First Financial Northwest, Inc.
Form 10-K
March 11, 2010

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 December 31, 2009

OR

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

Commission File Number: 000-33652

FIRST FINANCIAL NORTHWEST, INC.
(Exact name of registrant as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	26-0610707 (I.R.S. Employer Identification Number)
201 Wells Avenue South, Renton, Washington (Address of principal executive offices)	98057 (Zip Code)

Registrant's telephone number, including area code: (425) 255-4400

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

Common Stock, $.01 par value per share (Title of Each Class)	The Nasdaq Stock Market LLC (Name of Each 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 NO X

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the 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, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and smaller reporting company in Rule 12b-2 of the Exchange Act:

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).
YES NO X

The aggregate market value of the Common Stock outstanding held by nonaffiliates of the Registrant based on the closing sales price of the Registrant=s Common Stock as quoted on The Nasdaq Stock Market LLC on June 30, 2009 was $155,876,615 (19,933,071) shares at $7.82 per share). For purposes of this calculation, common stock held only by executive officers and directors of the Registrant is considered to be held by affiliates. As of March 5, 2010, the Registrant had outstanding 18,805,168 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of Registrant's Definitive Proxy Statement for the 2010 Annual Meeting of Shareholders (Part III).

FIRST FINANCIAL NORTHWEST, INC.
2009 ANNUAL REPORT ON FORM 10-K

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Forward-Looking Statements

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This Form 10-K contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by the use of words such as "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential." These forward-looking statements relate to, among other things, expectations of the business environment in which we operate, projections of future performance, perceived opportunities in the market, potential future credit experience, and statements regarding our strategies. These forward-looking statements are based upon current management expectations and may, therefore, involve risks and uncertainties. Our actual results, performance, or achievements may differ materially from those suggested, expressed, or implied by forward-looking statements as a result of a wide variety or range of factors including, but not limited to: the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and other real estate owned that may be impacted by continued deterioration in the housing and commercial real estate markets and may lead to increased losses and nonperforming assets in our loan portfolio, and may result in our allowance for loan losses not being adequate to cover actual losses, and require us to materially increase our reserves; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes and other properties and fluctuations in real estate values in our market areas; results of examinations of us by the Office of Thrift Supervision and our bank subsidiary by the Federal Deposit Insurance Corporation, the Washington State Department of Financial Institutions, Division of Banks or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to pay dividends, add officers or directors, borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; our ability to attract and retain deposits; further increases in premiums for deposit insurance; our ability to control operating costs and expenses; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risk associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges; computer systems on which we depend could fail or experience a security breach; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgements; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; our ability to manage loan delinquency rates; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, including the interpretation of regulatory capital or other rules; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; the economic impact of war or any terrorist activities; other economic, competitive, governmental, regulatory, and technological factors affecting our operations; pricing, products and services; and other risks detailed in our reports filed with the U.S. Securities and Exchange Commission. Any of the forward-looking statements that we make in this Form 10-K and in the other public statements we make may turn out to be wrong because of the inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot foresee. Because of these and other uncertainties, our actual future results may be materially different from those expressed in any forward-looking statements made by or on our behalf. Therefore, these factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. We undertake no responsibility to update or revise any forward-looking statements.

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As used throughout this report, the terms "we", "our", or "us" refer to First Financial Northwest, Inc. and our consolidated subsidiaries.

Internet Website

We maintain a website with the address www.fsbnw.com. The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor's own Internet access charges, we make available free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports, on our investor information page. These reports are posted as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission ("SEC"). All of our SEC filings are also available free of charge at the SEC's website at www.sec.gov or by calling the SEC at 1-800-SEC-0330.

PART I

Item 1. Business

General

First Financial Northwest, Inc. ("First Financial Northwest"), a Washington corporation, was formed on June 1, 2007 for the purpose of becoming the holding company for First Savings Bank Northwest ("First Savings Bank") in connection with the conversion from a mutual holding company structure to a stock holding company structure. The mutual to stock conversion was completed on October 9, 2007 through the sale and issuance of 22,852,800 shares of common stock by First Financial Northwest including 1,692,800 shares contributed to our charitable foundation the First Financial Northwest Foundation, Inc. that was established in connection with the mutual to stock conversion. At December 31, 2009, we had total assets of $1.3 billion, total deposits of $939.4 million and total stockholders' equity of $228.5 million. As part of our various stock buy back programs, a significant amount of shares were repurchased leaving the outstanding shares at December 31, 2009 at 18,823,068. First Financial Northwest's business activities generally are limited to passive investment activities and oversight of its investment in First Savings Bank. Accordingly, the information set forth in this report, including consolidated financial statements and related data, relates primarily to First Savings Bank.

