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Home Federal Bancorp, Inc.
Form 10-Q
August 09, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

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: 001-33795

HOME FEDERAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation
or organization)

68-0666697
(I.R.S. Employer
Identification Number)

500 12th Avenue South, Nampa, Idaho
(Address of principal executive offices)

83651
(Zip Code)

Registrant's telephone number, including
area code: (208) 466-4634

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 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

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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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: Common Stock, \$.01 par value per share, 16,687,760 shares outstanding as of August 6, 2010.

HOME FEDERAL BANCORP, INC.
FORM 10-Q
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Item 1. Financial Statements

HOME FEDERAL BANCORP, INC. AND
SUBSIDIARY

CONSOLIDATED BALANCE SHEETS	June 30,	September
(In thousands, except share data) (Unaudited)	2010	30, 2009

ASSETS

Cash and due from depository institutions	\$161,735	\$ 46,783
Federal funds sold	8,500	3,170
Cash and cash equivalents	170,235	49,953
Investment securities available for sale, at fair value	163,650	169,320
Loans held for sale	2,494	862
Loans receivable, net of allowance for loan losses of \$17,872 and \$28,735	456,879	510,629
Accrued interest receivable	2,330	2,781
Property and equipment, net	27,122	20,462
Bank owned life insurance	12,330	12,014
Federal Home Loan Bank of Seattle ("FHLB") stock, at cost	10,326	10,326
Real estate and other property owned	12,308	18,391
FDIC indemnification receivable, net	7,607	30,038
Other assets	3,941	3,123
TOTAL ASSETS	\$869,222	\$827,899

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Deposit accounts:

Noninterest-bearing demand deposits	\$ 70,718	\$ 68,155
Interest-bearing demand deposits	225,128	176,049
Savings deposits	51,304	41,757
Certificates of deposit	227,729	228,897
Total deposit accounts	574,879	514,858
Advances by borrowers for taxes and insurance	518	1,132
Interest payable	560	553
FHLB advances and other borrowings	73,536	84,737
Deferred compensation	5,395	5,260
Deferred tax liability, net	2,714	5,571
Other liabilities	5,788	6,123
Total liabilities	663,390	618,234

STOCKHOLDERS' EQUITY

Serial preferred stock, \$.01 par value; 10,000,000 authorized;

Issued and outstanding, none	-	-
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Common stock, \$.01 par value; 90,000,000 authorized;

Issued and outstanding:

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17,460,311 issued, 16,687,760 outstanding June 30, 2010		
17,445,311 issued, 16,698,168 outstanding September 30, 2009	167	167
Additional paid-in capital	152,272	150,782
Retained earnings	58,019	64,483
Unearned shares issued to employee stock ownership plan	(8,917)	(9,699)
Accumulated other comprehensive income	4,291	3,932
Total stockholders' equity	205,832	209,665
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$869,222	\$827,899

See accompanying notes.

HOME FEDERAL BANCORP, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF
OPERATIONS

(In thousands, except share data)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Interest and dividend income:				
Loans, including fees	\$6,918	\$ 6,418	\$21,054	\$20,337
Investment securities	1,479	1,983	4,831	6,311
Other interest and dividends	104	9	240	20
Total interest and dividend income	8,501	8,410	26,125	26,668
Interest expense:				
Deposits	1,781	1,629	5,129	5,389
FHLB advances and other borrowings	792	1,068	2,385	3,861
Total interest expense	2,573	2,697	7,514	9,250
Net interest income	5,928	5,713	18,611	17,418
Provision for loan losses	3,300	3,450	6,375	8,085
Net interest income after provision for loan losses	2,628	2,263	12,236	9,333
Noninterest income:				
Service charges and fees	2,325	2,008	6,735	6,009
Gain on sale of loans	125	416	433	1,013
Increase in cash surrender value of bank owned life insurance	105	107	316	317
Other, net	341	80	756	78
Total noninterest income	2,896	2,611	8,240	7,417
Noninterest expense:				
Compensation and benefits	4,660	3,594	13,966	10,948
Occupancy and equipment	979	804	3,023	2,303
Data processing	929	654	2,526	1,773
Advertising	233	211	775	656
Postage and supplies	173	126	516	409
Professional services	391	236	1,375	870
Insurance and taxes	423	783	1,461	1,244
Provision for losses on real estate and other property owned	418	367	2,509	528
Other	462	239	1,160	888
Total noninterest expense	8,668	7,014	27,311	19,619
Loss before income taxes	(3,144)	(2,014)	(6,835)	(2,869)
Income tax benefit	(1,203)	(894)	(2,654)	(1,298)
Loss before extraordinary item	(1,941)	(1,246)	(4,181)	(1,571)
Extraordinary gain on acquisition, less income taxes of \$195	-	-	305	-
Net loss	\$(1,941)	\$ (1,246)	\$ (3,876)	\$ (1,571)
Loss per common share before extraordinary item:				
Basic	\$ (0.12)	\$ (0.08)	\$ (0.27)	\$ (0.10)

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Diluted	(0.12)	(0.08)	(0.27)	(0.10)
Loss per common share after extraordinary item:				
Basic	\$ (0.12)	\$ (0.08)	\$ (0.25)	\$ (0.10)
Diluted	(0.12)	(0.08)	(0.25)	(0.10)
Weighted average number of shares outstanding:				
Basic	15,543,199	15,352,714	15,491,203	15,742,102
Diluted	15,543,199	15,352,714	15,491,203	15,742,102
Dividends declared per share:	\$ 0.055	\$ 0.055	\$ 0.165	\$ 0.165

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE
INCOME (LOSS)

