and construction loans in amounts above $650,000 require the approval of two individuals with designated underwriting authority. Loans in amounts below $650,000, including equity loans and equity lines of credit (which the Association caps at $150,000) require the approval of one individual with designated underwriting authority.

The Association also maintains automated underwriting systems for point-of-sale approvals of residential real estate mortgage loans, equity loans and equity lines of credit. Applications for loans in amounts no greater than the conforming loan limit that meet certain credit and income criteria may receive a full approval with respect to the amount of credit available and the subject property. If the property securing the loan cannot be valued using an automated valuation model, the borrower may receive a credit approval only. Applications for loan amounts in excess of the conforming loan limit may only receive a credit approval, subject to an appraisal of the subject property.

The Association generally requires independent third-party appraisals of real property securing loan amounts in excess of $250,000, although the Association may rely on alternative property valuation methods for loans up to the conforming loan limit. The Association obtains valuations or appraisals for all loans even if an appraisal is not required. The Association uses an automated valuation model to value most loans of $250,000 or less. Appraisals are performed by independent licensed appraisers. All appraisers are reviewed and approved by the Association s board of directors annually.

Non-performing Assets and Restructured Loans. Within 15 days of a borrower s delinquency, the Association attempts personal, direct contact with the borrower to determine the reason for the delinquency, to ensure that the borrower correctly understands the terms of the loan and to emphasize the importance of making payments on or before the due date. If necessary, subsequent late charges and delinquent notices are issued and the borrower s account will be monitored on a regular basis thereafter. The Association also mails system-generated reminder notices on a monthly basis. When a loan is more than 30 days past due, the Association attempts to contact the borrower and develop a plan of repayment. By the 90th day of delinquency, the Association may recommend foreclosure. By this date, if a repayment agreement has not been established, or if an agreement is established but is subsequently broken, the borrower s credit file is reviewed and, if considered necessary, information is updated or confirmed and the property securing the loan is re-evaluated. A summary report of all loans 30 days or more past due is provided to the Association s board of directors.

Loans are automatically placed on non-accrual status when payment of principal or interest is more than 90 days delinquent. Loans are also placed on non-accrual status if collection of principal or interest in full is in doubt or if the loan has been restructured. When loans are placed on a non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received. The loan may be returned to accrual status if unpaid principal and interest are repaid so that the loan is less than 90 days delinquent.

Debt restructuring is a method being increasingly used to help families keep their homes and preserve our neighborhoods. This involves making changes to the borrowers loan terms through capitalization of delinquent payments; interest rate reductions, either for a specific period or for the remaining term of the loan; term extensions including beyond that provided in the original agreement; or some combination of the above. These loans are measured for impairment based on the present value of expected future cash flows discounted at the effective interest rate of the original loan contract. Any shortfall is recorded as a charge-off against the allowance for loan losses. We evaluate these loans using the expected future cash flows because we expect the borrower to be the source of repayment for the loan and not liquidation of the collateral.

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The table below sets forth the amounts and categories of our non-performing assets and troubled debt restructurings at the dates indicated.

	At September 30,				
	2009	2008	2007	2006	2005
	(Dollars in thousands)				
Non-accrual loans:					
Real estate loans:					
Residential non-Home Today	$ 100,061	$ 43,935	$ 21,746	$ 22,420	$ 21,527
Residential Home Today	84,694	63,679	55,653	40,153	25,724
Equity loans and lines of credit(1)	59,351	54,430	31,467	15,867	13,220
Construction	11,638	10,842	4,659	1,266	630
Consumer loans:					
Automobile	1			3	33
Other					5
Total non-performing loans	255,745	172,886	113,525	79,709	61,139
Real estate owned	17,697	14,108	9,903	6,895	6,308
Other non-performing assets					
Total non-performing assets	$ 273,442	$ 186,994	$ 123,428	$ 86,604	$ 67,447
Troubled debt restructurings:					
Real estate loans:					
Residential non-Home Today	$ 21,382	$ 643	$	$	$ 157
Residential Home Today	20,918	226			
Equity loans and lines of credit(1)	2,285				
Construction					
Consumer loans:					
Automobile					
Other					
Total	$ 44,585	$ 869	$	$	$ 157
Ratios:					
Total non-performing loans to total loans	2.73%	1.86%	1.39%	1.05%	0.78%
Total non-performing loans to total assets	2.41%	1.60%	1.10%	0.93%	0.69%
Total non-performing assets to total assets	2.58%	1.73%	1.20%	1.01%	0.76%

(1) Includes bridge loans.

For the year ended September 30, 2009, gross interest income that would have been recorded had the non-accruing loans been current in accordance with their original terms was $4.6 million. Interest income recognized on such loans for the year ended September 30, 2009 was not material. See Delinquent Loans. Interest income on troubled debt restructurings was $498 thousand for the year ended September 30, 2009.

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Delinquent Loans**.** The following table sets forth loan delinquencies by type and by amount at the dates indicated.

	Loans Delinquent For					
	30-89 Days		90 Days and Over		Total	
	Number(1)	Amount	Number(1)	Amount	Number(1)	Amount
			(Dollars in thousands)			
At September 30, 2009						
Real estate loans:						
Residential non-Home Today	253	$ 30,940	745	$ 100,061	998	$ 131,001
Residential Home Today	296	25,831	913	84,694	1,209	110,525
Equity loans and lines of credit(1)	491	26,072	793	59,351	1,284	85,423
Construction	7	1,465	56	11,638	63	13,103
Consumer loans:						
Automobile	2	1	3	1	5	2
Other						
Total	1,049	$ 84,309	2,510	$ 255,745	3,559	$ 340,054
At September 30, 2008						
Real estate loans:						
Residential non-Home Today	287	$ 31,385	422	$ 43,935	709	$ 75,320
Residential Home Today	330	30,018	688	63,679	1,018	93,697
Equity loans and lines of credit(1)	546	26,704	796	54,430	1,342	81,134
Construction	4	758	57	10,842	61	11,600
Consumer loans:						
Automobile	4	3			4	3
Other						
Total	1,171	$ 88,868	1,963	$ 172,886	3,134	$ 261,754
At September 30, 2007						
Real estate loans:						
Residential non-Home Today	278	$ 23,276	244	$ 21,746	522	$ 45,022
Residential Home Today	292	26,775	600	55,653	892	82,428
Equity loans and lines of credit(1)	536	24,795	500	31,467	1,036	56,262
Construction	5	595	30	4,659	35	5,254
Consumer loans:						
Automobile	20	95			20	95
Other						
Total	1,131	$ 75,536	1,374	$ 113,525	2,505	$ 189,061
At September 30, 2006						
Real estate loans:						
Residential non-Home Today	235	$ 18,337	280	$ 22,420	515	$ 40,757
Residential Home Today	309	29,107	431	40,153	740	69,260
Equity loans and lines of credit(1)	500	23,447	290	15,867	790	39,314
Construction	5	595	12	1,266	17	1,861
Consumer loans:						
Automobile	53	365	1	3	54	368
Other						
Total	1,102	$ 71,851	1,014	$ 79,709	2,116	$ 151,560
At September 30, 2005						
Real estate loans:						
Residential non-Home Today	250	$ 19,099	295	$ 21,527	545	$ 40,626
Residential Home Today	296	27,275	280	25,274	576	52,549
Equity loans and lines of credit(1)	432	17,819	264	13,220	696	31,039

Construction			6	630	6	630
Consumer loans:						
Automobile	55	554	8	33	63	587
Other			1	5	1	5
Total	1,033	$ 64,747	854	$ 61,139	1,887	$ 125,886

(1) Includes bridge loans.

Loans delinquent 90 days and over have continued to increase. Loans delinquent 90 days and over increased 47.9% to $255.7 million at September 30, 2009, from $172.9 million at September 30, 2008. The inability of borrowers to repay their loans is primarily a result of rising unemployment and uncertain economic prospects in our primary lending markets. Inasmuch as job losses and unemployment levels both continue to increase, we expect some borrowers who are current on their loans at September 30, 2009 to experience payment problems in the future. The excess number of housing units available for sale in the market today also may limit their ability to sell a home they can no longer afford. In Florida, housing values continue to remain depressed due to prior rapid building and speculation, which is now resulting in considerable inventory on the market and may limit a borrower s ability to sell a home. As a result, we expect the level of loans delinquent 90 days and over will increase in the future.

Loans originated under the Home Today program prior to March 27, 2009, where the Association provided loans with its standard terms to borrowers who might not otherwise have qualified for such loans, have greater credit risk than traditional residential real estate mortgage loans. At September 30, 2009, we had $291.7 million of loans that were originated under the Home Today program, 37.9% of which were delinquent 30 days or more in repayments, compared to 2.2% for the portfolio of non-Home Today loans as of that date. At September 30, 2009, $84.7 million of loans originated under the Home Today program were non-accruing loans, representing 33.1% of total non-accruing loans as of that date.

Our equity loans and lines of credit portfolio consist of $318.0 million in equity loans, $18.9 million in bridge loans and $2.66 billion in equity lines of credit. At September 30, 2009, $146.0 million of equity lines of credit which are in repayment are included in the $318 million balance of equity loans. The $2.24 billion balance of equity lines of credit at September 30, 2008 included $121.1 million of loans which were in repayment. The following table sets forth committed and drawn amounts, percent delinquent 90 days or more and the mean combined loan-to-value (CLTV) percent at the time of origination of our equity line of credit portfolio by geographical distribution as of September 30, 2009:

State	Committed Amount	Drawn Amount	Percent Delinquent 90 days or more	Mean CLTV Percent at Origination
	(Dollars in thousands)			
Ohio	$ 2,272,666	$ 1,044,623	0.96%	63%
Florida	1,364,768	808,450	2.58%	63%
California	497,847	309,973	0.57%	68%
Other(1)	886,110	501,939	0.41%	64%
Total	$ 5,021,391	$ 2,664,985	1.31%	63%

(1) No individual state has a committed or drawn balance greater than 5% of the total.