First Savings Bank was organized in 1923 as a Washington state chartered savings and loan association, converted to a federal mutual savings and loan association in 1935, and converted to a Washington state chartered mutual savings bank in 1992. In 2002, First Savings Bank reorganized into a two-tier mutual holding company structure, became a stock savings bank and became the wholly-owned subsidiary of First Financial of Renton. In connection with the conversion, First Savings Bank changed its name to "First Savings Bank Northwest."

First Savings Bank is examined and regulated by the Washington State Department of Financial Institutions and by the Federal Deposit Insurance Corporation ("FDIC"). First Savings Bank is required to have certain reserves set by the Board of Governors of the Federal Reserve System and is a member of the Federal Home Loan Bank of Seattle ("FHLB"), which is one of the 12 regional banks in the Federal Home Loan Bank System.

First Savings Bank is a community-based savings bank primarily serving King and, to a lesser extent, Pierce, Snohomish and Kitsap counties, Washington through our full-service banking office located in Renton, Washington. Our current business strategy includes an emphasis on one-to-four family residential mortgage, multifamily and commercial real estate lending. Until recently, we had also included construction/land development lending in our business strategy. We have deemphasized this type of lending over the past two years as a result of market conditions although these types of loans represented 14.7% of our loan portfolio at December 31, 2009. First Savings Bank=s business consists of attracting deposits from the public and utilizing these funds to originate one-to-four family, multifamily, construction/land development, commercial real estate, business and consumer loans.

At December 31, 2009, $496.7 million or 44.5% of our total loan portfolio was comprised of one-to-four family loans; commercial real estate loans were $289.0 million or 25.9%; construction/land development loans were $164.0 million or 14.7%; multifamily residential loans were $146.5 million or 13.1%; and consumer and business loans were $18.7 million and $353,000, or 1.7% and 0.03%, respectively. Included in our construction/land development and one-to-four family residential loan portfolios at December 31, 2009, were $57.1 million and $75.7 million of total loans, respectively, to our five largest borrowing relationships. In addition, $71.8 million, net of undisbursed funds, of the construction/land development portfolio were classified as nonperforming.

The principal executive offices of First Savings Bank are located at 201 Wells Avenue South, Renton, Washington, 98057 and its telephone number is (425) 255-4400.

Market Area

We consider our primary market area to be the Puget Sound Region, which consists primarily of King, Pierce, Snohomish and Kitsap counties. The economies of King, Pierce, Kitsap and Snohomish counties have continued to experience economic challenges during 2009. Home prices have continued to experience downward pressure caused by increased foreclosure activity and short sales during the year.

King County has the largest population of any county in the State of Washington, covering approximately 2,134 square miles. It has a population of approximately 1.9 million residents according to the U.S. Census Bureau 2008 estimates, and a median household income of approximately $84,000 according to the 2009 U.S. Department of Housing and Urban Development estimates. King County has a diversified economic base with many nationally recognized firms including Boeing, Microsoft, Paccar and Amazon. According to the Washington State Employment Security Department, the unemployment rate for King County increased to 8.5% at December 31, 2009 from 5.6% at December 31, 2008 compared to the national average of 10.0%. Residential housing values depreciated in the King County market by 5.6% during the year ended 2009, with a median home price of $350,000. Residential sales volumes increased by 51.4% in December 2009 as compared to December 2008 as inventory levels are projected to be 5.4 months according to the Northwest Multiple Listing Service.

Pierce County has the second largest population of any county in the State of Washington, covering approximately 1,790 square miles. It has approximately 786,000 residents according to the U.S. Census Bureau 2008 estimates, and a median household income of approximately $68,000 according to the 2009 U.S. Department of Housing and Urban Development estimates. The Pierce County economy is diversified with the presence of military related government employment (Fort Lewis Army Base and McChord Air Force Base), transportation and shipping employment (Port of Tacoma), and aerospace related employment (Boeing). According to the Washington State Employment Security Department the unemployment rate for Pierce County increased to 9.5% in December 2009 from 7.1% in December 2008. Residential housing values depreciated in the Pierce County market by 8.5% during the year ended 2009 with a median home price of $215,000 according to the Northwest Multiple Listing Service.

Snohomish County has the third largest population of any county in the State of Washington, covering approximately 2,090 square miles. It has approximately 684,000 residents according to the U.S. Census Bureau 2008 estimates, and a median household income of approximately $84,000 according to the 2009 U.S. Department of Housing and Urban Development estimates. The economy of Snohomish County is diversified with the presence of military related government employment (Everett Homeport Naval Base), aerospace related employment (Boeing) and retail trade. According to the Washington State Employment Security Department, the unemployment rate for Snohomish County increased to 10.3% in December 2009 from 7.0% in December 2008. Residential housing values depreciated in the Snohomish County market by 8.8% during the year ended December 31, 2009 with a median home price of $280,000. Residential sales volumes increased by 31.4% in 2009 as compared to 2008 as inventory levels are projected to be 5.7 months according to the Northwest Multiple Listing Service.