(In thousands, except share data) (Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to Employee Stock Ownership Plan ("ESOP")	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance at September 30, 2008	17,374,161	\$174	\$157,205	\$59,813	\$(10,605)	\$ (1,400)	\$205,187
Restricted stock issued, net of forfeitures	159,115	2	(2)				-
ESOP shares committed to be released			63		906		969
Exercise of stock options	32,862		353				353
Share-based compensation			1,088				1,088
Treasury shares purchased	(867,970)	(9)	(7,888)				(7,897)
Dividends paid (\$0.220 per share)				(3,456)			(3,456)
Tax adjustment from equity compensation plans			(37)				(37)
Comprehensive income:							
Loss before extraordinary item				(7,165)			(7,165)
Extraordinary gain, net of tax				15,291			15,291
Other comprehensive income:							
Change in unrealized holding gain on securities available for sale, net of taxes of \$3,473						5,210	5,210
Adjustment for realized losses, net of taxes of \$81						122	122

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Comprehensive income							13,458
Balance at September 30, 2009	16,698,168	167	150,782	64,483	(9,699)	3,932	209,665
Restricted stock forfeited, net of new issuance	(25,408)		(70)				(70)
ESOP shares committed to be released			351	782			1,133
Exercise of stock options	15,000		161				161
Share-based compensation			1,032				1,032
Tax adjustment from equity compensation plans			16				16
Dividends paid (\$0.165 per share)				(2,588)			(2,588)
Comprehensive income:							
Loss before extraordinary item				(4,181)			(4,181)
Extraordinary gain, net of tax				305			305
Other comprehensive income:							
Change in unrealized holding gain on securities available for sale, net of taxes of \$225						359	359
Comprehensive loss							(3,517)
Balance at June 30, 2010	16,687,760	\$167	\$152,272	\$58,019	\$ (8,917)	\$ 4,291	\$205,832

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND
SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

Nine Months Ended
June 30,

2010 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (3,876)	\$ (1,571)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	1,541	1,294
Net amortization of premiums and discounts on investments	336	9
(Gain) Loss on sale of fixed assets and repossessed assets	(161)	82
Gain on sale of securities available for sale	-	(51)
ESOP shares committed to be released	1,133	691
Share-based compensation	962	730
Provision for loan losses	6,375	8,085
Provision for losses on real estate and other property owned	2,509	552
Accrued deferred compensation expense, net	135	28
Net deferred loan fees	(58)	(77)
Deferred income tax benefit	(3,082)	(2,598)
Net gain on sale of loans	(433)	(1,013)
Proceeds from sale of loans held for sale	19,239	56,151
Originations of loans held for sale	(20,439)	(57,371)
Net decrease in value of mortgage servicing rights	-	105
Increase in cash surrender value of bank owned life insurance	(316)	(316)
Change in assets and liabilities:		
Interest receivable	451	472
Other assets	2,135	368
Interest payable	7	(182)
Other liabilities	(319)	154
Net cash provided by operating activities	6,139	5,542

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from repayments of mortgage-backed securities available for sale	30,298	26,931
Proceeds from sales of mortgage-backed securities available for sale	2,637	1,203
Purchases of mortgage-backed securities available for sale	(16,388)	(2,734)
Purchase of securities available for sale	(19,128)	-
Proceeds from maturities and calls of securities available for sale	8,500	-
Maturity of certificate of deposit	-	5,000
Sale of mortgage servicing rights	-	1,602
Reimbursement of loan losses under loss share agreement	19,455	-

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Purchases of property and equipment	(8,229)	(3,088)
Net decrease in loans	39,990	23,910
Proceeds from sale of fixed assets and real estate and other property owned	11,229	1,090
Net cash provided by investing activities	68,364	53,914
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	60,021	3,071
Net decrease in advances by borrowers for taxes and insurance	(614)	(797)
Proceeds from FHLB advances	-	18,000
Repayment of FHLB advances	(15,390)	(67,582)
Net proceeds from other borrowings	4,189	1,501
Proceeds from exercise of stock options	161	353
Repurchases of common stock	-	(7,895)
Dividends paid	(2,588)	(2,599)
Net cash provided (used) by financing activities	45,779	(55,948)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	120,282	(3,508)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		
	49,953	23,270
CASH AND CASH EQUIVALENTS, END OF PERIOD		
	\$170,235	\$ 26,778

(Continued)

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND
SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

(In thousands) (Unaudited)

Nine Months Ended
June 30,

2010 2009

SUPPLEMENTAL DISCLOSURE OF CASH FLOW
INFORMATION:

Cash paid during the period for:

Interest	\$7,507	\$9,433
Taxes	430	2,545

NONCASH INVESTING AND FINANCING
ACTIVITIES:

Acquisition of real estate and other assets in settlement of loans	\$11,045	\$9,682
Fair value adjustment to securities available for sale, net of taxes	359	3,804

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation

The consolidated financial statements presented in this quarterly report include the accounts of Home Federal Bancorp, Inc., a Maryland corporation (the "Company"), and its wholly-owned subsidiary, Home Federal Bank (the "Bank"), which is headquartered in Nampa, Idaho. The financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and are unaudited. All significant intercompany transactions and balances have been eliminated. In the opinion of the Company's management, all adjustments consisting of normal recurring adjustments necessary for a fair presentation of the financial condition and results of operations for the interim periods included herein have been made. Operating results for the nine month period ended June 30, 2010, are not necessarily indicative of the results that may be expected for the year ending September 30, 2010.

Certain information and note disclosures normally included in the Company's annual consolidated financial statements have been condensed or omitted. Therefore, these consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended September 30, 2009 ("2009 Form 10-K"), filed with the Securities and Exchange Commission ("SEC") on December 14, 2009.

Note 2 - Critical Accounting Estimates and Related Accounting Policies

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements, and thus actual results could differ from the amounts reported and disclosed herein. The Company considers the allowance for loan losses, loans acquired with deteriorated credit quality, the indemnification asset due from the Federal Deposit Insurance Corporation ("FDIC"), deferred income taxes and valuation of real estate owned to be critical accounting estimates.

Allowance for loan losses. Management recognizes that losses may occur over the life of a loan and that the allowance for loan losses must be maintained at a level necessary to absorb specific losses on impaired loans and probable, incurred losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of actual loan charge-offs, net of recoveries. Management assesses the allowance for loan losses on a quarterly basis by analyzing several factors including delinquency rates, charge-off rates and the changing risk profile of the Bank's loan portfolio, as well as local economic conditions such as unemployment rates, bankruptcies, real estate values and vacancy rates of business and residential properties.