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The following table represents committed and drawn amounts, percent delinquent 90 days or more and the mean CLTV percent at the time of origination of our equity line of credit portfolio by the year originated as of September 30, 2009:

Calendar Year Originated	Committed Amount	Drawn Amount	Percent Delinquent 90 days or more	Mean CLTV Percent at Origination
	(Dollars in thousands)			
2000 and prior	$ 554,289	$ 236,247	1.11%	51%
2001	161,468	74,258	1.27%	66%
2002	285,222	124,304	1.75%	64%
2003	413,927	195,872	1.66%	68%
2004	274,093	129,541	4.17%	67%
2005	212,922	106,964	3.72%	68%
2006	483,032	269,165	2.91%	67%
2007	708,531	435,586	1.55%	68%
2008	1,373,517	827,925	0.23%	65%
2009	554,390	265,123	0.00%	57%
Total	$ 5,021,391	$ 2,664,985	1.31%	63%

Current CLTV of loans in the equity loans and lines of credit portfolio may be different from the CLTV at origination as a result of changing home values.

In light of the housing market deterioration, the unfavorable trending of our delinquency statistics and the current instability in employment and economic prospects, beginning June 30, 2008 and at each quarter end thereafter, we expanded our loan evaluation methodology related to equity line of credit loans to include impairment evaluations for each equity line of credit loan that was 90 or more days past due. Beginning September 30, 2008, we expanded our loan level evaluation methodology related to closed-end real estate and equity loans to include impairment evaluations for each real estate and equity loan that was 180 or more days past due.

Real Estate Owned. Real estate acquired as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until sold. When property is acquired, it is recorded at the lower of cost or estimated fair market value at the date of foreclosure, establishing a new cost basis. Estimated fair value generally represents the sale price a buyer would be willing to pay on the basis of current market conditions. Holding costs and declines in estimated fair market value result in charges to expense after acquisition. At September 30, 2009, we had $17.7 million in real estate owned. For additional discussion see Management s Discussion and Analysis of Financial Condition and Results of Operation.

Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve our close attention, are required to be designated as special mention.

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When we classify assets as either substandard or doubtful, we allocate a portion of the related general loss allowances to such assets as we deem prudent. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. When we classify a problem asset as loss, we provide a specific reserve for that portion of the asset that is uncollectible. Our determinations as to the classification of our assets and the amount of our loss allowances are subject to review by our principal federal regulator, the Office of Thrift Supervision (OTS), which can require that we establish additional loss allowances. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of our review of our assets at September 30, 2009, classified assets, net of reserves, consisted of substandard assets of $254.5 million, doubtful assets of $172 thousand and loss assets of $25.1 million. As of September 30, 2009, we did not have any individual assets classified as substandard with balances exceeding $1 million. The classified assets total includes $255.7 million of nonperforming loans, $17.7 million of real estate owned, and $6.4 million of performing loans displaying a weakness sufficient to warrant an adverse classification. As of September 30, 2009, we had $24.5 million of assets designated as special mention.

Impaired Loans. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest according to the contractual terms of the loan agreement. During the year ended September 30, 2008, the Company changed the population of loans that it individually evaluates for impairment to include real estate secured loans 180 days or more past due, except equity lines of credit, which it evaluates at 90 or more days past due. Large groups of smaller balance homogeneous loans are combined and collectively evaluated by portfolio for impairment. For a collateral dependent loan, impairment is measured based on the fair value of the collateral. For a loan whose terms are modified in a troubled debt restructuring, the Company measures impairment based on the present value of expected future cash flows discounted at the loan s effective interest rate, where the loan s effective interest rate is based on the contractual rate of the original loan, not the terms of the restructuring. When the recorded investment of an impaired loan exceeds the fair value of the collateral (or the present value of its expected future cash flows), a valuation allowance is established for the excess. For additional information regarding impaired loans, see footnote 5 in Item 15.(a)(1) Financial Statements.

***Allowance for Loan Losses*.** We provide for loan losses based on the allowance method. Accordingly, all loan losses are charged to the related allowance and all recoveries are credited to it. Additions to the allowance for loan losses are provided by charges to income based on various factors which, in our judgment, deserve current recognition in estimating probable losses. We regularly review the loan portfolio and make provisions for loan losses in order to maintain the allowance for loan losses in accordance with accounting principles generally accepted in the United States of America. The allowance for loan losses consists of three components:

(1) specific allowances established for any impaired loans 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;

(2) general allowances for loan losses for each loan type based on historical loan loss experience; and

(3) adjustments, which we describe as a market valuation adjustment, to historical loss experience (general allowances), maintained to cover uncertainties that affect our estimate of probable losses for each loan type.

The market value adjustments are based on our evaluation of several factors, including:

- delinquency statistics (both current and historical) and the factors behind delinquency trends;
- the status of loans in foreclosure, real estate in judgment and real estate owned;
- the composition of the loan portfolio;
- national, regional and local economic factors and trends;

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- asset disposition loss statistics (both current and historical);

- the current status of all assets classified during the immediately preceding meeting of the Asset Classification Committee; and

- the industry.

We evaluate the allowance for loan losses based upon the combined total of the specific, historical loss and general components. Generally when the loan portfolio increases, absent other factors, the allowance for loan loss methodology results in a higher dollar amount of estimated probable losses than would be the case without the increase. Generally when the loan portfolio decreases, absent other factors, the allowance for loan loss methodology results in a lower dollar amount of estimated probable losses than would be the case without the decrease.

As described in Non-performing and Problem Assets Delinquent Loans, loans originated under the Home Today program prior to March 27, 2009 have greater credit risk than traditional residential real estate mortgage loans. At September 30, 2009, we had $291.7 million of loans that were originated under our Home Today program, 37.9% of which were delinquent 30 days or more in repayments, compared to 2.2% for our portfolio of non-Home Today loans as of that date.

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 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.

We periodically evaluate the carrying value of loans and the allowance is adjusted accordingly. The increased provisions in the current fiscal year reflect the continued increase in the unprecedented level of net charge-offs over the past few quarters and the uncertain economic times that face many of our loan customers. A combination of various market conditions, mainly a decrease in home values and an increase in unemployment rates, have caused higher delinquencies and charge-offs in the loan portfolio. The market value adjustment discussed above has been expanded due to the magnitude and persistence of these negative trends.

While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information currently used in making the evaluations. In addition, as an integral part of its examination process, the OTS periodically reviews the allowance for loan losses. The OTS may require us to recognize additions to the allowance based on its analysis of information available to it at the time of its examination. For more on loan losses, see Management s Discussion and Analysis of Financial Condition and Results of Operation.

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The following table sets forth activity in our allowance for loan losses for the fiscal years indicated.

	At or For the Years Ended September 30,				
	2009	2008	2007	2006	2005
	(Dollars in thousands)				
Allowance balance (beginning of year)	$ 43,796	$ 25,111	$ 20,705	$ 18,601	$ 15,080
Charge-offs:					
Real estate loans:					
Residential non-Home Today	6,895	4,999	1,248	487	468
Residential Home Today	4,010	4,283	1,118	1,434	11
Equity loans and lines of credit(1)	51,623	6,187	2,839	2,631	1,750
Construction	1,442	598			
Commercial			517		
Consumer loans:					
Automobile		8	9	51	
Other			7		59
Total charge-offs	63,970	16,075	5,738	4,603	2,288
Recoveries:					
Real estate loans:					
Residential non-Home Today	195	128	271	89	
Residential Home Today		117	251	49	
Equity loans and lines of credit(1)	225	8	22	519	
Construction					
Commercial					
Consumer loans:					
Automobile	2				
Other		7			2
Total recoveries	422	260	544	657	2
Net charge-offs	(63,548)	(15,815)	(5,194)	(3,946)	(2,286)
Reduction due to sale of subsidiary					(193)
Provision for loan losses	115,000	34,500	9,600	6,050	6,000
Allowance balance (end of year)	$ 95,248	$ 43,796	$ 25,111	$ 20,705	$ 18,601
Ratios:					
Net charge-offs to average loans outstanding	0.66%	0.18%	0.07%	0.05%	0.03%
Allowance for loan losses to non-performing loans at end of year	37.24%	25.33%	22.12%	25.98%	30.42%
Allowance for loan losses to total loans at end of year	1.02%	0.47%	0.31%	0.27%	0.24%

(1) Includes bridge loans.

The increased level of charge-offs in the residential mortgage loan and equity loan and lines of credit categories are not unexpected. The levels of delinquent loans in these portfolios have been increasing, more so in the equity loans and lines of credit portfolio. In light of continued housing market deterioration and the current instability in the employment and economic prospects in our primary lending markets, in June 2008 we began conducting expanded loan level reviews of equity lines of credit and as a result providing for increased losses. As these delinquencies have been resolved through pay-off, short sale or foreclosure, or management determines the collateral is not sufficient to satisfy the loan, uncollected balances have been charged against the allowance for loan losses previously provided. In the fiscal year ended September 30, 2009, $51.6 million in charge-offs for equity loans and lines of credit have been recorded compared to $6.2 million for the same period ended September 30, 2008. We continue to evaluate loans becoming delinquent for potential loss and record provisions

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for our estimate of those losses. We expect this higher level of charge-offs to continue as the higher level of delinquent loans are resolved in the future and uncollected balances are charged against the allowance.

In our quarterly reports on Form 10-Q for the quarters ended December 31, 2008, March 31, 2009 and June 30, 2009, the balances in the charge-off and recoveries sections of the activity in our allowance for loan losses tables were reversed between the Residential non-Home Today portfolio and the Residential Home Today portfolio lines. The following table provides the year to date balances, as filed and as revised, at the periods indicated for each line item.