Kitsap County has the sixth largest population of any county in the state of Washington, covering approximately 566 square miles. It has approximately 240,000 residents according to the U.S. Census Bureau 2008 estimates, and a median household income of approximately $71,000 according to the 2009 U.S. Department of Housing and Urban Development estimates. The Kitsap County economy is diversified with the presence of military related government employment (Naval Base Kitsap, Puget Sound Naval Shipyard), health care, retail and education. According to the Washington State Employment Security Department, the unemployment rate for Kitsap County increased to 7.6% in December 2009 from 5.9% in December 2008. Residential housing values appreciated in the Kitsap County housing market by 8.3% in 2009 as compared to 2008 with a median home price of $240,000 according to Northwest Multiple Listing Service.

For a discussion regarding the competition in our primary market area, see "- Competition."

Lending Activities

General. We focus our lending activities primarily on loans secured by first mortgages on one-to-four family residences, commercial and multifamily real estate. In the past, our focus has also included construction/land development lending. Over the past two years we have deemphasized this type of lending as a result of market conditions. We offer a limited variety of consumer secured loans, including savings account loans and home equity loans, which include lines of credit and second mortgage loans. As of December 31, 2009, our net loan portfolio totaled $1.0 billion and represented 79.0% of our total assets.

Our loan policy limits the maximum amount of loans we can make to one borrower to 20% of First Savings Bank's risk-based capital. As of December 31, 2009, the maximum amount which we could lend to any one borrower was $34.9 million based on our policy. Exceptions may be made to this policy with the prior approval of the Executive Committee (comprised of the Chief Executive Officer and two outside Directors) and ratification by the Board of Directors if the borrower exhibits financial strength or compensating factors to sufficiently offset any weaknesses based on the loan-to-value ratio, borrower's financial condition, net worth, credit history, earnings capacity, installment obligations, and current payment habits. The five largest borrowing relationships as of December 31, 2009 in descending order are:

Borrower (1)	Aggregate Amount of Loans at December 31, 2009 (2)	Number of Loans
Real estate builder	$47.9 million(3)	150
Real estate builder	39.5 million	144
Real estate builder	28.7 million	120
Real estate builder	19.0 million(4)	71
Real estate investor	17.6 million	3
Total	$152.7 million	488

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(1) The composition of borrowers represented in the table may change between periods.
(2) Net of undisbursed funds.
(3) Of this amount, $9.2 million are considered impaired loans and are classified as performing.
(4) Of this amount, $14.6 million are considered impaired loans and are classified as nonperforming.

The following table details the breakdown of the types of loans to our top five borrower relationships at December 31, 2009.

Borrower	One-to-Four Family Residential Loans (Rental Properties)	Multifamily Loans	Commercial Loans (Rental Properties)	Construction/Land Development (1)	Aggregate Amount of Loans (1)
Real estate builder (2)	$18.7 million	$ --	$0.3 million	$28.9 million	$47.9 million
Real estate builder	26.6 million	--	0.8 million	12.1 million	39.5 million
Real estate builder	19.2 million	1.1 million	0.1 million	8.3 million	28.7 million
		--	--	7.8 million	19.0 million

Real estate builder (3)	11.2 million				
Real estate investor	--	--	17.6 million	--	17.6 million
Total	$75.7 million	$1.1 million	$18.8 million	$57.1 million	$152.7 million

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(1) Net of undisbursed funds.

(2) Of the $9.2 million loans considered impaired, $2.0 million are one-to-four family residential loans and $7.2 million are construction/land development loans.

(3) Of the $14.6 million loans considered impaired, $6.8 million are one-to-four family residential loans and $7.8 million are construction/land development loans.

Some of the builders listed in the above tables, as part of their business strategy, retain a certain percentage of their finished homes in their own inventory of permanent investment properties, (i.e. one-to-four family rental properties). These properties are used to enhance the builders' liquidity through rental income and improve their equity position, long-term, through the appreciation in market value of the property. As part of our underwriting process we review the borrowers' business strategy to determine the feasibility of the project. In the past couple of years, these builders have taken more rental properties into their portfolio than originally planned as a result of the depressed housing market. For the four builders included in the previous table, the total one-to-four family rental properties increased $9.0 million, or 13.5% to $75.7 million at December 31, 2009 from $66.7 million at December 31, 2008. Included in the 2009 amount were 46 loans that were still in the construction phase with undisbursed funds totaling $4.1 million, which when they were originated, the intent was to turn these into rental properties. In

2009, we originated 13 one-to-four family loans with a total balance of $4.4 million to three builders with smaller borrowings not included in the table above and paid-off the construction loans that we held so that the builder could rent out the homes in order to enhance their cash flow.