The Company believes that the accounting estimate related to the allowance for loan losses is a critical accounting estimate because it is highly susceptible to change from period to period, requiring management to make assumptions about probable incurred losses inherent in the loan portfolio at the balance sheet date. The impact of a sudden large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

The Company's methodology for analyzing the allowance for loan losses consists of specific allocations on significant individual credits and a general allowance amount, including a range of loss estimates. The specific allowance component is determined when management believes that the collectibility of an individually reviewed loan has been

impaired and a loss is probable. The general allowance component takes into consideration probable, incurred losses that are inherent within the loan portfolio but have not been specifically identified. The general allowance is determined by applying historical loss percentages to various types of loans with similar characteristics and classified loans that are not analyzed specifically. Adjustments are made to historical loss percentages to reflect current economic and internal factors that may increase or decrease those historical loss percentages such as changes

in underwriting standards and unemployment rates. As a result of the imprecision in calculating inherent and incurred losses, a range is estimated for the general allowance to provide an allowance for loan losses that is adequate to cover losses that may arise as a result of changing economic conditions and other qualitative factors that may alter historical loss experience.

Loans Acquired with Deteriorated Credit Quality. Accounting Standards Codification Topic (“ASC”) 310-30 applies to a loan with evidence of deterioration of credit quality since origination, acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. For loans accounted for under ASC 310-30, management determined the value of the loan portfolio based on work provided by an appraiser. Factors considered in the valuation were the type of loan and related collateral, projected cash flows for the loans, which was primarily the liquidation value of the collateral, the classification status of the loan and current discount rates. At June 30, 2010, a majority of these loans were valued based on the estimated fair value of the underlying collateral. Amounts related to the ASC 310-30 loans are estimates and are highly subjective.

FDIC Indemnification Asset. On August 7, 2009, the Bank entered into a purchase and assumption agreement with the FDIC to acquire certain assets and assume certain liabilities of a failed financial institution. The loans, foreclosed real estate and other repossessed property purchased are covered by a loss sharing agreement between the FDIC and the Bank that provides the Bank significant protection against losses on these covered assets. Under this agreement, the FDIC will reimburse the Bank for 80% of the first \$34.0 million of losses. The FDIC will reimburse the Bank for 95% of realized losses that exceed \$34.0 million. Realized losses covered by the loss sharing agreement include loan contractual balances (and related unfunded commitments that were acquired), accrued interest on loans for up to 90 days, the book value of foreclosed real estate acquired, and certain direct costs, less cash or other consideration received by the Bank. This agreement extends for ten years for one-to-four family real estate loans and for five years for other loans.

Management has estimated the amount of losses inherent in the covered assets purchased in the acquisition and the amounts that would be receivable from the FDIC upon a loss event. The Bank cannot submit claims of loss until certain events occur, as defined under the purchase and assumption agreement. As such, the value of the indemnification asset is subject to a high degree of uncertainty and estimation as to the timing of the losses and subsequent recovery of a portion of those losses under the loss sharing agreement.

For additional information regarding the acquisition described above, see Note 3 to the Consolidated Financial Statements. Subsequent to June 30, 2010, the Bank entered into another FDIC-assisted acquisition with loss share. See Note 10 to the Consolidated Financial Statements.

Deferred income taxes. Deferred income taxes are computed using the asset and liability approach as prescribed by ASC 740. Under this method, a deferred tax asset or liability is determined based on the currently enacted tax rates applicable to the period in which the differences between the financial statement carrying amounts and tax basis of the existing assets and liabilities are expected to be reported in the Company’s income tax returns.

Real Estate Owned. Real estate properties acquired through, or in lieu of, loan foreclosure (“REO”) are initially recorded at the lesser of the outstanding loan balance or the fair value at the date of foreclosure minus estimated costs to sell. Any valuation adjustments required at the time of foreclosure are charged to the allowance for loan losses. After foreclosure, the properties are carried at the lower of carrying value or fair value less estimated costs to sell. Any subsequent valuation adjustments, operating expenses or income, and gains and losses on disposition of such properties are recognized in current operations and could adversely affect our financial condition and profitability.

Note 3 – Acquisition of Community First Bank

On August 7, 2009, the Bank entered into a purchase and assumption agreement with loss share with the FDIC to assume all of the deposits (excluding nearly all brokered deposits) and liabilities and to purchase certain assets of Community First Bank, a full service commercial bank, headquartered in Prineville, Oregon (the "Acquisition"). The Bank assumed approximately \$142.8 million of deposits through the Acquisition. Additionally, the Bank purchased approximately \$142.3 million in loans and \$12.9 million of real estate and other repossessed assets

subject to the loss share agreement on covered assets as described above in Note 2. The Bank also purchased cash and cash equivalents and investment securities of Community First Bank valued at \$37.7 million at the date of the Acquisition, and assumed \$18.3 million in Federal Home Loan Bank advances and other borrowings. The Company accounts for the Bank's loss sharing agreement with the FDIC as an indemnification asset. The transaction did not generate any goodwill.

Note 4 - Earnings (Loss) Per Share

The Company has granted stock compensation awards with non-forfeitable dividend rights, which are considered participating securities. As such, earnings per share ("EPS") is computed using the two-class method as required by ASC 260-10-45. Basic earnings per common share is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the period which excludes the participating securities. Diluted earnings per common share includes the dilutive effect of additional potential common shares from stock compensation awards, but excludes awards considered participating securities. ESOP shares are not considered outstanding for earnings per share purposes until they are committed to be released.

