

Capitol Federal: How Fast Should the Portfolio Shift?

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On October 1, William Skrobacz became President of Capitol Federal Financial and Capitol Federal Savings Bank. He had helped develop and execute the company’s commercial strategy; CEO John Dicus remained chair and CEO. The transition put day-to-day responsibility for commercial operations and strategy in a new role, while the public financial picture still ended June 30. [P04](#)

Capitol Federal had been redirecting some cash flows from one-to-four-family mortgage repayments into commercial lending. The plan was part of the company’s stated evolution into a full-service consumer and commercial bank. After the September 30 fiscal year-end, the leadership team faced a planning choice: how quickly should the bank continue the portfolio shift in FY27, and what risk and funding rules should govern it? [P01](#) [P02](#)

The choice involves more than adding a new loan category. Commercial growth had come mainly from commercial real estate (CRE), and it had mostly offset a decline in one-to-four-family loans. Commercial deposits had grown much less than commercial loans. At the same time, management described technology, treasury-management services, staffing and commercial products as parts of the broader strategy. The available disclosures do not show segment-level risk-adjusted returns or the post-June portfolio. [P01](#) [P02](#)

What changed in the portfolio

At June 30, 2026, commercial loans were \$2.473 billion, or 30% of total loans, up from \$2.116 billion and 26% at September 30, 2025. One-to-four-family loans fell from \$5.90 billion to \$5.60 billion. Across that period, commercial loans increased \$357.0 million while one-to-four-family loans declined \$302.4 million; the total loan portfolio grew only \$54.8 million, to \$8.17 billion. Management said commercial growth was primarily CRE. [P01](#) [P02](#)

The June 30 CRE and commercial-construction portfolio totaled about \$2.2 billion: 89% of commercial loans and 27% of total loans. Non-owner-occupied CRE alone was 17% of total loans. The outstanding CRE/construction portfolio had weighted-average loan-to-value (LTV) of 63% and debt-service coverage ratio (DSCR) of 1.77x. These averages are not minimum underwriting standards or guarantees. For a different population-loans originated or participated in during the first nine months-reported average LTV was 70% and DSCR 2.22x. [P01 investor deck, slides 24-25](#) [P02](#)

June 30, 2026 snapshot	Reported figure	What it describes
Loans receivable, net	\$8.17bn	Company portfolio balance

June 30, 2026 snapshot	Reported figure	What it describes
Commercial loans	\$2.473bn / 30%	Up from \$2.116bn / 26% at Sept. 30, 2025 (Note 4, p. 13)
One-to-four-family loans	\$5.60bn	Down from \$5.90bn at Sept. 30, 2025
CRE and commercial construction	About \$2.2bn	89% of commercial loans; 27% of total loans
Non-owner-occupied CRE	17% of total loans	Portfolio concentration measure
Outstanding CRE/construction weighted-average LTV / DSCR	63% / 1.77x	Existing portfolio, not new originations
Nine-month originations/participations weighted-average LTV / DSCR	70% / 2.22x	Different population from the portfolio averages

Management said it monitored concentrations by collateral type, geography and borrower. It also cited a qualitative allowance-for-credit-losses factor for large-dollar CRE exposures. At June 30, two modified CRE loans in one borrowing relationship remained on nonaccrual and had a combined \$4.0 million specific valuation allowance. This is one disclosed relationship, not evidence that the broader portfolio was impaired. [P01, release line 58](#) [P02](#)

Funding, earnings and competing uses

Commercial deposits increased \$24.3 million, or 6.4% annualized, from September 30, 2025 to June 30, 2026. Commercial loans increased \$357.0 million over the same period. These are separate period-end balance changes, not a dollar-for-dollar funding bridge. The company also described treasury management and small-business deposit growth as strategy components. [P01](#)

For the quarter ended June 30, Capitol Federal reported \$23.6 million net income and a 2.31% net interest margin, up seven basis points from the prior quarter. Management attributed the improvement primarily to lower borrowings and also cited higher-yielding commercial growth as a contributor to loan interest income. One quarter's margin does not establish the incremental risk-adjusted return on new commercial lending. [P01](#)

Capital return was another use of resources. Through June 30, the company reported \$45.9 million in fiscal-year share repurchases and \$37.5 million in dividends. The 10-Q reported \$25.2 million remaining under the then-current authorization at June 30; the July 29 release later reported \$24.0 million remaining as of July 23. A Federal Reserve non-objection covered repurchases of up to \$75 million and was set to expire in February 2027. These authorizations allow action; they are not promises of future repurchases. [P01, release lines 45-46, 75-78, 360](#) [P02](#)

At June 30, holding-company cash was \$10.7 million on deposit at the Bank. The 10-Q later reported \$29 million transferred to the parent through August 3 and up to an additional \$5 million intended by September 30. No public filing by the cutoff confirmed the final-quarter transfer. Bank liquidity measures, parent cash and consolidated equity are not interchangeable. [P02, "Stockholder Value"](#)

The 2006 interagency CRE guidance does not impose a universal CRE lending limit. It calls for institution-specific concentration assessment, board oversight, risk stratification, market analysis and stress testing. Its supervisory concentration indicators are review triggers, not lending limits or safe harbors. **P05**

The question during FY27 planning

As of October 2, FY26/Q4 results had not been published. The latest portfolio-wide loan balance and credit-grade data available to the team were for June 30. The 10-Q did report \$76.2 million of projected September 30 CRE/construction commitment disbursements funded through August 3; this was not an updated total portfolio balance. It also reported \$29 million transferred to the parent through August 3 and up to an additional \$5 million intended by September 30, but no public filing confirmed the final-quarter transfer by October 2. The new President's appointment described continuity in the existing strategy, not a new growth target. **P02**, MD&A projected commitment-disbursement table, p. 41; [P01-P04]

Recommend a FY27 pace for the commercial shift and a set of underwriting, concentration, funding and monitoring guardrails. Consider what mix of CRE/construction, C&I and relationship-led services the bank should pursue as one-to-four-family loans run off. Your recommendation should explain what would trigger faster growth, a pause or a change in mix, and how those rules would interact with capital returns.

The following alternatives are constructed for this case; they are not disclosed company proposals:

1. **Pause the mix shift.** Replace residential runoff locally where feasible and let commercial exposure stabilize or amortize.
2. **Continue a measured, runoff-funded shift.** Grow commercial loans while setting explicit property, geography, borrower, underwriting, funding and stress-test gates; favor opportunities with relationship deposits or other services.
3. **Accelerate selectively.** Increase commercial capacity where risk-adjusted relationship economics and monitoring resources support it, while limiting further CRE concentration through more C&I and diversified commercial relationships.

There is no public FY27 budget or segment-level return data to calculate an objectively optimal pace. Identify the data you would require, state any assumptions, and show how your policy would change if credit performance, funding or mortgage runoff diverged from expectations.

Source note

Company and regulatory evidence is mapped to P01-P05 in the research source register under site/research/capitol-federal-financial-inc/. Figures and portfolio metrics are dated to their stated periods. No Q4/FY26 results or post-cutoff information are used.