Loan Portfolio Analysis. The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated.

	At December 31,						
	2009		2008		2007		2
	Amount	Percent	Amount	Percent	Amount	Percent	Amoun
	(Dollars in thousands)						
Real Estate:							
One-to-four family residential	$496,731	44.54 %	$512,446	45.05 %	$424,863	42.45 %	$373,19
Multifamily residential	146,508	13.14	100,940	8.87	76,039	7.60	79,70
Commercial	288,996	25.91	260,727	22.92	204,798	20.46	153,92
Construction/land development	163,953	14.70	250,512	22.02	288,378	28.82	153,40
Total real estate	1,096,188	98.29	1,124,625	98.86	994,078	99.33	760,2
Business	353	0.03	--	--	--	--	--
Consumer	18,678	1.68	12,927	1.14	6,672	0.67	3,537
Total loans	1,115,219	100.00%	1,137,552	100.00%	1,000,750	100.00%	763,7
Less:							
Loans in process	39,942		82,541		108,939		58,73
Deferred loan fees	2,938		2,848		3,176		2,725
Allowance for loan losses	33,039		16,982		7,971		1,971
Loans receivable, net	$1,039,300		$1,035,181		$880,664		$700,32

The following table shows the composition of our loan portfolio by fixed and adjustable-rate loans at the dates indicated.

	At December 31,							
	2009		2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	P
	(Dollars in thousands)							
FIXED-RATE LOANS								
Real estate:								
One-to-four family residential	$482,531	43.27 %	$506,288	44.50	$417,820	41.75 %	$365,868	4
Multifamily residential	128,561	11.53	99,510	8.75	75,748	7.57	78,331	1
Commercial	270,604	24.26	245,447	21.58	183,922	18.38	151,557	1
Construction/land development	9,701	0.87	20,689	1.82	3,928	0.39	11,892	1
Total real estate	891,397	79.93	871,934	76.65	681,418	68.09	607,648	7
Business	150	0.01	--	--	--	--	--	-
Consumer	3,561	0.32	3,488	0.31	2,394	0.24	2,354	0
Total fixed-rate loans	895,108	80.26	875,422	76.96	683,812	68.33	610,002	7
ADJUSTABLE-RATE LOANS								
Real estate:								
One-to-four family residential	14,200	1.27	6,158	0.54	7,043	0.70	7,324	0
Multifamily residential	17,947	1.61	1,430	0.13	291	0.03	1,370	0
Commercial	18,392	1.65	15,280	1.34	20,876	2.09	2,367	0
Construction/land development	154,252	13.83	229,823	20.20	284,450	28.42	141,509	1
Total real estate	204,791	18.36	252,691	22.21	312,660	31.24	152,570	1
Business	203	0.02	--	--	--	--	--	-
Consumer	15,117	1.36	9,439	0.83	4,278	0.43	1,183	0
Total adjustable-rate loans	220,111	19.74	262,130	23.04	316,938	31.67	153,753	2
Total loans	1,115,219	100.00%	1,137,552	100.00%	1,000,750	100.00%	763,755	1
Less:								
Loans in process	39,942		82,541		108,939		58,731	
Deferred loan fees	2,938		2,848		3,176		2,725	
Allowance for loan losses	33,039		16,982		7,971		1,971	
Loans receivable, net	$1,039,300		$1,035,181		$880,664		$700,328	

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One-to-Four Family Residential Real Estate Lending. As of December 31, 2009, $496.7 million, or 44.5%, of our total loan portfolio consisted of permanent loans secured by one-to-four family residences.

First Savings Bank is a traditional fixed-rate portfolio lender when it comes to financing residential home loans. In 2009, we originated $73.7 million in one-to-four family residential loans, most of which had fixed-rates and fixed terms. Most of our residential loan originations are in connection with either the refinance of an existing loan or the conversion from a construction loan to a one-to-four family residential loan that the builder utilizes for leasing purposes as part of their operating strategy. At December 31, 2009, $265.9 million or 53.5% of our one-to-four family residential portfolio consisted of owner occupied loans with $230.8 million or 46.5% in non-owner occupied loans. In addition, at December 31, 2009 $482.5 million, or 97.1%, of our one-to-four family residential mortgage loan portfolio consisted of fixed-rate loans. Substantially all of our one-to-four family residential mortgage loans require both monthly principal and interest payments.