The following table presents the computation of basic and diluted loss per share for the periods indicated:

	Three Months Ended		Nine Months Ended	
	2010	June 30, 2009	2010	June 30, 2009
	(in thousands, except share and per share data)			
Net loss	\$(1,941)	\$(1,246)	\$(3,876)	\$(1,571)
Allocated to participating securities	26	16	60	22
Net loss allocated to common shareholders	(1,915)	(1,230)	(3,816)	(1,549)
Extraordinary gain, net of taxes	-	-	305	-
Net loss allocated to common stock before extraordinary gain	\$(1,915)	\$(1,230)	\$(4,121)	\$(1,549)
Weighted average common shares outstanding, including shares considered participating securities	15,754,145	15,556,198	15,734,164	15,981,920
Less: Average participating securities	(210,946)	(203,484)	(242,961)	(239,818)
Weighted average shares	15,543,199	15,352,714	15,491,203	15,742,102
Net effect of dilutive restricted stock	-	-	-	-
Weighted average shares and common stock equivalents	15,543,199	15,352,714	15,491,203	15,742,102
Basic loss per common share before extraordinary item	\$(0.12)	\$(0.08)	\$(0.27)	\$(0.10)
Basic loss per common share after extraordinary item	(0.12)	(0.08)	(0.25)	(0.10)
Diluted loss per common share before extraordinary item	(0.12)	(0.08)	(0.27)	(0.10)
Diluted loss per common share after extraordinary item	(0.12)	(0.08)	(0.25)	(0.10)
Options excluded from the calculation due to their anti-dilutive effect on EPS	873,324	946,364	873,324	946,364

Note 5 - Investment securities

Investment securities available for sale consisted of the following at the dates indicated:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
June 30, 2010				
Obligations of U.S. Government-sponsored enterprises ("GSE")	\$13,142	\$101	\$(6)	\$13,237
Obligations of states and political subdivisions	1,516	22	(7)	1,531
Mortgage-backed securities, GSE-issued	141,368	7,226	(169)	148,425
Mortgage-backed securities, private label	487	-	(30)	457
Total	\$156,513	\$7,349	\$(212)	\$163,650

September 30, 2009				
Obligations of U.S. GSE	\$4,089	\$42	\$(4)	\$4,127
Mortgage-backed securities, GSE-issued	158,065	6,529	-	164,594
Mortgage-backed securities, private label	612	-	(13)	599
Total	\$162,766	\$6,571	\$(17)	\$169,320

Mortgage-backed securities are comprised of fixed and variable-rate residential mortgages.

The fair value of impaired securities, the amount of unrealized losses and the length of time these unrealized losses existed for the periods indicated were as follows:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
June 30, 2010						
Obligations of U.S. GSE	\$1,011	\$(6)	\$-	\$-	\$1,011	\$(6)
Obligations of states and political subdivisions	\$762	\$(7)	\$-	\$-	\$762	\$(7)
Mortgage-backed securities, GSE-issued	7,246	(169)	-	-	7,246	(169)
Mortgage-backed securities, private label	456	(30)	-	-	456	(30)
	\$9,475	\$(212)	\$-	\$-	\$9,475	\$(212)
September 30, 2009						
Obligations of U.S. GSE	\$2,015	\$(4)	\$-	\$-	\$2,015	\$(4)
Mortgage-backed securities, GSE-issued	-	-	-	-	-	-
Mortgage-backed securities, private label	-	-	599	(13)	599	(13)
	\$2,015	\$(4)	\$599	\$(13)	\$2,614	\$(17)

Management has evaluated these securities and has determined that the decline in fair value is not other than temporary. These securities have contractual maturity dates and management believes it is reasonably probable that principal and interest balances on these securities will be collected based on the performance, underwriting, credit support and vintage of the loans underlying the securities. However, continued deteriorating economic conditions may result in degradation in the performance of the loans underlying these securities in the future. The Company has

the ability and intent to hold these securities for a reasonable period of time for a forecasted recovery of the amortized cost. The Company does not intend to sell these securities and it is not likely that the Company would be required to sell securities in an unrealized position before recovery of its cost basis.

As of June 30, 2010, and September 30, 2009, the Bank pledged investment securities for the following obligations:

	June 30, 2010		September 30, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
FHLB borrowings	\$ 54,398	\$ 57,888	\$ 66,104	\$ 68,900
Treasury, tax and loan funds at the Federal Reserve Bank	4,073	4,340	4,523	4,767
Repurchase agreements	7,394	7,890	3,338	3,459
Deposits of municipalities and public units	18,280	19,358	5,074	5,354
Total	\$ 84,145	\$ 89,476	\$ 79,039	\$ 82,480

Note 6 - Loans Receivable

Loans receivable are summarized by collateral type as follows:

	June 30, 2010		September 30, 2009	
	Balance	Percent of Total	Balance	Percent of Total
	(dollars in thousands)			
Real estate:				
One-to-four family residential	\$ 152,636	32.10 %	\$ 178,311	33.01 %
Multi-family residential	12,789	2.69	16,286	3.01
Commercial	204,674	43.03	213,471	39.52
Total real estate	370,099	77.82	408,068	75.54
Real estate construction:				
One- to four-family residential	7,647	1.61	10,871	2.01
Multi-family residential	4,351	0.91	10,417	1.93
Commercial and land development	22,996	4.84	27,144	5.02
Total real estate construction	34,994	7.36	48,432	8.96
Consumer:				
Home equity	48,502	10.20	53,368	9.88
Automobile	1,774	0.37	2,364	0.44
Other consumer	2,607	0.55	3,734	0.69
Total consumer	52,883	11.12	59,466	11.01
Commercial business	17,575	3.70	24,256	4.49
Gross loans	475,551	100.00 %	540,222	100.00 %
Deferred loan fees	(800)		(858)	
Allowance for loan losses	(17,872)		(28,735)	
Loans receivable, net	\$456,879		\$510,629	

Note 7 – Allowance for Loan Losses

Activity in the allowance for loan losses for the three and nine month periods ended June 30, 2010 and 2009, was as follows:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(in thousands)			
Beginning balance	\$ 27,779	\$ 7,333	\$ 28,735	\$ 4,579
Provision for loan losses	3,300	3,450	6,375	8,085
Losses on loans charged-off	(4,127)	(2,616)	(8,312)	(4,524)
Recoveries on loans charged-off	130	99	284	126
Adjustment to original purchase accounting	(9,210)	-	(9,210)	-
Ending balance	\$ 17,872	\$ 8,266	\$ 17,872	\$ 8,266

