Home Federal Bancorp, Inc. of Louisiana
Form ARS
October 05, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2016
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to _________________.

Commission File Number 001-35019

HOME FEDERAL BANCORP, INC. OF LOUISIANA
(Exact name of registrant as specified in its charter)

Louisiana	02-0815311
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
624 Market Street, Shreveport, Louisiana	71101
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (318) 222-1145

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

Title of each class	Name of each exchange on which registered
Common Stock (par value $.01 per share)	Nasdaq Stock Market, LLC

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
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
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 5(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 (§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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	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 Act). Yes No
The aggregate value of the 1.5 million shares of Common Stock of the Registrant issued and outstanding on December 31, 2015, which excludes an aggregate of 565,000 shares held by all directors and executives officers of the Registrant, the Registrant's Employee Stock Ownership Plan ("ESOP"), the Recognition and Retention Plan Trust ("RRP") and Employees' Savings and Profit Sharing Plan ("401(k) Plan") as a group was $34.25 million. This figure is based on the closing sales price of $23.25 per share of the Registrant's Common Stock on December 31, 2015, the last business day of the Registrant's second fiscal quarter. Although directors and executive officers, the ESOP, RRP and 401(k) Plan were assumed to be "affiliates" of the Registrant for purposes of this calculation, the classification is not to be interpreted as an admission of such status.
Number of shares of Common Stock outstanding as of September 20, 2016: 1,960,719

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Definitive Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated into Part III, Items 10 through 14.

Home Federal Bancorp Inc. of Louisiana
Form 10-K
For the Year Ended June 30, 2016

PART I.

PART II.

PART III.

PART I

Item 1. Business

Home Federal Bancorp, Inc. of Louisiana, a Louisiana chartered corporation ("Home Federal Bancorp" or the "Company"), became the holding company for Home Federal Bank ("Home Federal Bank" or the "Bank") on December 22, 2010, upon completion of the Bank's second step conversion from the mutual holding company form of organization to the stock holding company form of organization. As part of the conversion, all outstanding shares of the former Home Federal Bancorp, Inc. of Louisiana common stock (other than those owned by Home Federal Mutual Holding Company) were converted into the right to receive 0.9110 of a share, and cash in lieu of fractional shares, of Home Federal Bancorp common stock resulting in approximately 1,100,609 shares issued in the exchange. In addition, a total of 1,945,220 shares of common stock of Home Federal Bancorp were sold in subscription, community and syndicated community offerings to certain depositors and borrowers of the Bank, the Bank's Employee Stock Ownership Plan and other investors for $10.00 per share, or $19.5 million in the aggregate. The net proceeds of the offering were approximately $18.0 million, after offering expenses.

Home Federal Bank is a federally chartered stock savings bank originally organized in 1924 as Home Building and Loan Association. The Bank reorganized into the mutual holding company structure in January 2005 and changed its name to "Home Federal Bank" in 2009 as part of its business strategy to be recognized as a community bank. Home Federal Bank's main office and six full service branch offices are located in Shreveport and Bossier City, Louisiana and serve the Shreveport-Bossier City metropolitan area. Home Federal Bank's business primarily consists of attracting deposits from the general public and using those funds to originate loans.

As of June 30, 2016, Home Federal Bancorp's only business activities are to hold all of the outstanding common stock of Home Federal Bank. Home Federal Bancorp is authorized to pursue other business activities permitted by applicable laws and regulations for savings and loan holding companies, which may include the issuance of additional shares of common stock to raise capital or to support mergers or acquisitions and borrowing funds for reinvestment in Home Federal Bank.

Home Federal Bancorp does not own or lease any property, but instead uses the premises, equipment and furniture of Home Federal Bank. At the present time, Home Federal Bancorp employs only persons who are officers of Home Federal Bank to serve as officers of Home Federal Bancorp and may also use the support staff of Home Federal Bank from time to time. These persons are not separately compensated by Home Federal Bancorp.

Pursuant to the regulations under Sections 23A and 23B of the Federal Reserve Act, Home Federal Bank and Home Federal Bancorp have entered into an expense sharing agreement. Under this agreement, Home Federal Bancorp will reimburse Home Federal Bank for the time that employees of Home Federal Bank devote to activities of Home Federal Bancorp, the portion of the expense of the annual independent audit attributable to Home Federal Bancorp and all expenses attributable to Home Federal Bancorp's public filing obligations under the Securities Exchange Act of 1934.