We also originate a limited number of jumbo fixed-rate loans that we retain in our portfolio. Loans originated with balances greater than $417,000 are generally considered jumbo except those originated in King, Pierce and Snohomish counties where the threshold for purchase by Freddie Mac and Fannie Mae was increased in 2008 to $567,500. One-to-four family residential loans classified as jumbo fixed-rate loans totaled $126.0 million consisted of 173 loans at December 31, 2009. The loans in this portfolio have been priced at rates of 0.25% to 1.00% higher than the standard rates quoted on conventional loans. As of December 31, 2009, $10.9 million of our jumbo loan portfolio was over 90 days past due and there were two loans totaling $1.9 million that were past due over 60 days but less then 90 days. The remaining loans in the jumbo loan portfolio were performing in accordance with their loan repayment terms.

Our fixed-rate, single-family residential mortgage loans are normally originated with 15 to 30 year terms, although such loans typically remain outstanding for substantially shorter periods, particularly in a declining interest rate environment. In addition, substantially all residential mortgage loans in our loan portfolio contain due-on-sale clauses providing that we may declare the unpaid amount due and payable upon the sale of the property securing the loan. Typically, we enforce these due-on-sale clauses to the extent permitted by law and as a standard course of business. The average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans.

Our lending policies generally limit the maximum loan-to-value ratio on mortgage loans secured by owner-occupied properties to 95% of the lesser of the appraised value or the purchase price. We usually obtain private mortgage insurance on the portion of the principal amount that exceeds 90% of the appraised value of the secured property. The maximum loan-to-value ratio on mortgage loans secured by non-owner occupied properties is generally 80% on purchases and refinances with exceptions requiring the loan committee approval. Properties securing our one-to-four family loans are appraised by independent fee appraisers approved by us. We require the borrowers to obtain title, hazard, and, if necessary, flood insurance. We generally do not require earthquake insurance because of competitive market factors.

Our construction loans to individuals to build their personal residences typically are structured as construction/permanent loans permitting one closing for both the construction loan and the permanent financing. Prior to making a commitment to fund a construction loan, we require an appraisal of the post construction value of the project by an independent fee appraiser. During the construction phase, which typically lasts for eight months, an approved fee inspector or our designated loan officer makes periodic inspections of the construction site and loan proceeds are disbursed directly to the contractor or borrower as construction progresses. Typically, disbursements are made in seven draws during the construction period. Construction loans require payment of interest only during the construction phase and are structured to be converted to fixed-rate permanent loans at the end of the construction phase. At December 31, 2009, our total owner-occupied construction loans to individuals amounted to $4.3 million or

0.9% of the one-to-four family residential loan balance.

Loans secured by rental properties represent a unique credit risk to us and, as a result, we adhere to more stringent underwriting guidelines. Of primary concern in non-owner occupied real estate lending is the consistency of rental income of the property. Payments on loans secured by rental properties depend primarily on the tenants continuing ability to pay rent to the property owner, who is our borrower or, if the property owner is unable to find a tenant, the property owners ability to repay the loan without the benefit of a rental income stream. In addition, successful operation and management of non-owner occupied properties, including property maintenance standards, may affect repayment. As a result, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. To monitor cash flows on rental properties, we generally require borrowers and loan guarantors, if any, to provide annual financial statements and we consider and review a rental income cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property. We generally require collateral on these loans to be a first mortgage along with an assignment of rents and leases. If the borrower has multiple loans for rental properties with us, the loans are typically not cross-collateralized.

Residential mortgage loans up to $1.5 million are approved by the Residential/Consumer Loan Committee which consists of any two of the following individuals: the Chief Executive Officer/President, the Senior Vice President, Chief Lending Administrative Officer, the Vice President of Credit Administration, Executive Vice President and Loan Officers as appointed by the Board of Directors, and one of the approvals must be at an Assistant Vice President level or higher. Loans in excess of $1.5 million and up to $5.0 million are approved by the Executive Committee which is comprised of the Chief Executive Officer and two outside directors. Individual loans in excess of $5.0 million and lending relationships to one borrower exceeding 20% of First Savings Bank's risk based capital requires the approval of the full Board of Directors. At December 31, 2009, $36.9 million of our one-to-four family residential loans were delinquent in excess of 90 days or in nonaccrual status. Charged-off one-to-four family residential loans totaled $6.0 million for the year ended December 31, 2009. No one-to-four family residential loans were charged-off during the years ended December 31, 2008 and 2007.