Statement of Financial Accounting Standards No. 141 permits an allocation period for the identification and valuation of assets and liabilities acquired in a business combination. The identification and reclassification of loans subject to ASC 310-30 was also included in the allocation period review. The following table summarizes as of September 30, 2009, loans originally identified under the scope of ASC 310-30 and loans subsequently identified under the scope of 310-30 during the allocation period. Balances have been reclassified to match current loan classifications:

As of September 30, 2009	Loans originally reported under ASC				Additional loans identified under ASC		
	Balance	Discount	Additional Adjustments	Estimated Fair Value	(in thousands)		
	Balance	Discount	Additional Adjustments	Estimated Fair Value	Balance	Discount	Estimated Fair Value
Acquisition, development and construction loans	\$11,446	\$(3,980)	\$(2,801)	\$ 4,665	\$ 4,759	\$(1,351)	\$ 3,408
Commercial real estate loans	16,481	(5,507)	(483)	10,491	9,491	(1,535)	7,956
One-to-four family loans	8,017	(2,997)	(100)	4,920	225	(191)	34
Other loans	4,529	(1,766)	(1,280)	1,483	734	(640)	94
Ending balance	\$40,473	\$(14,250)	\$(4,664)	\$21,559	\$15,209	\$(3,717)	\$11,492

The following table summarizes impaired loans at June 30, 2010, and September 30, 2009:

	June 30, 2010	September 30, 2009
	(in thousands)	
Impaired loans with related specific allowance	\$ 16,300	\$ 7,131
Impaired loans with no related allowance	9,943	6,657
Total impaired loans	\$ 26,243	\$ 13,788
Specific allowance on impaired loans	\$ 5,710	\$ 1,516

Troubled debt restructurings totaled \$7.0 million and \$11.9 million at June 30, 2010 and September 30, 2009, respectively, and are included in the impaired loan disclosures above.

Note 8 – Fair Value Measurement

ASC 820 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. The Company attempts to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s market assumptions.

The following table summarized the Company’s financial assets that were measured at fair value on a recurring basis at June 30, 2010 and September 30, 2009:

	Total	Level 1	Level 2	Level 3
	(in thousands)			
June 30, 2010				
Obligations of U.S. Government-sponsored enterprises (“GSE”)	\$13,237	-	\$13,237	-
Obligations of states and political subdivisions	1,531	-	1,531	-
Mortgage-backed securities, GSE issued	148,425	-	148,425	-
Mortgage-backed securities, private label	457		457	
September 30, 2009				
Obligations of U.S. GSE	\$4,127	-	\$4,127	-
Mortgage-backed securities, GSE issued	164,594	-	164,594	-
Mortgage-backed securities, private label	599		599	

Additionally, certain assets are measured at fair value on a non-recurring basis. These adjustments to fair value generally result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairment.

The following table summarizes the Company’s financial assets that were measured at fair value on a non-recurring basis at June 30, 2010 and September 30, 2009:

Total	Level 1	Level 2	Level 3
(in thousands)			

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June 30, 2010

Impaired loans	\$ 10,590	\$-	\$-	\$ 10,590
Real estate owned	9,595	-	-	9,595

September 30, 2009

Impaired loans	\$5,699	\$-	\$-	\$5,699
Real estate owned	11,781	-	-	11,781

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Impaired loans, which are measured for impairment using the fair value of the collateral at June 30, 2010, had a carrying amount of \$16.3 million, net of specific valuation allowances totaling \$5.7 million. The impact on earnings as a result of write-downs to REO was \$418,000 and \$367,000 for the three months ended June 30, 2010 and 2009 and \$2.5 million and \$528,000 for the nine months ended June 30, 2010 and 2009.

The specific valuation allowance required a provision of \$3.3 million and \$1.6 million during the quarters ended June 30, 2010 and June 30, 2009, respectively, and a provision of \$5.7 million and \$2.6 million for the nine month periods ended June 30, 2010, and June 30, 2009, respectively.

A loan is considered impaired when, based upon currently known information, it is deemed probable that the Company will be unable to collect all amounts due as scheduled according to the original terms of the agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, based on the loan's observable market price or the fair value of collateral, if the loan is collateral dependent. Impaired loans that are collateral dependent and have experienced a write-down in carrying value or have a recognized valuation allowance are included in the table above. Impaired loans whose fair value exceeds the carrying value are excluded from the table above as these loans do not represent assets measured and carried at fair value.

Fair value for real estate owned is determined by obtaining appraisals on the properties. The fair value under such appraisals is determined by using an income, cost or comparable sales valuation technique. The fair value is then reduced by management's estimate for the direct costs expected to be incurred in order to sell the property. Holding costs or maintenance expenses are recorded as period costs when incurred and are not included in the fair value estimate.

The estimated fair values of the Company's financial instruments at June 30, 2010, were as follows:

	June 30, 2010	
	Carrying Amount	Estimated Fair Value
	(in thousands)	
Financial Assets:		
Cash and cash equivalents	\$ 170,235	\$ 170,235
Investment securities	163,650	163,650
Loans held for sale	2,494	2,494
Loans receivable, net	456,879	465,337
FDIC indemnification receivable, net	7,607	7,607
FHLB stock	10,326	N/A
Accrued interest receivable	2,330	2,330
Financial Liabilities:		
Demand and savings deposits	\$ 347,150	\$ 347,150
Certificates of deposit	227,729	233,463
FHLB advances and other borrowings	73,536	76,895
Advances by borrowers for taxes and insurance	518	518
Accrued interest payable	560	560

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents: The carrying amount approximates fair value.

Investment Securities: The Company's investment securities available for sale consist primarily of securities issued by U.S. Government sponsored enterprises that trade in active markets. These securities are included under Level 2 because there may or may not be daily trades in each of the individual securities and because the valuation of these securities may be based on instruments that are not exactly identical to those owned by the Company.

Loans held for sale: The carrying amount approximates fair value.

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FHLB stock: The determination of fair value of FHLB stock was impractical due to restrictions on the transferability of the stock.