Market Area

Our primary market area for loans and deposits is in northwest Louisiana, particularly Caddo Parish and neighboring communities in Bossier Parish, which are located in the Shreveport-Bossier City metropolitan statistical area.

Shreveport and Bossier City are located in northern Louisiana on Interstate 20, approximately fifteen miles from the Texas state border and 185 miles east of Dallas, Texas. Our primary market area has a diversified economy with employment in services, government and wholesale/retail trade constituting the basis of the local economy, with service jobs being the largest component. The majority of the services are health care related as Shreveport has become a regional hub for health care. The casino gaming industry also supports a significant number of the service jobs. The energy sector has a prominent role in the regional economy, resulting from oil and gas exploration and drilling.

Competition. We face significant competition both in attracting deposits and in making loans. Our most direct competition for deposits has come historically from commercial banks, credit unions and other savings institutions located in our primary market area, including many large financial institutions which have greater financial and marketing resources available to them. In addition, we face significant competition for investors' funds from short-term money market securities, mutual funds and other corporate and government securities. We do not rely upon any individual group or entity for a material portion of our deposits. Our ability to attract and retain deposits depends on our ability to generally provide a rate of return, liquidity and risk comparable to that offered by competing investment opportunities.

Our competition for real estate loans comes principally from mortgage banking companies, commercial banks, other savings institutions and credit unions. We compete for loan originations primarily through the interest rates and loan fees we charge, and the efficiency and quality of services we provide borrowers. Factors which affect competition include general and local economic conditions, current interest rate levels and volatility in the mortgage markets. Competition may increase as a result of the continuing reduction of restrictions on the interstate operations of financial institutions.

Lending Activities

General. At June 30, 2016, our net loan portfolio amounted to $290.8 million, representing approximately 76.2% of total assets at that date. Historically, our principal lending activity was the origination of one- to four-family residential loans. At June 30, 2016, one- to four-family residential loans amounted to $118.0 million, or 40.2% of the total loan portfolio. Commercial real estate loans amounted to $69.2 million, or 23.6% of the total loan portfolio at June 30, 2016.

The types of loans that we may originate are subject to federal and state laws and regulations. Interest rates charged on loans are affected principally by the demand for such loans and the supply of money available for lending purposes and the rates offered by our competitors. These factors are, in turn, affected by general and economic conditions, the monetary policy of the federal government, including the Federal Reserve Board, legislative and tax policies, and governmental budgetary matters.

A savings institution generally may not make loans to one borrower and related entities in an amount which exceeds 15% of its unimpaired capital and surplus, although loans in an amount equal to an additional 10% of unimpaired capital and surplus may be made to a borrower if the loans are fully secured by readily marketable securities. In addition, upon application the Office of the Comptroller of the Currency permits a savings institution to lend up to an additional 15% of unimpaired capital and surplus to one borrower to develop domestic residential housing units. At June 30, 2016, our regulatory limit on loans-to-one borrower was $6.9 million and the five largest loans or groups of loans-to-one borrower, including related entities, aggregated $5.2 million, $4.9 million, $4.8 million, $4.8 million and $4.8 million. Each of our five largest loans or groups of loans was originated with strong guarantor support to known borrowers in our market area and performing in accordance with its terms at June 30, 2016.

Loans to or guaranteed by general obligations of a state or political subdivision are not subject to the foregoing lending limits.

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Loan Portfolio Composition. The following table shows the composition of our loan portfolio by type of loan at the dates indicated.