Multifamily and Commercial Real Estate Lending. Multifamily and commercial real estate loans up to $3.0 million are approved by the Commercial Loan Committee which consists of any two of the following individuals: the Chief Executive Officer/President, the Executive Vice President, the Senior Vice President of Credit Administration and the Vice President of Commercial Banking. Loans in excess of $3.0 million and up to $5.0 million are approved by the Executive Committee, which consists of the Chief Executive Officer and two outside directors. Loans in excess of $5.0 million require the approval of the full Board of Directors. As of December 31, 2009, $146.5 million, or 13.1% of our total loan portfolio was secured by multifamily real estate, and $289.0 million, or 25.9% of our loan portfolio was secured by commercial real estate property. Our commercial real estate loans are typically secured by office and medical buildings, retail shopping centers, mini-storage facilities, industrial use buildings, and warehouses. Substantially all of our multifamily and commercial real estate loans are secured by properties located in our market area.

Multifamily and commercial real estate loans generally are priced at a higher rate of interest than one-to-four family residential loans and generally have a maximum loan-to-value ratio of 75% of the lesser of the appraised value or purchase price. Typically, these loans have higher loan balances, are more complex to evaluate and monitor, and involve a greater degree of risk than one-to-four family residential loans. Often payments on loans secured by multifamily or commercial properties are dependent on the successful operation and management of the property; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. We generally require and obtain loan guarantees from financially capable parties based upon the review of personal financial statements. If the borrower is a corporation or partnership, we generally require and obtain personal guarantees from the principals based upon a review of their personal financial statements and individual credit reports.

The average loan size in our multifamily and commercial real estate loan portfolios was $970,000 and $1.1 million, respectively, as of December 31, 2009. We also target individual multifamily and commercial real estate loans between $1.0 million and $5.0 million; however, we can by policy originate loans to one borrower up to 20% of First Savings Bank's risk-based capital. The largest multifamily loan as of December 31, 2009 was an apartment complex with a net outstanding principal balance at December 31, 2009 of $7.4 million located in Pierce County. As of

December 31, 2009, the largest single commercial real estate loan had a net outstanding balance of $12.8 million and was secured by a medical office building located in Pierce County. These loans were performing according to their respective loan repayment terms.

We also make construction loans to owners for commercial development projects. The projects include multifamily, apartment, retail, office/warehouse and office buildings. These loans generally have an interest-only phase during construction, and generally convert to permanent financing when construction is completed.

Disbursement of funds is at our sole discretion and is based on the progress of construction. Generally the maximum loan-to-value limit applicable to these loans is 75% of the appraised post-construction value. At December 31, 2009, construction loans amounted to $49.2 million or 11.3% of the combined multifamily and commercial real estate loan portfolio.

The credit risk related to multifamily and commercial real estate loans is considered to be greater than the risk related to one-to-four family residential loans because the repayment of multifamily and commercial real estate loans typically is dependent on the income stream of the real estate securing the loan as collateral and the successful operation of the borrower's business, which can be significantly affected by adverse conditions in the real estate markets or in the economy generally. For example, if the cash flow from the borrower's project is reduced due to leases not being obtained or renewed, the borrower's ability to repay the loan may be impaired. In addition, many of our multifamily and commercial real estate loans are not fully amortizing and contain large balloon payments upon maturity. These balloon payments may require the borrower to either sell or refinance the underlying property in order to make the balloon payment.

If we foreclose on a multifamily or commercial real estate loan, our holding period for the collateral typically is longer than for one-to-four family residential mortgage loans because there are fewer potential purchasers of the collateral. Our multifamily and commercial real estate loans generally have relatively large balances to single borrowers or related groups of borrowers. Accordingly, if we make any errors in judgment in the collectibility of our commercial real estate loans, any resulting charge-offs may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. No multifamily loans were delinquent in excess of 90 days or in nonaccrual status, and 20 commercial real estate loans totaling $11.5 million were 90 days or more delinquent or in nonaccrual status at December 31, 2009. Commercial real estate loans totaling $2.8 million were charged-off during the year ended December 31, 2009 as compared to none for the years ended December 31, 2008 and 2007. No multifamily loans were charged-off during the years ended December 31, 2009, 2008 and 2007.