Loans receivable: Fair values for all performing loans are estimated using a discounted cash flow analysis, utilizing interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. In addition, the fair value reflects the decrease in loan values as estimated in the allowance for loan losses calculation.

Accrued interest receivable: The carrying amount approximates fair value.

Deposits: The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit are estimated using discounted cash flow analysis using the rates currently offered for deposits of similar remaining maturities.

FHLB advances: The fair value of the borrowings is estimated by discounting the future cash flows using the current rate at which similar borrowings with similar remaining maturities could be made.

Advances by borrowers for taxes and insurance: The carrying amount approximates fair value.

Accrued interest payable: The carrying amount approximates fair value.

Off-balance-sheet instruments: Fair values of off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the borrower's credit standing. The fair value of the fees at June 30, 2010 and 2009, were insignificant.

Note 9 –FDIC Indemnification Receivable

Activity in the FDIC indemnification receivable for the nine month period ended June 30, 2010, was as follows:

	Reimbursement rate		Amount Receivable (in thousands)	Discount	Net Receivable
	80%	95%			
Balance at September 30, 2009	\$34,000	\$4,405	\$31,385	\$(1,347)	\$30,038
Payments from FDIC for losses on covered assets	(24,319)	-	(19,455)	-	(19,455)
Adjustment for net reduction in estimated losses	-	(3,477)	(3,303)	-	(3,303)
Discount accretion	-	-	-	327	327
Balance at June 30, 2010	\$9,681	\$928	\$8,627	\$(1,020)	\$7,607

Amounts receivable from the FDIC have been estimated at 80% of losses on covered assets (acquired loans and REO) up to \$34.0 million. Reimbursable losses in excess of \$34.0 million have been estimated at 95% of the amount recoverable from the FDIC.

Note 10 – Subsequent Event

On July 30, 2010, the Company announced the Bank's purchase and assumption of certain assets and liabilities of LibertyBank in Eugene, Oregon, in a transaction facilitated by the FDIC. Based on preliminary financial information, the acquisition by the Bank includes approximately \$388 million of assets, including \$94 million of cash and securities and \$266 million of loans and leases. Deposits assumed in the acquisition total approximately \$675 million, which includes all insured and uninsured deposits. Other real estate owned acquired in the transaction totaled

approximately \$21 million. The transaction also includes the purchase of other assets and liabilities. The Bank anticipates an additional cash settlement of approximately \$314 million due to the assumption of net liabilities by Home Federal Bank. All balances above are subject to final closing and pro forma adjustments to the balance sheet accounts of LibertyBank as of July 30, 2010, and are subject to change.

The Bank acquired the assets of LibertyBank at a discount of \$29.9 million and the deposit liabilities at a deposit premium of 1.0%. The purchased loans, excluding consumer and deposit secured loans, and real estate owned are covered by a loss share agreement between the FDIC and Home Federal Bank. Under the loss share agreement, the FDIC has agreed to cover 80% of the losses on the disposition of the loans and real estate owned. The Bank also acquired the operations of Commercial Equipment Lease Corporation, a commercial leasing subsidiary of LibertyBank. The leases of the subsidiary are included as covered assets under the loss share agreement.

In addition to deepening its presence in Central Oregon, Home Federal Bank will now operate in Lane, Josephine, Jackson, and Multnomah counties in Oregon, including the communities of Eugene, Grants Pass and Medford, Oregon. The Bank will also have a branch and commercial loan production office in Portland.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements and "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995

This report contains forward-looking statements, which can be identified by the use of words such as "believes," "intends," "expects," "anticipates," "estimates" or similar expressions. Forward-looking statements include, but are not limited to:

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

These forward-looking statements are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets;
- 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, land and other properties and fluctuations in real estate values in our market areas;
- secondary market conditions for loans and our ability to sell loans in the secondary market;
- results of examinations of us by the Office of Thrift Supervision (the "OTS") 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 borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings;
- legislative or regulatory changes that adversely affect our business including the recently enacted financial reform legislation and changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules;
- 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 risks associated with the loans on our balance sheet;
- staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce 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;

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- costs and effects of litigation, including settlements and judgments;
- our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may acquire from our merger and acquisition activities into our operations, our ability to retain customers and employees and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- the possibility that the expected benefits from the FDIC-assisted acquisitions will not be realized;
- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and savings habits;
- the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions;
- our ability to pay dividends on our common stock;
- 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; and
- other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described as detailed from time to time in our filings with the SEC, including our 2009 Form 10-K and subsequently filed Quarterly Reports on Form 10-Q. Such developments could have an adverse impact on our financial position and our results of operations.

Any of the forward-looking statements that we make in this quarterly report and in other public statements we make may turn out to be wrong because of 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 the results indicated by these forward-looking statements and you should not rely on such statements. The Company undertakes no obligation to publish revised forward-looking statements to reflect the occurrence of unanticipated events or circumstances after the date hereof. These risks could cause our actual results for fiscal year 2010 and beyond to differ materially from those expressed in any forward-looking statements by or on behalf of us, and could negatively affect the Company's financial condition, liquidity and operating and stock price performance.

Background and Overview

Home Federal Bank (the "Bank") was founded in 1920 as a building and loan association and reorganized as a federal mutual savings and loan association in 1936. On December 6, 2004, the Bank converted to stock form and reorganized into the two-tiered mutual holding company form of organization and formed Home Federal MHC and Home Federal Bancorp, Inc. ("Old Home Federal"). On May 11, 2007, the Boards of Directors of Old Home Federal, Home Federal MHC and the Bank adopted a Plan of Conversion and Reorganization (the "Plan") pursuant to which the Bank reorganized from the mutual holding company structure to the stock holding company structure. As a result of that transaction, Home Federal Bank formed a new stock holding company, Home Federal Bancorp, Inc. ("we", "us", the "Company"), that serves as the holding company for Home Federal Bank. Home Federal Bancorp, Inc., is a Maryland corporation. The Conversion was completed on December 19, 2007. The Company's common stock is traded on the NASDAQ Global Select Market under the symbol "HOME" and is included in the U.S. Russell 2000® Index.