	For the three months ended December 31, 2008		For the six months ended March 31, 2009		For the nine months ended June 30, 2009	
	as filed	revised	as filed	revised	as filed	revised
Charge-offs:						
Real estate loans:						
Residential non-Home Today	$ 1,025	$ 989	$ 1,850	$ 2,037	$ 2,911	$ 4,739
Residential Home Today	989	1,025	2,037	1,850	4,739	2,911
Recoveries:						
Real estate loans:						
Residential non-Home Today		2		4		64
Residential Home Today	2		4		64	

Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At September 30, 2009			2008			2007		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
	(Dollars in thousands)								
Real estate loans:									
Residential non-Home Today	$ 22,678	23.8%	64.0%	$ 7,873	18.0%	68.7%	$ 4,781	19.1%	71.5%
Residential Home Today	9,232	9.7	3.1	5,883	13.4	3.3	6,361	25.3	3.7
Equity loans and lines of credit(1)	57,594	60.5	31.8	28,118	64.2	26.7	13,141	52.3	22.8
Construction	5,743	6.0	1.0	1,922	4.4	1.2	778	3.1	1.8
Commercial							23	0.1	0.0
Consumer loans:									
Automobile	1					0.0	25	0.1	0.1
Other			0.1			0.1	2	0.0	0.1
Total allowance for loan losses	$ 95,248	100.0%	100.0%	$ 43,796	100.0%	100.0%	$ 25,111	100.0%	100.0%

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	At September 30,					
	2006			2005		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
	(Dollars in thousands)					
Real estate loans:						
Residential non-Home Today	$ 4,636	22.4%	69.4%	$ 5,487	29.5%	67.5%
Residential Home Today	4,879	23.6	3.8	1,613	8.7	3.2
Equity loans and lines of credit(1)	9,724	47.0	23.7	9,924	53.4	25.2
Construction	414	2.0	2.7	300	1.6	3.5
Commercial	975	4.7	0.0	1,118	6.0	0.0
Consumer loans:						
Automobile	75	0.3	0.2	155	0.8	0.4
Other	2	0.0	0.2	4	0.0	0.2
Total allowance for loan losses	$ 20,705	100.0%	100.0%	$ 18,601	100.0%	100.0%

(1) Includes bridge loans.

The percentage allocations for each loan category are impacted by changes and activities that occur in other categories of the Company s loan portfolio. Because Home Today loans represent such a small portion (3.1%) of the overall portfolio, they are disproportionately impacted by changes in other categories. Specifically, large additions to the allowance for loan losses in the other, more significant, loan categories caused most of the percentage decrease in the portion of the allowance for loan losses allocated to Home Today loans.

Provisions for loan losses on equity loans and lines of credit have been increasing and are expected to increase in the future if non-performing loan balances and charge-offs continue to increase. Additional discussion of non-performing equity loan and lines of credit as well as charge-offs appears later in this section as well as the Management s Discussion and Analysis of Financial Conditions and Operating Results .

In light of housing market deterioration, the unfavorable trending of our delinquency statistics and the current instability in employment and economic prospects, beginning June 30, 2008 and at each quarter end thereafter, we expanded our loan evaluation methodology related to equity line of credit loans to include impairment evaluations for each equity line of credit loan that was 90 or more days past due. Beginning September 30, 2008, we expanded our loan level evaluation methodology related to closed-end real estate and equity loans to include impairment evaluations for each real estate and equity loan that was 180 or more days past due. As more delinquent loans were subjected to individual evaluation, the portion of the allowance for loan losses identified as specific reserves increased, and, as a result the loss experiences factors used to evaluate the adequacy of the general loss reserve applicable to loans not evaluated for specific reserves decreased between March 31, 2008 and September 30, 2008. Adjustments to the historical loss experience factors have been made in response to the decrease in housing values, unemployment concerns in the Ohio market, an excess of available housing units in the Florida market, uncertainties surrounding the future performance of restructured loans, and, as a result, the general loan loss allowance increased between September 30, 2008 and September 30, 2009.

Investments

The Association s board of directors is responsible for establishing and overseeing the Association s investment policy. The investment policy is reviewed at least annually by management and any changes to the policy are recommended to the board of directors and are subject to its approval. This policy dictates that investment decisions be made based on the safety of the investment, liquidity requirements, potential returns, the ability to provide collateral for pledging requirements, and consistency with our interest rate risk management strategy. The Association s Investment Committee, which consists of its chief operating officer, chief financial officer and other members of management, oversees its investing activities and strategies. The portfolio manager is responsible for making securities portfolio decisions in accordance with established policies. The portfolio manager has the authority to purchase and sell securities within specific guidelines established by the investment policy, but historically the portfolio manager has executed purchases only after extensive discussions with other Investment Committee members. All transactions are formally reviewed by the Investment Committee at least quarterly. In addition, all investment transactions are reviewed by the Executive Committee of the Association s board of directors within 60 days of the transaction date to determine compliance with our investment policy. Any investment which, subsequent to its purchase, fails to meet the guidelines of the policy is reported to the Investment Committee, which decides whether to hold or sell the investment.

The Association s current investment policy requires that it invests primarily in debt securities issued by the U.S. Government and agencies of the U.S. Government, which now include Fannie Mae and Freddie Mac. The policy also permits investments in mortgage-backed securities, including pass-through securities issued and guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae as well as collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICS) issued or backed by securities issued by these governmental agencies. The investment policy also permits investments in asset-backed securities, banker s acceptances, money market funds, term federal funds, repurchase agreements and reverse repurchase agreements.

The Association s current investment policy does not permit investment in municipal bonds, corporate debt obligations, preferred or common stock of government agencies or equity securities other than its required investment in the common stock of the FHLB of Cincinnati. As of September 30, 2009, we held no asset-backed securities or securities with sub-prime credit risk exposure. As a federal savings association, Third Federal Savings and Loan is not permitted to invest in equity securities. This general restriction does not apply to the Company.

The Association s current investment policy prohibits hedging through the use of such instruments as financial futures, interest rate options and swaps, without specific approval from its board of directors.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, Investments Debt and Equity Securities , requires that, at the time of purchase, we designate a security as held to maturity, available-for-sale, or trading, depending on our ability and intent. Securities designated as available-for-sale are reported at fair value, while securities designated as held to maturity are reported at amortized cost. We do not have a trading portfolio.

Our investment portfolio at September 30, 2009, primarily consisted of $9.0 million of U.S. Government and federal agency obligations, $25.5 million in primarily fixed-rate securities guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, and $557.8 million of REMICs.

U.S. Government and Federal Agency Obligations. While U.S. Government and federal agency securities generally provide lower yields than other investments in our securities investment portfolio, we maintain these investments, to the extent appropriate, for liquidity purposes, as collateral for borrowings and as an interest rate risk hedge in the event of significant mortgage loan prepayments.

Mortgage-Backed Securities. We purchase mortgage-backed securities insured or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. We invest in mortgage-backed securities to achieve positive interest rate spreads with minimal administrative expense, and to lower our credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae or Ginnie Mae. During the financial market upheaval of 2008, concern arose about the financial health of Fannie Mae and Freddie Mac, the value of their guarantees and; therefore, the continued existence of the secondary market for mortgage loans upon which the Company relies for liquidity and interest rate risk management. This market was preserved when, in September 2008, the Federal Housing Finance Agency placed Freddie Mac and Fannie Mae into conservatorship. The U.S. Treasury Department has established financing agreements to ensure that Fannie Mae and Freddie Mac meet their obligations to holders of mortgage-backed securities that they have issued or guaranteed.

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Mortgage-backed securities are created by the pooling of mortgages and the issuance of a security with an interest rate that is less than the interest rate on the underlying mortgages. Mortgage-backed securities typically represent a participation interest in a pool of single-family or multi-family mortgages, although we invest primarily in mortgage-backed securities backed by one- to four-family mortgages. The issuers of such securities (generally Ginnie Mae, Fannie Mae and Freddie Mac) pool and resell the participation interests in the form of securities to investors such as the Association, and guarantee the payment of principal and interest to investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are more liquid than individual mortgage loans since there is an active trading market for such securities. While there has been significant disruption in the demand for private issuer mortgage-backed securities, the U.S. Treasury support for Fannie Mae and Freddie Mac guarantees has maintained an orderly market for the mortgage-backed securities the Company typically purchases. In addition, mortgage-backed securities may be used to collateralize our specific liabilities and obligations. Investments in mortgage-backed securities involve a risk that the timing of actual payments will be earlier or later than the timing estimated when the mortgage-backed security was purchased, which may require adjustments to the amortization of any premium or acceleration of any discount relating to such interests, thereby affecting the net yield on our securities. We periodically review current prepayment speeds to determine whether prepayment estimates require modification that could cause amortization or accretion adjustments.

CMOs and REMICs are types of debt securities issued by a special-purpose entity that aggregates pools of mortgages and mortgage-backed securities and creates different classes of securities with varying maturities and amortization schedules, as well as a residual interest, with each class possessing different risk characteristics. The cash flows from the underlying collateral are generally divided into tranches or classes that have descending priorities with respect to the distribution of principal and interest cash flows, while cash flows on pass-through mortgage-backed securities are distributed pro rata to all security holders.

The following table sets forth the amortized cost and fair value of our securities portfolio (excluding FHLB of Cincinnati common stock) at the dates indicated.

	At September 30,					
	2009		2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Investments available for sale:						
U.S. Government and agency obligations	$ 9,000	$ 9,333	$ 8,997	$ 9,213	$ 28,994	$ 28,777
Fannie Mae certificates			483	478	761	748
REMICs	5,017	5,053	13,488	13,518	21,198	21,084
Other	9,048	9,048	7,893	7,893	6,072	6,072
Total investment securities available for sale	$ 23,065	$ 23,434	$ 30,861	$ 31,102	$ 57,025	$ 56,681
Investments held to maturity:						
U.S. Government and agency obligations	$	$	$	$	$ 26,994	$ 26,968
Freddie Mac certificates	8,023	8,445	9,826	9,862	12,100	12,101
Ginnie Mae certificates	7,161	7,490	8,366	8,481	10,278	10,418
REMICs	552,792	560,408	787,699	789,562	761,172	762,347
Fannie Mae certificates	10,355	11,097	11,859	12,142	13,265	13,484
Other					6	24
Total securities held to maturity	$ 578,331	$ 587,440	$ 817,750	$ 820,047	$ 823,815	$ 825,342

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Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio and the mortgage-backed securities portfolio at September 30, 2009 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. All of our securities at September 30, 2009 were taxable securities.