	June 30, 2016		2015		2014		2013		2012	
	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Perce of Total Loan
	(Dollars in thousands)									
Real estate loans:										
One- to four-family residential(1)	$118,035	40.17 %	$103,332	38.11 %	$89,545	36.96 %	$73,243	35.11 %	$59,410	34.8
Commercial – real estate secured:										
Owner occupied	47,425	16.14	38,280	14.12	29,210	12.06	25,523	12.24	27,103	15.9
Non-owner occupied	21,772	7.41	23,800	8.78	27,056	11.17	25,646	12.30	12,127	7.12
Total commercial-real estate secured	69,197	23.55	62,080	22.90	56,266	23.23	51,169	24.54	39,230	23.0
Multi-family residential	20,661	7.03	15,246	5.62	20,368	8.41	19,587	9.39	12,919	7.58
Land	24,308	8.27	19,866	7.33	19,945	8.23	15,589	7.47	12,317	7.23
Construction	14,442	4.92	17,620	6.50	12,505	5.16	16,937	8.12	22,660	13.3
Home equity loans and second mortgage loans	1,526	0.52	2,460	0.91	2,563	1.06	2,305	1.11	2,520	1.48
Equity lines of credit	17,290	5.88	22,187	8.18	14,950	6.17	12,592	6.04	8,461	4.97
Total real estate loans	265,459	90.34	242,791	89.55	216,142	89.22	191,422	91.78	157,517	92.4
Commercial business	27,886	9.49	28,019	10.33	25,749	10.63	16,776	8.04	12,369	7.26
Consumer non-real estate loans:										
Savings accounts	404	0.14	209	0.08	255	0.11	259	0.12	227	0.13
Automobile and other consumer loans	86	0.03	110	0.04	111	0.04	128	0.06	228	0.14
Total non-real estate loans	28,376	9.66	28,338	10.45	26,115	10.78	17,163	8.23	12,824	7.53
Total loans	293,835	100.00 %	271,129	100.00 %	242,257	100.00 %	208,585	100.00 %	170,341	100.
Less:										
	(2,845)		(2,515)		(2,396)		(2,240)		(1,698)	

Allowance for loan losses					
Deferred loan fees	(163)	(187)	(298)	(266)	(380)
Net loans receivable(1)	$290,827	$268,427	$239,563	$206,079	$168,263

(1) Does not include loans held-for-sale amounting to $11.9 million, $14.2 million, $9.4 million, $3.5 million and $11.2 million at June 30, 2016, 2015, 2014, 2013 and 2012, respectively.

Origination of Loans. Our lending activities are subject to written underwriting standards and loan origination procedures established by the board of directors and management. When applicable, loans originated are also subject to the underwriting standards of Fannie Mae, Freddie Mac, HUD, VA, USDA and correspondent banks that purchase loans we originate. Loan originations are obtained through a variety of sources, primarily from existing customers, local realtors and builders. Written loan applications are taken by one of our loan officers. The loan officer also supervises the procurement of credit reports, income and asset documentation and other documentation involved with a loan. All appraisals are ordered through an approved appraisal management company in compliance with the Dodd-Frank Consumer Protection Act. Under our lending policy, a title insurance policy is required on most mortgage loans, with the exception of certain smaller loan amounts where our policy requires a title opinion only. We also require fire and extended coverage casualty insurance in order to protect the properties securing the real estate loans. Borrowers must also obtain flood insurance policies when the property is in a flood hazard area.

Our loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan and the value of the property that will secure the loan. All residential loans originated for sale to FNMA or other investor banks that receive an Approve-Eligible recommendation on the automated underwriting feedback certificate that is applicable for each loan type must be approved by a Bank mortgage underwriter. Loans that do not receive an Approve-Eligible recommendation must be approved by a Bank mortgage underwriter and the Senior Vice President of Mortgage. In addition, all loans originated to be held on the Bank's portfolio must be approved by a Bank mortgage underwriter and the Senior Vice President of Mortgage for loans up to $500,000, and for loans up to $1.0 million by the senior credit officer. Commercial real estate secured loans and lines of credit and commercial business loans up to $1.0 million must be approved by the Senior Credit Officer or the President/Chief Executive Officer or the Chairman of the Board, up to $2.0 million by two of the following three officers, Senior Credit Officer, President/Chief Executive Officer, Chairman of the Board, and in excess of $2.0 million by the Executive Committee. In accordance with past practice, all loans are ratified by our board of directors.

In the past, we purchased loans from a mortgage originator secured by single-family housing primarily located in predominantly rural areas of Texas and to a lesser extent, Tennessee, Arkansas, Alabama, Louisiana and Mississippi. We have not purchased any such mortgage loans since fiscal 2008. The loans were generally secured by rural properties and the seller retained servicing rights. Although the loans were originated with fixed-rates, Home Federal Bank receives an adjustable-rate of interest equal to the Federal Housing Finance Board rate, with rate floors and ceilings of approximately 5.0% and 8.0%, respectively. Under the terms of the loan agreements, the seller must repurchase any loan that becomes more than 90 days delinquent. At June 30, 2016, we had approximately $7.5 million of such loans in our portfolio with an average contractual remaining term of approximately 14 years.

In recent periods, we have originated and sold a substantial amount of our fixed-rate conforming mortgages to correspondent banks. For the year ended June 30, 2016, we originated $115.4 million of one- to four-family residential loans and sold $101.3 million of such loans. Our residential loan originations primarily consist of rural development, FHA and VA loans.