The Bank is a community-oriented financial institution dedicated to serving the financial service needs of consumers and businesses within its market area. The Bank's primary business is attracting deposits from the general public and using these funds to originate loans. The Bank emphasizes the origination of commercial business loans, commercial real estate loans, construction and residential development loans, consumer loans and loans secured by first mortgages on owner-occupied residential real estate. As a result of a comprehensive and continuing review of its strategic business plan, the Company continues to expand its commercial and small business banking programs, including a variety of loan and deposit products.

On August 7, 2009, the Bank entered into a purchase and assumption agreement with loss share with the Federal Deposit Insurance Corporation (“FDIC”) to assume all of the deposits (excluding nearly all brokered deposits) and
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certain assets, including loans and REO of Community First Bank, a full service commercial bank, headquartered in Prineville, Oregon (the "Acquisition"). Home Federal Bank acquired seven banking office locations in central Oregon. The loans and REO purchased are covered by a loss share agreement between the FDIC and Home Federal Bank which affords the Bank significant protection. Under the loss sharing agreement, Home Federal Bank will share in the losses on assets covered under the agreement (referred to as covered assets). The FDIC has agreed to reimburse Home Federal Bank for 80% of losses up to \$34.0 million, and 95% of losses that exceed that amount. The Acquisition has been incorporated prospectively in the Company's financial statements. Therefore, year over year results of operations may not be comparable. Additionally, only 54 days of operations from the Acquisition are included in the fourth quarter of fiscal 2009, which impacts linked quarter comparisons. In certain areas of this discussion and analysis, we have separately disclosed the impact of the Acquisition on the financial condition and results of operations of the Company.

On July 30, 2010, the Bank entered into a purchase and assumption with loss share with the FDIC to assume all of the deposits and acquire certain assets of LibertyBank, headquartered in Eugene, Oregon (the "LibertyBank Acquisition"). For additional information regarding the LibertyBank Acquisition, see Note 10 of the Selected Notes to Consolidated Financial Statements.

In addition to deepening its presence in Central Oregon, Home Federal Bank will now operate in Lane, Josephine, Jackson, and Multnomah counties in Oregon, including the communities of Eugene, Grants Pass and Medford, Oregon. The Bank will also have a branch and commercial loan production office in Portland.

At June 30, 2010, Home Federal Bank had operations in two distinct market areas including the Boise, Idaho, metropolitan statistical area ("MSA") and surrounding communities, together known as the Treasure Valley region of southwestern Idaho, including Ada, Canyon, Elmore and Gem counties. We refer to this market as the "Idaho Region." The Acquisition resulted in the Bank's entrance to the Tri-County Region of Central Oregon, including the counties of Crook, Deschutes and Jefferson. We refer to this market as the "Central Oregon Region." In addition to deepening its presence in Central Oregon, as a result of the LibertyBank Acquisition completed on July 30, 2010, the Bank will now operate in Lane, Josephine, Jackson, and Multnomah counties in Oregon, including the communities of Eugene, Grants Pass and Medford, Oregon. The Bank will also have a branch and commercial loan production office in Portland. In total, we currently have 37 full-service banking offices

The following summarizes key activities of the Company during the third fiscal quarter ended June 30, 2010:

- § Deposits increased \$20.0 million for the linked quarter with core deposits (checking, money market and savings accounts) increasing \$29.1 million
 - § Cash and cash equivalents increased significantly from the linked quarter
- § Gross loans declined \$32.1 million from the linked quarter as lending opportunities meeting our criteria remain difficult to obtain
 - § Nonperforming assets decreased \$3.4 million to \$60.6 million
 - § Provision for loan losses totaled \$3.3 million while net charge-offs totaled \$4.0 million
 - § Valuation adjustments on real estate owned totaled \$418,000
- § The Bank received \$4.1 million in reimbursed losses from the FDIC on assets covered under the loss share agreement

The current economic and interest rate environments continue to challenge our organic growth plans, although we have achieved significant deposit growth in fiscal year 2010. While total assets increased during the third quarter of fiscal year 2010, a diminished supply of creditworthy lending opportunities contributed to a decrease in outstanding loan balances. Cash and amounts due from depository institutions increased significantly as investment securities offer very low yields within our credit and interest rate risk tolerances.

Consistent with our stated strategy to transform the Company's balance sheet, we reduced fixed-term borrowing balances with the Federal Home Loan Bank of Seattle ("FHLB") and continued to focus on growing core deposits, defined as non-maturity deposits such as checking, savings and money market accounts, which we believe will increase the franchise value of the Company and improve profitability by reducing interest rate sensitivity and high-cost borrowing balances.

While we were successful in reducing nonperforming assets during the quarter, delinquencies in our commercial real estate loan portfolio rose, which may lead to future increases in nonperforming loans and assets. We recorded a provision for loan losses of \$3.3 million during the third quarter of fiscal year 2010 primarily due to the increases in specific reserves in our commercial real estate portfolio as property values continue to decline.

The economic environment in our markets of Southwestern Idaho and Central Oregon continues to be weak with unemployment rates exceeding national levels and with reduced prospects for economic growth over the next 12 months. We believe that meaningful organic growth in loans will be difficult to achieve in the short term.