	One Year or Less		More than One Year Through Five years		More than Five Years Through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Investments available-for-sale:											
U.S. Government and agency obligations	$ 2,000	4.15%	$ 7,000	4.50%	$		$		$ 9,000	$ 9,333	4.42%
REMICs					3,820	2.87%	1,197	1.25%	5,017	5,053	2.48%
Other							9,048	0.74%	9,048	9,048	0.74%
Total investment securities available-for-sale	$ 2,000	4.15%	$ 7,000	4.50%	$ 3,820	2.87%	$ 10,245	0.80%	$ 23,065	$ 23,434	2.56%
Investments held-to-maturity:											
Freddie Mac certificates							8,023	5.38%	8,023	8,445	5.38%
Ginnie Mae certificates					2,989	4.66%	4,172	1.52%	7,161	7,490	2.83%
REMICs			22,175	5.35%	123,702	3.06%	406,915	3.53%	552,792	560,408	3.50%
Fannie Mae certificates			305	6.36%	919	6.51%	9,131	6.51%	10,355	11,097	6.51%
Total Investment securities held-to-maturity:	$		$ 22,480	5.36%	$ 127,610	3.13%	$ 428,241	3.61%	$ 578,331	$ 587,440	3.57%

Sources of Funds

General. Deposits traditionally have been the primary source of funds for the Association s lending and investment activities. The Association also borrows, primarily from the FHLB of Cincinnati and the Federal Reserve Discount Window, to supplement cash flow, to lengthen the maturities of liabilities for interest rate risk management purposes and to manage its cost of funds. Additional sources of funds are the proceeds of loan sales, scheduled loan payments, maturing investments, loan prepayments, collateralized wholesale borrowings, retained earnings and income on other earning assets.

Deposits. The Association generates deposits primarily from the areas in which its branch offices are located, as well as from its telephone call center and its internet website. It relies on its competitive pricing, convenient locations and customer service to attract and retain deposits. It offers a variety of deposit accounts with a range of interest rates and terms. Its deposit accounts consist of savings accounts (primarily high-yield savings), NOW accounts (primarily high-yield checking accounts), certificates of deposit and individual retirement accounts and other qualified plan accounts. It currently does not accept brokered deposits.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market interest rates, liquidity requirements, interest rates paid by competitors and our deposit growth goals.

At September 30, 2009, deposits totaled $8.57 billion, NOW accounts totaled $987.5 million (including $923.9 million of high-yield checking accounts) and savings accounts totaled $1.23 billion (including $1.07 billion of high-yield savings accounts). At September 30, 2009, the Association had a total of $6.35 billion in certificates of deposit, of which $3.19 billion had remaining maturities of one year or less. Based on historical experience and its current pricing strategy, management believes the Association will retain a large portion of these accounts upon maturity.

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The following table sets forth the distribution of the Association s average total deposit accounts, by account type, for the fiscal years indicated.

	For the Years Ended September 30,								
	2009			2008			2007		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)								
Deposit type:									
NOW	$ 1,046,640	12.5%	0.87%	$ 1,283,387	15.7%	2.43%	$ 1,621,548	20.9%	4.08%
Savings	1,139,916	13.6%	1.42%	1,261,396	15.4%	2.98%	649,414	8.4%	2.71%
Certificates of deposit	6,200,984	73.9%	3.70%	5,638,716	68.9%	4.61%	5,495,449	70.7%	4.73%
Total deposits	$ 8,387,540	100.0%	3.04%	$ 8,183,499	100.0%	4.02%	$ 7,766,411	100.0%	4.43%

As of September 30, 2009, the aggregate amount of the Association s outstanding certificates of deposit in amounts greater than or equal to $100,000 was approximately $1.98 billion. The following table sets forth the maturity of those certificates as of September 30, 2009.

	At September 30, 2009 (In thousands)
Three months or less	$ 534,696
Over three months through six months	165,724
Over six months through one year	251,839
Over one year to three years	522,285
Over three years	502,746
Total	$ 1,977,290

The following table sets forth, by interest rate ranges, information concerning the Association s certificates of deposit at September 30, 2009.

	Period to Maturity					
	Less Than or Equal to One Year	More Than One to Two Years	More Than Two to Three years	More Than Three Years	Total	Percent of Total
	(In thousands)					
Interest Rate Range:						
2.99% and below	$ 2,598,355	$ 406,945	$ 104,341	$ 56,826	$ 3,166,467	49.85%
3.00% to 3.99%	223,481	155,026	41,645	611,444	1,031,596	16.24%
4.00% to 4.99%	316,735	94,313	148,890	575,886	1,135,824	17.89%
5.00% to 5.99%	29,019	241,924	481,252	238,018	990,213	15.59%
6.00% to 6.99%	21,713	5,666		83	27,462	0.43%
7.00% and above			99		99	0.00%
Total	$ 3,189,303	$ 903,874	$ 776,227	$ 1,482,257	$ 6,351,661	100.00%

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The following table sets forth the Association s time deposits classified by interest rate at the dates indicated.

	At September 30, 2009	2008	2007
		(In thousands)	
Interest Rate			
2.99% and below	$ 3,166,467	$ 402,293	$ 45,738
3.00% to 3.99%	1,031,596	1,841,322	391,880
4.00% to 4.99%	1,135,824	2,135,540	1,842,377
5.00% to 5.99%	990,213	1,531,962	3,346,746
6.00% to 6.99%	27,462	29,957	31,651
7.00% and above	99	92	86
Total	$ 6,351,661	$ 5,941,166	$ 5,658,478

Borrowings. At September 30, 2009, the Association had $70.2 million of borrowings from the FHLB of Cincinnati. During the fiscal year ended September 30, 2009, the Association s third party borrowings consisted of loans, commonly referred to as advances, from the FHLB of Cincinnati and borrowings from the Federal Reserve Bank of Cleveland. Borrowings from the FHLB Cincinnati are secured by the Association s investment in the common stock of the FHLB Cincinnati as well as by a blanket pledge of its mortgage portfolio not otherwise pledged. Our current additional borrowing capacity with the FHLB Cincinnati is $899.5 million as limited by the amount of FHLB Cincinnati common stock that we own. From the perspective of the value of collateral securing advances, our capacity limit for additional borrowings from the FHLB Cincinnati at September 30, 2009 was $1.54 billion, subject to satisfaction of the FHLB Cincinnati common stock ownership requirement. To satisfy the common stock ownership requirement, we would have to increase our ownership of FHLB Cincinnati common stock by an additional $30.8 million. Borrowings from the Federal Reserve Discount Window are also secured by a pledge of specific loans in the Association s mortgage portfolio. At September 30, 2009, the Association had no borrowings from the Federal Reserve with the capacity to borrow up to $399.9 million.

The following table sets forth information concerning balances and interest rates on the Association s borrowings at and for the periods shown:

	At or for the fiscal years ended September 30, 2009	2008	2007
		(Dollars in thousands)	
Balance at end of year	$ 70,158	$ 498,028	$
Average balance during year	$ 289,911	$ 70,218	$ 20,274
Maximum outstanding at any month end	$ 558,060	$ 498,028	$ 25,106
Weighted average interest rate at end of year	2.75%	2.00%	
Average interest rate during year	2.22%	2.12%	4.99%

Federal Taxation

General. The Company and the Association are subject to federal income taxation in the same general manner as other corporations, with certain exceptions. Prior to the completion of our initial public stock offering on April 20, 2007, the Company and the Association were included as part of Third Federal Savings, MHC s consolidated tax group. However, upon completion of the offering, the Company and the Association are no longer a part of Third Federal Savings, MHC s consolidated tax group because Third Federal Savings, MHC no longer owns at least 80% of the common stock of the Company. For the period ended September 30, 2009 and prospectively, the Company intends to file consolidated tax returns with the Association, its wholly-owned subsidiary. Third Federal Savings, MHC s and the Company s consolidated federal tax returns are not currently under audit, and have not been audited during the past five years. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to the Company or the Association.

***Bad Debt Reserves*.** Historically, the Third Federal Savings, MHC consolidated group used the specific charge off method to account for bad debt deductions for income tax purposes, and the Company intends to use the specific charge off method to account for tax bad debt deductions in the future.

***Taxable Distributions and Recapture*.** Prior to 1996, bad debt reserves created prior to 1988 were subject to recapture into taxable income if the Association failed to meet certain thrift asset and definitional tests or made certain distributions. Tax law changes in 1996 eliminated thrift-related recapture rules. However, under current law, pre-1988 tax bad debt reserves remain subject to recapture if the Association makes certain non-dividend distributions, repurchases any of its common stock, pays dividends in excess of earnings and profits, or fails to qualify as a bank for tax purposes.

At September 30, 2009, the total federal pre-base year bad debt reserve of the Association was approximately $105.0 million.

Charitable Contribution Carryovers. Federal income tax regulations limit charitable contribution deductions to 10% of taxable income. Unused charitable contribution deductions may be carried forward to the succeeding five taxable years. At September 30, 2009, the Company has a charitable contribution carryover for federal income tax purposes of approximately $31.8 million, which expires September 30, 2012.