The following table shows total loans originated, sold and repaid during the periods indicated.

	Year Ended June 30,		
	2016	2015	2014
	(In thousands)		
Loan originations:			
One- to four-family residential	$115,449	$103,052	$91,891
Commercial — real estate secured:			
Owner occupied	48,076	69,849	53,966
Non-owner occupied	8,169	5,307	9,946
Multi-family residential	5,914	3,035	1,242
Commercial business	33,092	48,309	42,200
Land	8,302	7,176	12,135
Construction	19,538	26,920	27,855
Home equity loans and lines of credit and other consumer	9,351	8,974	7,813
Total loan originations	247,891	272,622	247,048
Loans purchased	--	--	--
Total loan originations and loans purchased	247,891	272,622	247,048
Loans Sold	(101,295)	(86,806)	(83,579)
Loan principal repayments	(126,172)	(152,117)	(123,885)
Total loans sold and principal repayments	(227,467)	(238,923)	(207,464)
Increase (decrease) due to other items, net(1)	1,976	(4,835)	(6,100)
Net increase in loan portfolio	$22,400	$28,864	$33,484

(1) Other items consist of deferred loan fees, the allowance for loan losses and loans held-for-sale at year end.

Although federal laws and regulations permit savings institutions to originate and purchase loans secured by real estate located throughout the United States, we concentrate our lending activity in our primary market area in Caddo and Bossier Parishes, Louisiana and the surrounding area. Subject to our loans-to-one borrower limitation, we are permitted to invest without limitation in residential mortgage loans and up to 400% of our capital in loans secured by non-residential or commercial real estate. We also may invest in secured and unsecured consumer loans in an amount not exceeding 35% of total assets. This 35% limitation may be exceeded for certain types of consumer loans, such as home equity and property improvement loans secured by residential real property. In addition, we may invest up to 10% of our total assets in secured and unsecured loans for commercial, corporate, business or agricultural purposes. At June 30, 2016, we were within each of the above lending limits.

During fiscal 2016 and 2015, we sold $101.3 million and $86.8 million of loans, respectively. We recognized gain on sale of loans of $2.5 million during fiscal 2016 and $2.3 million during fiscal 2015. Loans were sold during these periods primarily to other financial institutions. Such loans were sold against forward sales commitments with servicing released and without recourse after a certain period of time, typically 90 days. The loans sold primarily consisted of long-term, fixed rate residential real estate loans. These loans were originated during this period of historically low interest rates and were sold to reduce our interest rate risk. We will continue to sell loans in the future to the extent we believe the interest rate environment is unfavorable and interest rate risk is unacceptable.

Contractual Terms to Final Maturities. The following table shows the scheduled contractual maturities of our loans as of June 30, 2016, before giving effect to net items. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. The amounts shown below do not take into account loan prepayments.

	One-to Four Family Residential	Commercial Real Estate Secured	Multi Family Residential	Commercial Business	Land	Construction	Home Equity Loans and Lines of Credit and Other Consumer	Total
	(In thousands)							
Amounts due after June 30, 2016 in:								
One year or less	$7,803	$ 10,626	$ 6,759	$ 11,565	$17,913	$ 14,131	$ 5,139	$73,936
After one year through two years	8,719	9,651	--	7,032	3,744	311	3,134	32,591
After two years through three years	11,451	12,366	737	3,415	993	--	2,895	31,857
After three years through five years	23,822	14,975	764	5,325	1,197	--	1,692	47,775
After five years through ten years	5,887	19,336	7,637	549	461	--	5,996	39,866
After ten years through fifteen years	9,874	2,243	2,746	--	--	--	350	15,213
After fifteen years	50,479	--	2,018	--	--	--	100	52,597
Total	$118,035	$ 69,197	$ 20,661	$ 27,886	$24,308	$ 14,442	$ 19,306	$293,835

The following table sets forth the dollar amount of all loans at June 30, 2016, before net items, due after June 30, 2017, which have fixed interest rates or which have floating or adjustable interest rates.