Construction/Land Development Loans. We have been an originator of construction/land development loans to residential builders since 1977 for the construction of single-family residences, condominiums, townhouses and residential developments located in our market area. Our land development loans are generally made to builders intending to develop lots for their own use at a later date. At December 31, 2009, our total construction/land development loans amounted to $164.0 million, or 14.7%, of our total loan portfolio. At December 31, 2009, our one-to-four family residential construction lending and land development loans to builders amounted to approximately $95.7 million, and $63.5 million, respectively. The $86.5 million decrease in this portfolio from December 31, 2008 to December 31, 2009 was the result of our concerted efforts working with our current construction loan customers, not expanding this line of business during these troubling economic times, charge-offs, the migration of problem loans to other real estate owned ("OREO"), and loan payoffs. Our construction/land development loan portfolio has experienced the highest delinquency rate as well as has the largest amount of nonperforming loans as compared to other types of loans within our loan portfolio. Construction/land development loans classified as nonperforming totaled $71.8 million, net of undisbursed funds. At December 31, 2009, the undisbursed portion of our construction/land development loans totaled $23.2 million.

At the dates indicated, the composition of our total construction/land development loan portfolio and the related nonperforming loans in this portfolio were as follows:

	At December 31,		Nonperforming loans at December 31,	
	2009	2008	2009	2008
	(In thousands)			
One-to-four family residential:				
Construction speculative	$ 95,699	$ 145,329	$ 53,100	$ 49,342
Multifamily residential:				
Construction speculative	3,624	13,322	3,624	--
Commercial:				
Construction speculative	1,129	1,324	706	900
Land development loans	63,501	90,537	23,168	8,271
Total construction/land development (1)(2)	$ 163,953	$ 250,512	$ 80,598	$ 58,513

(1) Loans in process for construction/land development at December 31, 2009 and 2008 were $23.2 million and $63.7 million, respectively. Loans in process for nonperforming construction/land development loans at December 31, 2009 and 2008 were $8.8 million and $14.5 million, respectively.

(2) We do not include construction loans that will convert to permanent loans in the construction/land development category. We consider these loans to be "rollovers" in that one loan is originated for both the construction loan and permanent financing. These loans are classified according to the underlying collateral. As a result, at December 31, 2009 we had $15.7 million, or 3.2% of our total one-to-four family loan portfolio, $31.6 million or 10.9% of our total commercial real estate portfolio and $17.6 million, or 12.0% of our total multifamily loan portfolio in these "rollover" types of loans. Loans in process for these loans at December 31, 2009 were $15.5 million.

The following table includes construction/land development loans by county at December 31, 2009:

County	Loan Balance (1)	Percent of Loan Balance (1)
	(Dollars in thousands)	
King County	$59,905	42.4%
Pierce County	23,722	16.9
Kitsap County	16,960	12.1
Snohomish County	11,525	8.2
Whatcom County	11,491	8.2
Thurston County	9,911	7.0
All other counties	7,284	5.2
Total	$140,798	100.0%

(1) Net of undisbursed funds.

We originate construction/land development loans to contractors and builders primarily to finance the construction of single-family homes and subdivisions, these homes typically have an average price ranging from $300,000 to $550,000. Loans to finance the construction of single-family homes and subdivisions are generally offered to builders in our primary market areas. The maximum loan-to-value limit applicable to these loans is generally 75% to 80% of the appraised market value upon completion of the project. We do not require any cash equity from the borrower if there is sufficient equity in the land being used as collateral. Development plans are required from builders prior to making the loan. We require that builders maintain adequate insurance coverage.

While maturity dates for residential construction loans are largely a function of the estimated construction period of the project, and generally do not exceed one year, land development loans generally are for 18 to 24 months. Substantially all of our residential construction loans have adjustable-rates of interest based on The Wall Street Journal Prime Rate. As a strategy to manage interest rate risk, during the latter part of 2008 and during 2009 we established interest rate floors on most construction/land development loans that were renewed. During the term of construction, the accumulated interest on the loan is either added to the principal of the loan through an interest reserve, or billed monthly. We have interest reserves on $10.4 million of our total construction spec loans, with undisbursed funds totaling $3.3 million. When these loans with reserves exhaust their original reserves set up at origination, no new reserves are created for the loan unless the loan is re-analyzed and it is determined that there are funds available to fund the reserve. This may include the borrower agreeing to reduce their profit margin. Construction loan proceeds are disbursed periodically in increments as construction progresses and as inspection by our approved inspectors warrant. Total loan amounts for land development loans generally range from $500,000 to $6.0 million with an average individual loan commitment at December 31, 2009 of $1.8 million. At December 31, 2009, our largest construction/land development loan had a total principal balance of $11.5 million and was secured by a first mortgage lien on a condominium project located in Whatcom County. This loan was classified as nonperforming at December 31, 2009. At December 31, 2009, our three largest borrowing relationships for construction/land development loans had aggregate net outstanding loan balances of $28.9 million (of which $7.2 million is impaired), $12.1 million and $8.3 million. These balances do not include other lending relationships we may have with these borrowers.