State Taxation

Following its initial public stock offering in 2007, the Company converted from a qualified passive investment company domiciled in the State of Delaware to a qualified holding company in Ohio and is subject to Ohio tax levied on income. A significant majority of state taxes paid by the remaining entities in our corporate structure are also paid to the State of Ohio. The Association is subject to Ohio franchise tax based on equity capital plus certain reserve amounts. Total equity capital for this purpose is reduced by certain exempted assets. The resulting net taxable value of capital is taxed at a rate of 1.3%. The other Ohio subsidiaries of the Company are taxed on the greater of a tax based on net income or net worth.

SUPERVISION AND REGULATION

General

The Company is a savings and loan holding company, and is required to file certain reports with, and is subject to examination by, and otherwise must comply with the rules and regulations of the OTS. The Company is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

The Association is examined and supervised by the OTS and is subject to examination by the Federal Deposit Insurance Corporation (FDIC). This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the FDIC s deposit insurance fund and depositors. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. Following completion of its examination, the federal agency critiques the institution s operations and assigns its rating (known as an institution s CAMELS rating). Under federal law, an institution may not disclose its CAMELS rating to the public. Third Federal Savings and Loan also is a member of and owns stock in the FHLB of Cincinnati, which is one of the twelve regional banks in the Federal Home Loan Bank System. The Association also is regulated to a

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lesser extent by the Board of Governors of the Federal Reserve System, governing reserves to be maintained against deposits and other matters. The OTS will examine the Association and prepare reports for the consideration of the Association s board of directors on any operating deficiencies. The Association s relationship with its depositors and borrowers also is regulated to a great extent by federal law and, to a much lesser extent, state law, especially in matters concerning the ownership of deposit accounts and the form and content of the Association s mortgage documents.

Any change in these laws or regulations, whether by the FDIC, the OTS or Congress, could have a material adverse impact on the Company, the Association and their operations.

Certain of the regulatory requirements that are applicable to the Association and the Company are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on the Association and the Company and is qualified in its entirety by reference to the actual statutes and regulations.

Please refer to section Proposed Financial Reform Legislation , which is presented later in this Item 1, Business , for a discussion of proposed changes under consideration in connection with current financial reform legislation.

Federal Banking Regulation

Business Activities. A federal savings association derives its lending and investment powers from the Home Owners Loan Act, as amended, and the regulations of the OTS. Under these laws and regulations, the Association may invest in mortgage loans secured by residential real estate without limitations as a percentage of assets, and may invest in non-residential real estate loans up to 400% of capital in the aggregate, commercial business loans up to 20% of assets in the aggregate and consumer loans up to 35% of assets in the aggregate, and in certain types of debt securities and certain other assets. An association also may establish subsidiaries that may engage in activities not otherwise permissible for an association, including real estate investment and securities and insurance brokerage.

Capital Requirements. OTS regulations require savings associations to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage ratio (3% for savings associations receiving the highest rating on the CAMELS rating system) and an 8% risk-based capital ratio.

The risk-based capital standard for savings associations requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OTS, based on the risks believed inherent in the type of asset. Core capital is defined as common shareholders equity (including retained earnings), certain non-cumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital. Additionally, a savings association that retains credit risk in connection with an asset sale may be required to maintain additional regulatory capital because of the recourse back to the savings association.

At September 30, 2009, the Association s capital exceeded all applicable requirements.

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Loans-to-One Borrower. Generally, a federal savings association may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of September 30, 2009, the Association was in compliance with the loans-to-one borrower limitations.

Qualified Thrift Lender Test. As a federal savings association, the Association must satisfy the qualified thrift lender, or QTL , test. Under the QTL test, the Association must maintain at least 65% of its portfolio assets in qualified thrift investments (primarily residential mortgages and related investments, including mortgage-backed securities) in at least nine months of the most recent 12-month period. Portfolio assets generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings association s business.

The Association also may satisfy the QTL test by qualifying as a domestic building and loan association as defined in the Internal Revenue Code.

A savings association that fails the qualified thrift lender test must either convert to a bank charter or operate under specified restrictions. At September 30, 2009, the Association satisfied this test.

Capital Distributions. OTS regulations govern capital distributions by a federal savings association, which include cash dividends, stock repurchases and other transactions charged to the capital account. A savings association must file an application for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings association s net income for that year to date plus the savings association s retained net income for the preceding two years;
- the savings association would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or OTS-imposed condition; or
- the savings association is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings association that is a subsidiary of a holding company must still file a notice with the OTS at least 30 days before the board of directors declares a dividend or approves a capital distribution.

The OTS may disapprove a notice or application if:

- the savings association would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution shall not make any capital distribution, if after making such distribution the institution would be undercapitalized.

There were no dividends paid to the Company by the Association during the years ended September 30, 2009 and 2007 and no dividends paid to the Company by Third Capital during the years ended September 30, 2009, 2008, and 2007. On September 29, 2008, having complied with all regulatory stipulations and notification requirements, the Association paid a $100 million dividend to the Company.

Liquidity. A federal savings association is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation.

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Community Reinvestment Act and Fair Lending Laws. All savings associations have a responsibility under the Community Reinvestment Act and related regulations of the OTS to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a federal savings association, the OTS is required to assess the savings association s record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings association s failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OTS, as well as other federal regulatory agencies and the Department of Justice.

The Association received a satisfactory Community Reinvestment Act rating in its most recent federal examination.

Transactions with Related Parties. A federal savings association s authority to engage in transactions with its affiliates is limited by OTS regulations and by Sections 23A and 23B of the Federal Reserve Act and its implementing Regulation W. An affiliate is a company that controls, is controlled by, or is under common control with an insured depository institution such as the Association. The Company is an affiliate of the Association. In general, loan transactions between an insured depository institution and its affiliates are subject to certain quantitative and collateral requirements. In this regard, transactions between an insured depository institution and its affiliates are limited to 10% of the institution s unimpaired capital and unimpaired surplus for transactions with any one affiliate and 20% of unimpaired capital and unimpaired surplus for transactions in the aggregate with all affiliates. Collateral in specified amounts ranging from 100% to 130% of the amount of the transaction must usually be provided by affiliates in order to receive loans from the savings association. In addition, OTS regulations prohibit a savings association from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates. The OTS requires savings associations to maintain detailed records of all transactions with affiliates.

The Association s authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders:

(i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features, and

(ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Association s capital.

In addition, extensions of credit in excess of certain limits must be approved by the Association s board of directors.

Enforcement. The OTS has primary enforcement responsibility over federal savings institutions and has the authority to bring enforcement action against all institution-affiliated parties, including shareholders, and attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action by the OTS may range from the issuance of a capital directive or cease and desist order, to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as

$1 million per day. The FDIC also has the authority to terminate deposit insurance or to recommend to the Director of the OTS (Director) that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take action under specified circumstances.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under federal law. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan.

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the OTS is required and authorized to take supervisory actions against undercapitalized savings associations. For this purpose, a savings association is placed in one of the following five categories based on the savings association s capital:

- well-capitalized (at least 5% leverage capital, 6% Tier 1 risk-based capital and 10% total risk-based capital);
- adequately capitalized (at least 4% leverage capital, 4% Tier 1 risk-based capital and 8% total risk-based capital);
- undercapitalized (less than 3% leverage capital, 4% Tier 1 risk-based capital or 8% total risk-based capital);
- significantly undercapitalized (less than 3% leverage capital, 3% Tier 1 risk-based capital or 6% total risk-based capital); and
- critically undercapitalized (less than 2% tangible capital).

Generally, the banking regulator is required to appoint a receiver or conservator for a savings association that is critically undercapitalized within specific time frames. The regulations also provide that a capital restoration plan must be filed with the OTS within 45 days of the date a savings association receives notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. The criteria for an acceptable capital restoration plan include, among other things, the establishment of the methodology and assumptions for attaining adequately capitalized status on an annual basis, procedures for ensuring compliance with restrictions imposed by applicable federal regulations, the identification of the types and levels of activities the savings association will engage in while the capital restoration plan is in effect, and assurances that the capital restoration plan will not appreciably increase the current risk profile of the savings association. Any holding company for a savings association required to submit a capital restoration plan must guarantee the lesser of an amount equal to 5% of the savings association s assets at the time it was notified or deemed to be undercapitalized by the OTS, or the amount necessary to restore the savings association to adequately capitalized status. This guarantee remains in place until the OTS notifies the savings association that it has maintained adequately capitalized status for each of four consecutive calendar quarters, and the OTS has the authority to require payment and collect payment under the guarantee. Failure by a holding company to provide the required guarantee will result in certain operating restrictions on the savings association, such as restrictions on the ability to declare and pay dividends, pay executive compensation and management fees, and increase assets or expand operations. The OTS may also take any one of a number of discretionary supervisory actions against undercapitalized associations, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At September 30, 2009, the Association met the criteria for being considered well-capitalized.

Insurance of Deposit Accounts. As of September 30, 2009, deposit accounts in the Association were insured by the FDIC, up to a maximum of $250,000 per separately insured depositor. The basic limit on federal deposit insurance coverage was raised from $100,000 to $250,000 per depositor, effective October 3, 2008, with the passage of the Emergency Economic Stabilization Act of 2008 (EESA of 2008). The increase in the maximum coverage under EESA of 2008 was designated as temporary, with an expiration date of December 31, 2009. Subsequently, on May 20, 2009, under authority provided by the Helping Families Save Their Homes Act, the temporary increase in coverage was extended through December 31, 2013. The Association s deposits are subject to FDIC deposit insurance assessments.

In November 2008, the FDIC adopted the Temporary Liquidity Guarantee Program that provided full deposit insurance coverage for non-interest bearing deposit transaction accounts, regardless of the dollar amount. The temporary guarantee was initially scheduled to expire on December 31, 2009, but was subsequently extended until June 30, 2010. As permitted under the program, the Association opted out of such additional coverage.