	Fixed-Rate	Floating or Adjustable-Rate	Total
		(In thousands)	
One- to four-family residential	$ 89,772	$ 20,460	$110,232
Commercial — real estate secured	58,571	--	58,571
Multi-family residential	13,902	--	13,902
Commercial business	16,321	--	16,321
Land	6,395	--	6,395
Construction	311	--	311
Home equity loans and lines of credit and other consumer	14,167	--	14,167
Total	$ 199,439	$ 20,460	$219,899

Scheduled contractual maturities of loans do not necessarily reflect the actual expected term of the loan portfolio. The average life of mortgage loans is substantially less than their average contractual terms because of prepayments. The average life of mortgage loans tends to increase when current mortgage loan rates are higher than rates on existing mortgage loans and, conversely, decrease when rates on current mortgage loans are lower than existing mortgage loan rates (due to refinancing of adjustable-rate and fixed-rate loans at lower rates). Under the latter circumstance, the weighted average yield on loans decreases as higher yielding loans are repaid or refinanced at lower rates.

One- to Four-Family Residential Real Estate Loans. At June 30, 2016, $118.0 million, or 40.2%, of the total loan portfolio, before net items, consisted of one- to four-family residential loans.

The loan-to-value ratios, maturities and other provisions of the loans made by us generally have reflected the policy of making less than the maximum loan permissible under applicable regulations, in accordance with sound lending practices, market conditions and underwriting standards established by us. Our current lending policy on one- to four-family residential loans generally limits the maximum loan-to-value ratio to 90% or less of the appraised value of the property although we will lend up to a 100% loan-to-value ratio with private mortgage insurance. These loans are amortized on a monthly basis with principal and interest due each month, with terms not in excess of 30 years and generally include "due-on-sale" clauses.

At June 30, 2016, $96.7 million, or 81.7%, of our one- to four-family residential mortgage loans were fixed-rate loans. Fixed-rate loans generally have maturities ranging from 15 to 30 years and are fully amortizing with monthly loan payments sufficient to repay the total amount of the loan with interest by the end of the loan term. Our fixed-rate loans generally are originated under terms, conditions and documentation which permit them to be sold to U.S. Government-sponsored agencies, such as the Federal Home Loan Mortgage Corporation, and other investors in the secondary mortgage market. Consistent with our asset/liability management, we have sold a significant portion of our long-term, fixed rate loans. Servicing is released on all loans sold except those loans sold to FNMA. Home Federal Bank's servicing portfolio was $37.4 million at June 30, 2016.

Although we offer adjustable rate loans, substantially all of the single-family loan originations over the last few years have consisted of fixed-rate loans due to the low interest rate environment. The adjustable-rate loans held in portfolio typically have interest rates which adjust on an annual basis. These loans generally have an annual cap of 2% on any increase or decrease and a cap of 6% above or below the initial rate over the life of the loan. Such loans are underwritten based on the initial rate plus 2%.

Commercial — Real Estate Secured Loans. As of June 30, 2016, Home Federal Bank had outstanding $69.2 million of loans secured by commercial real estate, $47.4 million, or 68.5%, of which were owner occupied. It is the current policy of Home Federal Bank to lend in a first lien position on real property occupied as a commercial business property. Home Federal Bank offers fixed and variable rate commercial real estate loans. Home Federal Bank's commercial real estate loans are limited to a maximum of 85% of the appraised value and have terms up to 15 years, however, the terms are generally no more than five years with amortization periods of 20 years or less. It is our policy that commercial real estate secured lines of credit are limited to a maximum of 85% of the appraised value of the property and shall not exceed three to five year amortizations.

Multi-Family Residential Loans. At June 30, 2016, we had outstanding approximately $20.7 million of multi-family residential loans. Our multi-family residential loan portfolio includes income producing properties of 50 or more units and low income housing developments. We obtain personal guarantees on all properties other than those of the public housing authority for which they are not permitted.

Commercial Business Loans. At June 30, 2016, we had outstanding approximately $27.9 million of non-real estate secured commercial loans. The business lending products we offer include lines of credit, inventory financing and equipment loans. Commercial business loans and lines of credit carry more credit risk than other types of commercial loans. We attempt to limit such risk by making loans predominantly to small- and mid-sized businesses located within our market area and having the loans personally guaranteed by the principals involved. We have established underwriting standards in regard to business loans which set forth the criteria for sources of repayment, borrower's capacity to repay, specific financial and collateral margins and financial enhancements such as guarantees. Generally, the primary source of repayment is cash flow from the business and the financial strength of the borrower.