Our construction/land development loans are based upon estimates of costs and values associated with the completed project. Construction/land development lending involves additional risks when compared with permanent residential lending because funds are advanced upon the security on the project, which is of uncertain value prior to its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation on real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. These loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. At December 31, 2009, we had $71.8 million of net construction/land development loans that were classified as nonperforming and $63.2 million of those loans were in excess of 90 days delinquent. In addition, a total of $74.7 million construction/land development relationships to 16 builders were considered impaired as of December 31, 2009. Construction/land development loans of $26.3 million were charged-off during the year ended December 31, 2009. Charge-offs for this loan category were $432,000 and $0 for 2008 and 2007. Further, as a result of the slowdown in the housing market during 2009, we have extended some of the construction loans to permit completion of the project or to allow the borrower additional time to market the underlying collateral. Most of these loans mature within 12 months. To the extent these loans are not further extended or the borrower cannot otherwise refinance with a third party lender our nonperforming construction loans may increase. For more information regarding loan delinquencies and impaired loans see "Asset Quality" under Item 1.

Consumer Lending. We offer a limited variety of consumer loans to our customers, consisting primarily of home equity loans, personal lines of credit and savings account loans. Generally, consumer loans have shorter terms to maturity and higher interest rates than mortgage loans. Consumer loans are made with both fixed and variable interest rates and with varying terms. At December 31, 2009, consumer loans amounted to $18.7 million, or 1.7%, of the total loan portfolio.

At December 31, 2009, the largest component of the consumer loan portfolio consisted of home equity loans, primarily home equity lines of credit, which totaled $14.1 million, or 75.4%, of the total consumer loan portfolio. Home equity loans are made for purposes such as the improvement of residential properties, debt consolidation and education expenses. The majority of these loans are secured by a first or second mortgage on residential property. The loan-to-value ratio is primarily 90% or less, when taking into account both the balance of the home equity loans and the first mortgage loan. Home equity lines of credit allow for a ten-year draw period. As of December 31, 2009 the undisbursed portion of the lines of credit totaled $9.3 million. The interest rate is tied to the prime rate as published in The Wall Street Journal, and may include a margin.

Consumer loans entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciating assets. In these cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans. Home equity lines of credit have greater credit risk than one-to-four family residential mortgage loans because they are secured by mortgages subordinated to the existing first mortgage on the property, which we may or may not hold in our portfolio. We do not have private mortgage insurance coverage on these loans. Adjustable-rate loans may experience a higher rate of default in a rising interest rate environment due to the increase in payment amounts caused by the increase in interest rates as loan rates reset. If current economic conditions deteriorate for our borrowers and their home prices continue to fall, we may also experience higher credit losses from this loan portfolio. Since our home equity loans primarily consist of second mortgage loans, it is unlikely that we will be successful in recovering all, if any, portion of our loan principal amount outstanding in the event of a default. At December 31, 2009, two consumer loans totaling $143,000 were delinquent in excess of 90 days or in nonaccrual status. Consumer loans totaling $164,000 were charged-off during the year ended December 31, 2009. No consumer loans were charged-off during the years ended December 31, 2008 or 2007.

Loan Maturity and Repricing. The following table sets forth certain information at December 31, 2009 regarding the amount of loans repricing or maturing in our portfolio based on their contractual terms to maturity, but does not include prepayments. Loan balances do not include undisbursed loan funds, deferred loan fees and costs and allowance for loan losses.

	Within One Year	After One Year Through Three Years	After Three Years Through Five Years	After Five Years Through Ten Years	Beyond Ten Years	Total
			(In thousands)			
Real Estate:						
One-to-four family residential	$ 21,464	$ 33,140	$ 76,251	$ 170,778	$ 195,098	$ 496,731
Multifamily residential	22,919	20,547	42,971	59,483	588	146,508
Commercial	21,041	27,354	71,323	154,731	14,547	288,996
Construction/land development	154,592	9,361	--	--	--	163,953
Total real estate	220,016	90,402	190,545	384,992	210,233	1,096,188
Business	203	--	150	--	--	353
Consumer	16,276	19	251	2,112	20	18,678

Total	$ 236,495	$ 90,421	$ 190,946	$ 387,104	$ 210,253	$ 1,115,219

The following table sets forth the amount of all loans due after December 31, 2010, with fixed or adjustable interest rates.

	Fixed Rate	Adjustable-rate	Total
		(In thousands)	
Real Estate:			
One-to-four family residential	$ 475,267	$ --	$ 475,267
Multifamily residential	123,320	269	123,589
Commercial	266,036	1,919	267,955
Construction/land development	9,361	--	9,361
Total real estate	873,984	2,188	876,172
Business	150	--	150
Consumer	2,397	&#	