Previously, on November 2, 2006, the FDIC adopted final regulations that assess deposit insurance premiums based on risk. This enabled the FDIC to more closely tie each financial institution s deposit insurance premiums to the risk it poses to the deposit insurance fund. Under this risk-based assessment system, the FDIC evaluated the risk of each financial institution based on its supervisory rating, its financial ratios, and its long-term debt issuer rating. Following the signing of EESA of 2008, on October 7, 2008 the Board of Directors of the FDIC adopted a restoration plan that included higher assessments on insured banks as well as adjustments to improve the risk-based assessment system. The assessment adjustments consider the status of unsecured debt (which can reduce the assessment), as well as secured liabilities and brokered deposits (both of which can increase the assessment). Under current regulations, the base assessment rates for financial institutions that have offered insured deposits for at least five years can vary between 7 and 77.5 cents for every $100 of domestic deposits. As a part of the regulations, in general, institutions that contributed to the recapitalization of the Savings Association Insurance Fund in 1996 were eligible to receive a one-time assessment credit. For the Association, the one-time credit totaled $6.3 million; of which $2.6 million was utilized during the fiscal year ended September 30, 2007 to fully offset the levied assessment. The remainder of the Association s credit was utilized during the fiscal year ended September 30, 2008 to partially offset the otherwise required assessment payment.

On May 22, 2009, the FDIC adopted a final rule imposing a 5 basis point special assessment on each insured depository institution s assets minus Tier 1 capital as of June 30, 2009. As a result, our expense for deposit insurance for the fiscal year ended September 30, 2009 includes approximately $4.8 million for this emergency assessment which was levied as of June 30, 2009 and collected on September 30, 2009. The May 22nd final rule also permitted the Board to impose up to two additional special assessments of up to 5 basis points later in 2009 if necessary to maintain public confidence in federal deposit insurance. However, on September 30, 2009, the FDIC filed a notice of proposed rulemaking, which was adopted as a final rule on November 12, 2009 and amended its assessment regulations to require insured institutions to prepay, on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of calendar 2009 and for all of the calendar years 2010, 2011 and 2012. The amount of the prepayment will generally be determined based upon an institution s assessment rate in effect on September 30, 2009 and will reflect a 5% annualized growth factor applied to the institution s assessment base as well as an assessment rate increase of three cents per $100 of deposits effective January 1, 2011. Under the rule, the Association s expected prepayment amount is estimated to be approximately $52 million. In recognition of the industry s current weakened condition, the prepayment is intended to preclude any additional special assessments during 2009; however, such a prepayment requirement does not necessarily preclude the FDIC from changing assessment rates or from revising the risk-based assessment system, pursuant to the existing notice-and-comment rulemaking framework.

All FDIC-insured institutions are required to pay a pro rata portion of the interest due on obligations issued by the Financing Corporation (FICO) for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended September 30, 2009, the annualized FICO assessment was equal to 1.02 cents for each $100 in domestic deposits maintained at an institution. Assessments related to the FICO bond obligations are not subject to the prepayment requirements of the November 12, 2009 rulemaking.

For the fiscal year ended September 30, 2009, the Association paid $905 thousand related to the FICO bonds and $14.0 million pertaining to deposit insurance assessments. Deposit insurance assessments were paid on a delayed basis, one quarter in arrears while FICO bond payments were prepaid, one quarter in advance.

Prohibitions Against Tying Arrangements. Federal savings associations are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Federal Home Loan Bank System. The Association is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the FHLB of Cincinnati, the Association is required to acquire and hold shares of capital stock in the Federal Home Loan Bank in an amount at least equal to 1% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, 1/20th of its borrowings from the Federal Home Loan Bank, or 0.3% of assets, whichever is greater.

As of September 30, 2009, outstanding borrowings (including accrued interest) from the FHLB of Cincinnati were $70.2 million and the Association was in compliance with the stock investment requirement.

Please refer to Proposed Financial Reform Legislation , which is presented later in this Item 1, Business , for a discussion of proposed changes under consideration in connection with current financial reform legislation.

Other Regulations

Interest and other charges collected or contracted for by the Association are subject to state usury laws and federal laws concerning interest rates. The Association s operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of the Association also are subject to:

The Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

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- The Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers rights and liabilities arising from the use of automated teller machines and other electronic banking services;

- The Check Clearing for the 21st Century Act (also known as Check 21), which gives substitute checks, such as digital check images and copies made from those images, the same legal standing as the original paper check;

- Title III of The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (referred to as the USA PATRIOT Act), which significantly expanded the responsibilities of financial institutions, including savings and loan associations, in preventing the use of the U.S. financial system to fund terrorist activities. Among other provisions, the USA PATRIOT Act and the related regulations of the OTS require savings associations operating in the United States to develop new anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations; and

- The Gramm-Leach-Bliley Act, which placed limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution s privacy policy and provide such customers the opportunity to opt out of the sharing of certain personal financial information with unaffiliated third parties.

Holding Company Regulation

General. Third Federal Savings, MHC, and the Company are non-diversified savings and loan holding companies within the meaning of the Home Owners Loan Act. As such, Third Federal Savings, MHC and the Company are registered with the OTS and subject to OTS regulations, examinations, supervision and reporting requirements. In addition, the OTS has enforcement authority over Third Federal Savings, MHC, the Company and the Association. Among other things, this authority permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the Association. As federal corporations, Third Federal Savings, MHC and the Company are generally not subject to state business organization laws. Please refer to Proposed Financial Reform Legislation , which is presented later in this Item 1. Business , for a discussion of proposed changes under consideration in connection with current financial reform legislation.

Permitted Activities. Pursuant to Section 10(o) of the Home Owners Loan Act and OTS regulations, a mutual holding company, such as Third Federal Savings, MHC, may engage in the following activities:

(i) investing in the stock of a savings association;

(ii) acquiring a mutual association through the merger of such association into a savings association subsidiary of such holding company or an interim savings association subsidiary of such holding company;

(iii) merging with or acquiring another holding company, one of whose subsidiaries is a savings association;

(iv) investing in a corporation, the capital stock of which is available for purchase by a savings association under federal law or under the law of any state where the subsidiary savings association has its home offices;

(v) furnishing or performing management services for a savings association subsidiary of such company;

(vi) holding, managing or liquidating assets owned or acquired from a savings association subsidiary of such company;

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(vii) holding or managing properties used or occupied by a savings association subsidiary of such company;

(viii) acting as trustee under deeds of trust;

(ix) any other activity:

(A) that the Federal Reserve Board, by regulation, has determined to be permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act of 1956, unless the Director, by regulation, prohibits or limits any such activity for savings and loan holding companies; or

(B) in which multiple savings and loan holding companies were authorized (by regulation) to directly engage on March 5, 1987;

(x) any activity permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act, including securities and insurance underwriting; and

(xi) purchasing, holding, or disposing of stock acquired in connection with a qualified stock issuance if the purchase of such stock by such savings and loan holding company is approved by the Director. If a mutual holding company acquires or merges with another holding company, the holding company acquired or the holding company resulting from such merger or acquisition may only invest in assets and engage in activities listed in (i) through (x) above, and has a period of two years to cease any nonconforming activities and divest any nonconforming investments.

The Home Owners Loan Act prohibits a savings and loan holding company, including the Company, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or holding company thereof, without prior written approval of the OTS. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a non-subsidiary company engaged in activities other than those permitted by the Home Owners Loan Act or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the OTS must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

The OTS is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions:

(i) the approval of interstate supervisory acquisitions by savings and loan holding companies; and

(ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisition.

The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Waivers of Dividends by Third Federal Savings, MHC. OTS regulations require Third Federal Savings, MHC to notify the OTS of any proposed waiver of its receipt of dividends from the Company. The OTS reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to any such waiver if:

(i) the waiver would not be detrimental to the safe and sound operation of the subsidiary savings association; and

(ii) the mutual holding company s board of directors determines that such waiver is consistent with such directors fiduciary duties to the mutual holding company s members.

In February 2008 the Company declared its first quarterly dividend and has continued to declare quarterly dividends since then. Pursuant to the OTS s non-objection, Third Federal Savings, MHC has waived its right to receive each dividend. The OTS s non-objection, which is generally applicable for one year, was initially issued in November 2007 and has been renewed annually since then. We anticipate that prospectively, on an annual basis, Third Federal Savings, MHC will continue to adhere to the regulatory requirements, including the filing of a waiver notice and will continue to waive any dividends paid by the Company. Under OTS regulations, our public shareholders would not be diluted because of any dividends waived by Third Federal Savings, MHC (and waived dividends would not be considered in determining an appropriate exchange ratio) in the event Third Federal Savings, MHC converts to stock form. Please refer to section Proposed Financial Reform Legislation , which is presented later in this Item 1, Business , for a discussion of proposed changes under consideration in connection with current financial reform legislation.

Conversion of Third Federal Savings, MHC to Stock Form. OTS regulations permit Third Federal Savings, MHC to convert from the mutual form of organization to the capital stock form of organization. There can be no assurance when, if ever, a conversion transaction will occur, and Third Federal Savings, MHC s board of directors has no current intention or plan to undertake a conversion transaction. In a conversion transaction a new stock holding company would be formed as the successor to the Company, Third Federal Savings, MHC s corporate existence would end, and certain depositors and borrowers (Members) of the Association would receive the right to subscribe for additional shares of the new holding company. In a conversion transaction, each share of common stock held by shareholders other than Third Federal Savings, MHC would be automatically converted into a number of shares of common stock of the new holding company determined pursuant to an exchange ratio that ensures that shareholders other than Third Federal Savings, MHC own the same percentage of common stock in the new holding company as they owned in the Company immediately prior to the conversion transaction, subject to adjustment for any assets held by Third Federal Savings, MHC. Any such conversion transaction would require approval by the Members of the Association as well as approval by a majority of the Company s shareholders, other than Third Federal Savings, MHC. Please refer to Proposed Financial Reform Legislation , which is presented later in this Item 1. Business , for a discussion of proposed changes under consideration in connection with current financial reform legislation.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting. We have prepared policies, procedures and systems designed to ensure compliance with these regulations.