Land Loans. As of June 30, 2016, land loans were $24.3 million, or 8.3% of the total loan portfolio, before net items. Land loans include land which has been acquired for the purpose of development and unimproved land. Our loan policy provides for loan-to-value ratios of 50% for unimproved land loans. Land loans are originated with fixed rates and terms up to five years with longer amortizations. Although land loans generally are considered to have greater credit risk than certain other types of loans, we expect to mitigate such risk by requiring personal guarantees and identifying other secondary sources of repayment for the land loan other than the sale of the collateral. It is our practice to only originate a limited amount of loans for speculative development to borrowers with whom our lenders have a prior relationship.

Construction Loans. At June 30, 2016, we had outstanding approximately $14.4 million of construction loans which included loans for the construction of residential and commercial property. Our residential construction loans typically have terms of six to 11 months with a takeout letter from Home Federal for the permanent mortgage. Our commercial construction loans include owner occupied commercial properties, pre-sold property and speculative office property. As of June 30, 2016, we held $3.5 million of speculative construction loans.

Home Equity and Second Mortgage Loans. At June 30, 2016, we held $1.5 million of home equity and second mortgage loans. These loans are secured by the underlying equity in the borrower's residence. We do not require that we hold the first mortgage on the properties that secure the second mortgage loans. The amount of our second mortgage loans generally cannot exceed a loan-to-value ratio of 90% after taking into consideration the first mortgage loan. These loans are typically three-to-five year balloon loans with fixed rates and terms that will not exceed 10 years and contain an on-demand clause that allows us to call the loan in at any time.

Equity Lines of Credit. We offer lines of credit secured by a borrower's equity in real estate which loans amounted to $17.3 million, or 5.9% of the total loan portfolio, before net items, at June 30, 2016. The unused portion of equity lines was $10.9 million at June 30, 2016. The rates and terms of such lines of credit depend on the history and income of the borrower, purpose of the loan and collateral. Lines of credit will not exceed 90% of the value of the equity in the collateral.

Consumer Non-real Estate Loans. We are authorized to make loans for a wide variety of personal or consumer purposes. We originate consumer loans primarily in order to accommodate our customers. The consumer loans at June 30, 2016 consist of loans secured by deposit accounts with us, automobile loans, overdraft and other unsecured loans.

Consumer non-real estate loans generally have shorter terms and higher interest rates than residential mortgage loans, and generally entail greater credit risk than residential mortgage loans, particularly those loans secured by assets that depreciate rapidly, such as automobiles, boats and recreational vehicles. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In particular, amounts realizable on the sale of repossessed automobiles may be significantly reduced based upon the condition of the automobiles and the fluctuating demand for used automobiles. We had no automobile loans at June 30, 2016.

We offer loans secured by deposit accounts held with us, which loans amounted to $404,000, or 0.14% of the total loan portfolio, before net items, at June 30, 2016. Such loans are originated for up to 100% of the account balance, with a hold placed on the account restricting the withdrawal of the account balance. The interest rate on the loan is equal to the interest rate paid on the account plus 2%. These loans typically are payable on demand with a maturity date of one year.

Loan Origination and Other Fees. In addition to interest earned on loans, we generally receive loan origination fees or "points" for originating loans. Loan points are a percentage of the principal amount of the mortgage loan and are charged to the borrower in connection with the origination of the loan. In accordance with accounting guidance, loan origination fees and points are deferred and amortized into income as an adjustment of yield over the life of the loan.

Asset Quality

General. During fiscal 2016, we engaged a third party to review loans, policies, and procedures. The scope of the services provided included credit underwriting, adherence to our loan policies as well as regulatory policies, and recommendations regarding reserve allocations. We expect these reviews will be done annually.

Our collection procedures provide that when a loan is 10 days past due, personal contact efforts are attempted, either in person or by telephone. At 15 days past due, a late charge notice is sent to the borrower requesting payment. If the loan is still past due at 30 days, a formal letter is sent to the borrower stating that the loan is past due and that legal action, including foreclosure proceedings, may be necessary. If a loan becomes 60 days past due and no progress has been made in resolving the delinquency, a collection letter from legal counsel is sent and personal contact is attempted. When a loan continues in a delinquent status for 90 days or more, and a repayment schedule has not been made or kept by the borrower, generally a notice of intent to foreclose is sent to the borrower. If the delinquency is not cured, foreclosure proceedings are initiated. In most cases, deficiencies are cured promptly. While we generally prefer to work with borrowers to resolve such problems, we will institute foreclosure or other collection proceedings when necessary to minimize any potential loss.