Emergency Economic Stabilization Act of 2008

In accordance with its stated purpose of restoring liquidity and stability to the financial system of the United States, EESA of 2008 established the Troubled Asset Relief Program (TARP), under which the United States Department of the Treasury (UST) is authorized to purchase preferred stock from qualified financial institutions. The Company meets the requirements to be considered a qualified financial institution. Under TARP, for organizations like the Company, the federal government s purchase limitation is generally defined as 3% of risk-weighted assets, or about $225 million for the Company.

We considered several factors in deliberating the appropriateness of applying under UST s capital purchase plan. These factors included the following: (1) the Company s initial public offering was completed in April 2007, raising $886 million, further increasing our already high capital ratios, and creating our current business

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challenge of prudently deploying excess capital; (2) the announcement during fiscal 2008 of common stock repurchase programs totaling 20.8 million shares, of which repurchases totaling 16.1 million shares at a cost of $192.7 million had been completed as of September 30, 2008; and (3) complications specific to our capital structure as a mutual holding company. In light of these factors, we deemed it not appropriate to apply for funding under the UST s capital purchase program and accordingly, we neither applied for, nor received, any TARP funding.

Proposed Financial Reform Legislation

In response to the recent and continuing severe financial crisis, the UST prepared a document, released in June 2009 and titled, FINANCIAL REGULATORY REFORM A NEW FOUNDATION: Rebuilding Financial Supervision and Regulation , that proposed a sweeping overhaul of the financial regulatory system. The proposed changes are intended to restore confidence in the integrity of our financial system, and identify the attainment of five key objectives to accomplish this goal. The objectives are to:

- promote robust supervision and regulation of financial firms;
- establish comprehensive regulation of financial markets;
- protect consumers and investors from financial abuse;
- provide the government with the tools it needs to manage financial crises; and
- raise international regulatory standards and improve international cooperation.

Among the numerous recommendations and proposals included in the UST s document, many have the potential to directly and significantly impact the operations and prospects of the Company, the Association and Third Federal Savings, MHC. The most significant to us include:

- Elimination of the federal thrift charter and thereby potentially eliminating the mutual holding company structure (including the dividend waiver provision) so as to close a perceived loophole in bank regulation;
- Elimination of the OTS as a separate Federal regulator by rolling it into a new federal agency, the National Bank Supervisor; and
- Establishment of a new agency dedicated solely and specifically to consumer financial protection, including authority over the design and structure of financial products offered to the public.

Following release of the UST s proposal, legislation in various forms, has been introduced in bills currently under consideration in committees of both Houses of Congress. These draft bills are expected to undergo intense scrutiny, negotiation and debate, and the form of the bills that may emerge from the congressional committees assuredly remains uncertain. Further, once the bills emerge from committee they will then be subject to amendment, revision and/or change on the floors of the House and Senate as well as in any joint session and finally to approval by the President. Accordingly, inasmuch as the final form of regulation that may ultimately result, if any, is currently unknown, the impact that such regulation may have on the Company, the Association and Third Federal Savings, MHC is also unknown.

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Item 1A. Risk Factors

Future Changes in Interest Rates Could Reduce Our Net Income.

Our net income largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings.

The vast majority of our assets and liabilities are financial in nature, and as a result, changes in market and competitive interest rates can impact our customers actions as well as the types and amount of business opportunities that are available to us. In general, when changes occur in interest rates that prompt our customers to pursue strategies that are beneficial to them, the results are generally unfavorable for us.

For example, if mortgage interest rates decline, our customers may seek to refinance, without penalty, their mortgage loans with us or repay their mortgage loans with us and go to another lender. When that happens, either the yield that we earn on the customer s loan is reduced (if the customer refinances with us) or the mortgage is paid off and we are faced with the challenge of reinvesting the cash received to repay the mortgage in a lower interest rate environment. This is frequently referred to as reinvestment risk, which is the risk that we may not be able to reinvest the proceeds of loan prepayments at rates that are comparable to the rates we earned on the loans prior to receipt of the repayment. This risk exists in our mortgage loan portfolio as well as in the securities in our investment portfolio that are backed by mortgage loans.

Another example of changes in interest rates that can have an unfavorable impact on our net interest income occurs in situations where interest rates paid on certificates of deposit experience a significant increase. In this circumstance, a certificate of deposit customer may determine that it is in his/her best interest to incur the existing penalty for early withdrawal, tender the certificate for cash and either reinvest the proceeds in a new certificate of deposit with us, or withdraw the funds and leave us. As a result, we either end up with a new, higher rate certificate (if the customer stays with us) or we must fund the customer s withdrawal by: (1) reducing our cash reserves; (2) selling assets to generate cash to fund the withdrawal; (3) attracting deposits from another customer at the then higher interest rate; or (4) borrowing from a wholesale lender like the FHLB of Cincinnati, again at the then-higher interest rate. Each of these alternatives can have an unfavorable impact on us.

Our net interest income can also be negatively impacted when assets and funding sources with seemingly similar repricing characteristics react differently to changing interest rates. An example of this phenomenon is our equity lines of credit loans and our high yield checking and high yield savings deposit products. Interest rates charged on our equity lines of credit loans are linked to the prime rate of interest which generally adjusts in a direct relationship to changes in the Federal Reserve s Federal Funds target rate. Similarly, our High Yield Checking and High Yield Savings deposit products are generally expected to adjust when changes are made to the Federal Funds target rate. However, to the extent that reductions are made to the Federal Funds target rate, and those reductions translate into reductions of the prime rate and the rate charged on our equity lines of credit loans, but do not extend to equivalent adjustments to our High Yield Checking and High Yield Savings deposit products, we will experience a reduction in our net interest income. At September 30, 2009, we held $2.81 billion of equity lines of credit loans and $1.99 billion of High Yield Checking and High Yield Savings deposits.

Our net income can be reduced by the impact that changes in interest rates can have on the value of our capitalized mortgage servicing rights. As of September 30, 2009, we were servicing $7.50 billion of loans sold to third parties, and the mortgage servicing rights associated with such loans had an amortized cost of $41.4 million and an estimated fair value, at that date, of $56.2 million. Because the estimated life and estimated income from the underlying mortgage loans generally increase with rising interest rates and decrease with falling interest rates, the value of mortgage servicing rights increases as interest rates rise and decreases as interest rates fall.

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In general, changes in market and competitive interest rates result from events that we do not control and over which we generally have little or no influence. As a result, mitigation of the risk of the adverse affects of changing interest rates is generally limited to controlling the composition of the assets and liabilities that we hold. To monitor our positions, we maintain an interest rate risk modeling system which is designed to measure our interest rate risk sensitivity. Additionally, the results of a model to measure interest rate sensitivity are made available to us by the OTS. These models estimate the change in the Association s net portfolio value over a range of interest rate scenarios. Net portfolio value is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts. At September 30, 2009, in the event of an immediate 200 basis point increase in all interest rates, the OTS model projects that we would experience a $75.2 million, or 5%, decrease in net portfolio value, and our internal model projects that we would experience a $210.5 million, or 14%, decrease in net portfolio value. Our internal calculations further project that, at September 30, 2009, in the event of an immediate 200 basis point increase in all interest rates, we would expect our projected net interest income for the twelve months ended September 30, 2010 to decrease by 7%. See Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Negative Developments in the Financial Industry and the Domestic and International Credit Markets May Adversely Affect Our Operations and Results.

Since the latter half of 2007, negative developments in the global credit and securitization markets have resulted in uncertainty in the financial markets and a general economic downturn which has continued into 2009. Loan portfolio quality has deteriorated at many institutions. In addition, the value of real estate collateral supporting many home mortgages has declined and may continue to decline. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. As a result, the potential exists for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to continue to be active in responding to concerns and trends identified in examinations. Negative developments in the financial industry and the domestic and international credit markets, and the impact of new legislation in response to those developments, may negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. In addition, these risks could affect the value of our loan portfolio as well as the value of our investment portfolio, which would also negatively affect our financial performance.

Difficult Market Conditions Have Already Affected Us and Our Industry and May Continue to Do So.

Our performance is significantly impacted by the general economic conditions in the States of Ohio and Florida, and surrounding areas, which have been severely impacted by the current downturn. The continuation of difficult market conditions is likely to result in increased unemployment, which will further weaken an already distressed local economy and could result in additional defaults of mortgage loans. Most of the loans in our loan portfolio are secured by real estate located in our primary market areas. Negative conditions, such as layoffs, in the markets where collateral for a mortgage loan is located could adversely affect a borrower s ability to repay the loan and the value of the collateral securing the loan. Declines in the U.S. housing market manifested by falling home prices and increasing foreclosures, as well as unemployment and under-employment, have all negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions. These write-downs, initially of mortgage-backed securities but spreading to derivative and cash securities, in turn, have caused many financial institutions to seek additional capital from private and government entities, to merge with larger and stronger financial institutions and, in some cases, fail. Our business, financial condition and results of operations could be adversely affected by recessionary conditions that are longer or deeper than expected.

Reflecting concern about the stability of the financial markets generally, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business

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activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets may adversely affect our business, financial condition and results of operations. We do not expect that the difficult conditions in the financial markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

- We expect to face increased regulation of our industry and compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future behaviors.

- The processes we use to estimate losses inherent in our credit exposure require difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of our borrowers to repay their loans, which may no longer be capable of accurate estimation and which may, in turn, impact the reliability of the processes.

- Our ability to engage in sales of mortgage loans to third parties (including mortgage loan securitization transactions with governmental entities) on favorable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including deteriorating investor expectations.

- Competition in our industry could intensify as a result of increasing consolidation of financial services companies in connection with current market conditions.

A Legislative Proposal Has Been Introduced That Would Eliminate our Primary Federal Regulator, Require the Association to Convert to a National Bank or State Bank, and Require Third Federal, MHC and the Holding Company to Become Bank Holding Companies.

The U.S. Treasury Department recently released a legislative proposal that would implement sweeping changes to the current bank regulatory structure. The proposal would create a new federal banking regulator, the National Bank Supervisor, and merge our current primary federal regulator, the OTS, as well as the Office of the Comptroller of the Currency (the primary federal regulator for national banks) into this new federal bank regulator. The proposal would also eliminate federal savings associations and require all federal savings associations, such as the Association, to elect, within six months of the effective date of the legislation, to convert to either a national bank, state bank or state savings association. A federal savings association that does not make the election would, by operation of law, be converted into a national bank within one year of the effective date of the legislation.

If the Association is required to convert to a national bank, Third Federal Savings, MHC and the Company would become bank holding companies subject to supervision by the Board of Governors of the Federal Reserve System (the Federal Reserve) as opposed to the OTS. The Federal Reserve has historically looked to OTS regulations in its regulation of mutual holding companies and processing of mutual holding company applications; however, it is not obligated to follow such regulations. One important OTS regulation that the Federal Reserve does not follow relates to the ability of mutual holding companies to waive the receipt of dividends declared on the common stock of their stock holding company or savings bank subsidiaries. While OTS regulations permit mutual holding companies to waive the receipt of dividends, subject to filing a notice with the OTS and receiving its non-objection, the Federal Reserve s current policy is to prohibit mutual holding companies from waiving the receipt of dividends so long as the subsidiary savings bank is well capitalized. Moreover, OTS regulations provide that it will not take into account the amount of waived dividends in determining an appropriate exchange ratio for minority shares in the event of the conversion of a mutual holding company to stock form. If the OTS is eliminated, the Federal Reserve becomes the exclusive regulator of mutual holding companies, and the Federal Reserve retains its current policy regarding dividend waivers by mutual holding companies, Third Federal Savings, MHC would not be permitted to waive the receipt of dividends declared by the Company. This would have an adverse impact on our ability to pay dividends and, consequently, the value of our common stock.

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Loans Originated Through Our Home Today Program Have Higher Delinquency Rates than the Remainder of Our Loan Portfolio.

Prior to March 27, 2009, we offered loans through our Home Today program with our standard terms to borrowers who might not otherwise qualify for such loans. To qualify for our Home Today program, a borrower must complete financial management education and counseling and must be referred to us by a sponsoring organization with which we have partnered as part of the program and must meet a minimum credit score threshold. Because we applied less stringent underwriting and credit standards to these loans, loans originated under the Home Today program prior to March 27, 2009 have greater credit risk than traditional residential real estate mortgage loans. As of September 30, 2009, we had $291.7 million of outstanding loans that were originated through our Home Today program, 37.9% of which were delinquent 30 days or more, compared to 2.2% for our portfolio of non-Home Today loans as of that date. During the fiscal year ended September 30, 2009, we incurred net charge-offs of $4.0 million, (1.35% of the average balance of Home Today loans) on loans originated through our Home Today program, compared to $6.7 million, (0.11% of the average balance of non-Home Today loans) of net charge-offs for our non-Home Today portfolio. Effective March 27, 2009, the Home Today underwriting guidelines are substantially the same as our traditional mortgage product.

Any Future Increases in FDIC Insurance Premiums or FDIC Special Assessments Will Adversely Impact Our Earnings.

On May 22, 2009, the FDIC adopted a final rule levying a five basis point special assessment on each insured depository institution s assets minus Tier 1 capital as of June 30, 2009. The special assessment was paid on September 30, 2009. We recorded an expense of $4.8 million during the quarter ended June 30, 2009, to reflect the special assessment. While the final rule permits the FDIC s Board of Directors to levy up to two additional special assessments of up to five basis points each during 2009 if the FDIC estimates that the Deposit Insurance Fund reserve ratio will fall to a level that the FDIC s Board of Directors believes would adversely affect public confidence or to a level that will be close to or below zero, such additional special assessments are not currently considered likely. This is because, on September 30, 2009, the FDIC published a notice of proposed rulemaking which was adopted as a final rule on November 12, 2009 imposing a prepayment of deposit insurance assessments that institutions would otherwise be expected to pay for calendar years 2010 through 2012. Included with this prepayment requirement is a 3 basis point increase in the assessment rate for calendar years 2011 and 2012. The FDIC has indicated that with the proceeds of the prepayment, additional special assessments will not be necessary in 2009, however, the prepayment requirement does not necessarily preclude the FDIC from imposing a special assessment, from changing assessment rates or from revising the risk-based assessment system, pursuant to the existing notice-and-comment rulemaking framework. Should the FDIC find it necessary to impose any further special assessments or further increase assessment rates, our FDIC general insurance premium expense will increase substantially compared to prior periods.

Hurricanes or Other Adverse Weather Events Could Negatively Affect the Economy in Our Florida Market Area or Cause Disruptions to Our Branch Office Locations, Which Could Have an Adverse Effect on Our Business or Results of Operations.

A significant portion of our operations are conducted in the State of Florida, a geographic region with coastal areas that are susceptible to hurricanes and tropical storms. Such weather events can disrupt our operations, result in damage to our branch office locations and negatively affect the local economy in which we operate. We cannot predict whether or to what extent damage caused by future hurricanes or tropical storms will affect our operations or the economy in our market area, but such weather events could result in fewer loan originations and greater delinquencies, foreclosures or loan losses. These and other negative effects of future hurricanes or tropical storms may adversely affect our business or results of operations.

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Strong Competition Within Our Market Areas May Limit Our Growth and Profitability.

Competition in the banking and financial services industry is intense. In our market areas, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, money market funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do. Troubled financials institutions may significantly increase the interest rates paid to depositors in pursuit of retail deposits when wholesale funding sources are not available to them. Our profitability depends upon our continued ability to successfully compete in our market areas. For additional information see Business Third Federal Savings and Loan Association of Cleveland Competition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We operate from our main office in Cleveland, Ohio, our 39 branch offices located in Ohio and Florida and our eight loan production offices located in Ohio. Our branch offices are located in the Ohio counties of Cuyahoga, Lake, Lorain, Medina and Summit and in the Florida counties of Broward, Collier, Hillsborough, Lee, Palm Beach, Pasco, Pinellas and Sarasota. Our loan production offices are located in the Ohio counties of Franklin, Butler and Hamilton. The Company owns the building in which its home office and executive offices are located, and four other office locations. The net book value of our land, premises, equipment and software was $65.1 million at September 30, 2009. Included in the net book value are two commercial buildings located in Canton, Massachusetts, valued at $17.8 million, which are owned by our Hazelmere entity and leased to third parties in net lease transactions.

Item 3. Legal Proceedings

On June 13, 2006, Dr. Gary Greenspan filed a putative class action lawsuit against Third Federal, captioned Gary A. Greenspan v. Third Federal Savings & Loan, Case No. CV 06 593882 in the Cuyahoga County, Ohio Court of Common Pleas. The plaintiff sought to represent a class of Ohio residents in connection with mortgage loans that the Company provided to the plaintiff and the putative class members. The plaintiff alleges that the Company impermissibly charged a document preparation fee that included the cost of preparing legal documents in connection with the mortgages. The plaintiff alleges that the Company should disgorge the document preparation fee because the document preparation constituted the practice of law and was performed by Company employees who are not licensed to practice law in Ohio. The plaintiff sought to certify a class of individuals who were charged such a fee anytime after June 13, 2001. The Company vigorously disputes these allegations.

The Company answered the plaintiff s complaint and moved for judgment on the pleadings. The trial court granted the Company s motion and dismissed the action. The plaintiff appealed to the Eighth District Court of Appeals. On June 25, 2008, the appellate court reversed the trial court s dismissal of the plaintiff s complaint as to claims arising before September 15, 2004, the date that the relevant statute was amended to expressly give the Ohio Supreme Court exclusive jurisdiction over claims for the unauthorized practice of law.

On August 8, 2008, the Company appealed the decision of the Eighth District Court of Appeals to the Supreme Court of Ohio which then accepted the appeal on December 3, 2008. The record was then filed with the Ohio Supreme Court on January 2, 2009. The Company filed its Appellant Brief in February 2009 and the Appellee filed its Brief in April 2009. Oral argument was held on June 2, 2009.

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On July 23, 2009, the Ohio Supreme Court reversed the appellate court s decision and reinstated the trial court s order granting the Company s Motion for Judgment on the Pleadings which held that the Plaintiff, Greenspan, has no private right of action. The favorable decision to the Company on this matter is final.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of our security holders during the fourth quarter of our fiscal year.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Our common stock is listed and traded on the NASDAQ Global Select Market under the symbol TFSL . As of November 23, 2009, we had 10,159 shareholders of record, which number does not include persons or entities holding shares in nominee or street name through brokerage firms. Shares of our common stock began trading on April 23, 2007 following the completion of our initial public offering. Quarterly trading information for the periods indicated are provided by NASDAQ and included in the following table.

	Traded Market Prices		
	High	Low	Dividends
Quarter ended December 31, 2007	$ 13.20	$ 11.58	$ 0.00
Quarter ended March 31, 2008	12.75	10.43	0.05
Quarter ended June 30, 2008	12.59	10.48	0.05
Quarter ended September 30, 2008	13.50	9.39	0.05
Quarter ended December 31, 2008	13.59	12.02	0.05
Quarter ended March 31, 2009	13.09	11.13	0.07
Quarter ended June 30, 2009	12.50	10.62	0.07
Quarter ended September 30, 2009	11.99	10.31	0.07

Payment of dividends is subject to declaration by our board of directors and is dependent on a number of factors, including:

our capital requirements and, to the extent that funds for any such dividend are provided by the Association, the regulatory capital requirements imposed by the Office of Thrift Supervision;

our financial position and results of operations;

tax considerations;

statutory and regulatory limitations; and