Loans are placed on non-accrual status when management believes the probability of collection of interest is doubtful. When a loan is placed on non-accrual status, previously accrued but unpaid interest is deducted from interest income. We generally discontinue the accrual of interest income when the loan becomes 90 days past due as to principal or interest unless the credit is well secured and we believe we will fully collect.

Real estate and other assets we acquire as a result of foreclosure or by deed-in-lieu of foreclosure are classified as real estate owned until sold. At June 30, 2016, we had no real estate owned. We had one property acquired through foreclosure with a carrying value of $40,000 at June 30, 2015.

Delinquent Loans. The following table shows the delinquencies in our loan portfolio as of the dates indicated.

	June 30, 2016				2015			
	30-89 Days Overdue		90 or More Days Overdue		30-89 Days Overdue		90 or More Days Overdue	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
	(Dollars in thousands)							
One- to four-family residential	37	$ 4,320	2	$ 114	29	$ 3,237	2	$ 80
Commercial — real estate secured	--	--	--	--	--	--	--	--
Multi-family residential	--	--	--	--	--	--	--	--
Commercial business	--	--	--	--	--	--	--	--
Land	1	556	--	--	--	--	--	--
Construction	--	--	--	--	--	--	--	--
Home equity loans and lines of credit and other consumer	3	93	--	--	1	3	--	--
Total delinquent loans	41	$ 4,969	2	$ 114	30	$ 3,240	2	$ 80
Delinquent loans to total net loans		1.71 %		0.04 %		1.21 %		0.03 %
Delinquent loans to total loans		1.69 %		0.04 %		1.20 %		0.03 %

Non-Performing Assets. The following table shows the amounts of our non-performing assets (defined as non-accruing loans, accruing loans 90 days or more past due and real estate owned) at the dates indicated. We had one troubled debt restructuring included in non-accrual loans at June 30, 2013. At June 30, 2016, we had nine commercial loans to one borrower totaling $2.0 million that were identified as troubled debt restructurings, were performing in accordance with their modified terms and were accruing interest.

	June 30,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Non-accruing loans:					
One- to four-family residential	$13	$13	$151	$386	$14
Commercial — real estate secured	--	--	--	--	--
Multi-family residential	--	--	--	--	--
Commercial business	--	--	--	--	--
Land	--	--	--	--	--
Construction	--	--	--	--	--
Home equity loans and lines of credit and other consumer	--	--	27	27	--
Total non-accruing loans	13	13	178	413	4
Accruing loans 90 days or more past due	101	67	13	236	--
Total non-performing loans(1)	114	80	191	649	14
Real estate owned, net	--	40	--	--	--
Total non-performing assets	$114	$120	$191	$649	$14
Troubled debt restructurings (2)	1,990	--	--	--	--
Total non-performing assets and troubled debt restructurings	$2,104	$120	$191	$649	$14
Total non-performing loans as a percent of loans, net	0.04 %	0.03%	0.07%	0.31%	0.01%
Total non-performing assets as a percent of total assets	0.03 %	0.03%	0.05%	0.23%	0.00%
Total non-performing assets and troubled debt restructurings as a percentage of total assets	0.55 %	0.03%	0.05%	0.23%	* %

* Not meaningful.
(1) Non-performing loans consist of non-accruing loans plus accruing loans 90 days or more past due.
(2) Troubled debt restructuring not included in non-accruing loans and accruing loans 90 days or more past due.

After fiscal year end June 30, 2016, a one to four-family residential loan secured by a vacant lot in an established residential subdivision in the amount of $556,000 was placed on non-accrual status. The loan was 69 days past due and designated as special mention at year-end, and as of September 20, 2016, is now more than 90 days past due and classified substandard. The Company is continuing to monitor the credit and believes that it is well-collateralized.

Classified Assets. Federal regulations require that each insured savings institution classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, federal examiners have authority to identify problem assets and, if appropriate, classify them. There are three classifications for problem assets: "substandard," "doubtful" and "loss." Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a higher possibility of loss. An asset classified as loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. Another category designated "special mention" also must be established and maintained for assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification as substandard, doubtful or loss. Assets classified as substandard or doubtful require the institution to establish general allowances for loan losses. If an asset or portion thereof is classified as loss, the insured institution must either establish specific allowances for loan losses in the amount of 100% of the portion of the asset classified loss, or charge-off such amount. General loss allowances established to cover possible losses related to assets classified substandard or doubtful may be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses do not qualify as regulatory capital. Federal examiners may disagree with an insured institution's classifications and amounts reserved. At June 30, 2016 we held $625,000 of assets designated as special mention, and $2.4 million classified as substandard. The classified assets are related to two residential mortgage loans, one commercial real estate loan and nine commercial business loans to one borrower. There were no loans classified as doubtful at June 30, 2016.

Allowance for Loan Losses. At June 30, 2016, our allowance for loan losses amounted to $2.8 million. The allowance for loan losses is maintained at a level believed, to the best of our knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. The level of allowance for loan losses is based on our periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing conditions. We are primarily engaged in originating single-family residential loans. Our management considers the deficiencies of all classified loans in determining the amount of allowance for loan losses required at each reporting date. Our management analyzes the probability of the correction of the substandard loans' weaknesses and the extent of any known or inherent losses that we might sustain on them. During the fiscal year 2016, we recorded a provision for loan losses of $271,000 as compared to $300,000 recorded for fiscal year 2015. The 2016 provision reflects our estimate to maintain the allowance for loan losses at a level to cover probable losses inherent in the loan portfolio.

The provision for fiscal year 2016 reflects the risks associated with our commercial lending (both real estate secured and non-real estate secured), as well as other risks in our portfolio. Total non-performing loans decreased by approximately $6,000 over the prior year and our loans 30-89 days overdue increased $1.7 million as of June 30, 2016 compared to June 30, 2015, all of which were secured by one- to four-family residential properties as of June 30, 2016.

While management believes that it determines the size of the allowance based on the best information available at the time, the allowance will need to be adjusted as circumstances change and assumptions are updated. Future adjustments to the allowance could significantly affect net income.

The following table shows changes in our allowance for loan losses during the periods presented. There were no loan charge-offs during fiscal 2016 or 2012. We had $181,000, $12,000 and $16,000 of loan charge-offs during fiscal 2015, 2014 and 2013, respectively. Bad debt recoveries amounted to $59,000 during fiscal 2016.

	June 30, 2016	2015	2014	2013	2012
	(Dollars in thousands)				
Total loans outstanding at end of period	$293,835	$271,129	$242,257	$208,585	$170,341
Average loans outstanding	287,405	269,408	224,463	197,812	156,759
Allowance for loan losses, beginning of period	2,515	2,396	2,240	1,698	842
Provision for loan losses	271	300	168	558	856
Recoveries	59	--	--	--	--
Charge-offs	--	(181)	(12)	(16)	--
Allowance for loan losses, end of period	$2,845	$2,515	$2,396	$2,240	$1,698
Allowance for loan losses as a percent of non-performing loans	2,501.99%	3,143.75%	1,254.45%	345.15%	12,128.57%
Allowance for loan losses as a percent of loans outstanding	0.97%	0.93%	0.99%	1.07%	1.00%

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The following table shows how our allowance for loan losses is allocated by type of loan at each of the dates indicated.

	June 30, 2016		2015		2014		2013		2012	
	Amount of Allowance	Loan Category as a % of Total Loans	Amount of Allowance	Loan Category as a % of Total Loans	Amount of Allowance	Loan Category as a % of Total Loans	Amount of Allowance	Loan Category as a % of Total Loans	Amount of Allowance	Loan Category as a % of Total Loans
	(Dollars in thousands)									
One- to four-family residential	$1,517	40.17 %	$1,195	38.11 %	$1,224	36.96 %	$1,023	35.11 %	$306	34.88 %
Commercial – real estate secured	321	23.55	415	22.90	464	23.23	338	24.54	185	23.03
Multi-family residential	111	7.03	103	5.62	128	8.41	103	9.39	205	7.58
Commercial business	444	9.49	305	10.33	202	10.63	412	8.04	281	7.26
Land	201	8.27	154	7.33	168	8.23	127	7.47	270	7.23
Construction	126	4.92	146	6.50	105	5.16	146	8.12	311	13.30
Home equity loans and lines of credit and other consumer	125	6.57	197	9.21	105	7.38	91	7.33	140	6.72
Total	$2,845	100.00%	$2,515	100.00%	$2,396	100.00%	$2,240	100.00%	$1,698	100.00%

Investment Securities

We have authority to invest in various types of securities, including mortgage-backed securities, U.S. Treasury obligations, securities of various federal agencies and of state and municipal governments, certificates of deposit at federally insured banks and savings institutions, certain ban