Recent Legislation Impacting the Financial Services Industry

On July 21, 2010, sweeping financial regulatory reform legislation entitled the “Dodd-Frank Wall Street Reform and Consumer Protection Act” (the “Dodd-Frank Act”) was signed into law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things, will:

- § On July 21, 2011 (unless extended for up to six additional months), transfer the responsibilities and authority of the OTS to supervise and examine federal thrifts, including the Bank, to the Office of the Comptroller of the Currency, and transfer the responsibilities and authority of the OTS to supervise and examine savings and loan holding companies, including the Company, to the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”).
- § Centralize responsibility for consumer financial protection by creating a new agency within the Federal Reserve Board, the Bureau of Consumer Financial Protection, with broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws that would apply to all banks and thrifts. Smaller financial institutions, including the Bank, will be subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws.
- § Require new capital rules and apply the same leverage and risk-based capital requirements that apply to insured depository institutions to savings and loan holding companies beginning July 21, 2015.
- § Require the federal banking regulators to seek to make their capital requirements countercyclical, so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.
- § Provide for new disclosure and other requirements relating to executive compensation and corporate governance.
- § Make permanent the \$250,000 limit for federal deposit insurance and provide unlimited federal deposit insurance until January 1, 2013, for noninterest-bearing demand transaction accounts at all insured depository institutions.
- § Effective July 21, 2011, repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.
- § Require all depository institution holding companies to serve as a source of financial strength to their depository institution subsidiaries in the event such subsidiaries suffer from financial distress.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company and the financial services industry more generally. The elimination of the prohibition on the payment of interest on demand deposits could materially increase our interest expense, depending on our competitors’ responses.

Critical Accounting Estimates and Related Accounting Policies

Note 2 to the consolidated financial statements in this Quarterly Report on Form 10-Q provides a description of critical accounting policies and significant estimates in the financial statements that should be considered in conjunction with the reading of this discussion and analysis.

Comparison of Financial Condition at June 30, 2010, and September 30, 2009

For the nine months ended June 30, 2010, total assets increased \$41.3 million. The changes in total assets were primarily concentrated in the following asset categories:

	Balance at June 30, 2010	Balance at September 30, 2009	Increase/(Decrease)	
			Amount	Percent
(dollars in thousands)				
Cash and amounts due from depository institutions	\$170,235	\$49,953	\$120,282	240.8 %
Investments available for sale, at fair value	163,650	169,320	(5,670)	(3.3)
Loans receivable, net of allowance for loan losses	456,879	510,629	(53,750)	(10.5)
FDIC indemnification receivable, net	7,607	30,038	(22,431)	(74.7)

Cash and amounts due from depository institutions. Cash and amounts due from depository institutions increased \$120.3 million to \$170.2 million at June 30, 2010, from \$50.0 million at September 30, 2009. Significant deposit growth funded the increase in cash with deposits increasing \$60.0 million during the nine months ended June 30, 2010. We also received \$19.5 million in reimbursements from losses incurred on acquired assets during the nine months ended June 30, 2010, under the loss share agreement with the FDIC. In addition, cash increased due to principal repayments on one-to-four family residential mortgages and mortgage backed securities exceeding loan originations and purchases of mortgage backed securities. We used some cash to pay maturing borrowings from the FHLB during fiscal year 2010. We continue to hold excess levels of cash as a result of the very low interest rate environment, which makes medium-term investments unattractive, and to provide increased flexibility for potential acquisitions.

Investments. Investments decreased \$5.7 million to \$163.7 million at June 30, 2010, from \$169.3 million at September 30, 2009. The decrease was primarily the result of the sum of principal repayments and securities called exceeding the purchases of securities during the nine months ended June 30, 2010. Principal reductions and called securities totaled \$38.8 million for the nine months ended June 30, 2010.

Nearly all of our investment securities are issued by U.S. Government sponsored enterprises, primarily Fannie Mae and Freddie Mac. While the U.S. Government has affirmed its support for government sponsored enterprises and the obligations and mortgage-backed securities they issued, significant deterioration in the financial strength of Fannie Mae, Freddie Mac or mortgage-backed security insurers or actions by the U.S. Government to modify the structure of these government enterprises may have a material effect on the valuation and performance of our mortgage-backed securities portfolio in future periods.

FHLB Stock. At June 30, 2010, the Bank held \$10.3 million of common stock in the FHLB. This security is reported at par value, which represents the Bank's cost. The FHLB has reported a capital deficiency under the regulations of the Federal Housing Finance Agency (the "FHFA"), its primary regulator. As a result, the FHLB has stopped paying a dividend and has suspended the repurchase and redemption of outstanding common stock until its retained earnings deficiency is reclaimed.

The FHLB has stated it believes the calculation of risk-based capital under the current rules of the FHFA significantly overstates the market and credit risk of the FHLB's private-label mortgage-backed securities in the current market environment and that it has enough capital to cover the risks reflected in the FHLB's balance sheet. As a result, we have not recorded an "other than temporary impairment" on our investment in FHLB stock. However, continued deterioration in the FHLB's financial position may result in impairment in the value of those securities, or the requirement that the Bank contribute additional funds to recapitalize the FHLB, or reduce the Bank's ability to borrow funds from the FHLB, which would impair the Bank's ability to meet liquidity demands.

Loans. Net loans receivable decreased \$53.8 million to \$456.9 million at June 30, 2010, from \$510.6 million at September 30, 2009. One-to-four family residential mortgage loans decreased \$25.7 million as we currently

originate conventional one-to-four family residential loans primarily for sale in the secondary market. As a result, the residential loan portfolio will likely continue to decline as new loans are not added to the portfolio. Consumer loans decreased \$6.6 million to \$52.8 million as of June 30, 2010. Commercial real estate loans, real estate construction loans and commercial loans declined a combined \$28.9 million to \$257.2 million. We plan to continue our emphasis on commercial and small business banking products although the slowing economy has reduced growth opportunities for businesses in our primary markets, thereby limiting our ability to generate new loans meeting our investment objectives and criteria.

Asset Quality. Net loan charge-offs totaled \$4.0 million during the quarter ended June 30, 2010, compared to \$2.8 million during the quarter ended March 31, 2010, and \$1.4 million for the quarter ended December 31, 2009. Loans delinquent 30 to 89 days totaled \$12.3 million at June 30, 2010, including \$6.9 million of delinquent loans covered by the loss share agreement with the FDIC, as compared to \$7.9 million at September 30, 2009. The following table summarizes loans delinquent 30 to 89 days:

	June 30, 2010	September 30, 2009
	(in thousands)	
Land acquisition and development	\$ 515	\$ 3,537
One-to-four family construction	419	481
Commercial real estate	3,579	1,886
One-to-four family residential	2,049	1,551
Multi-family	3,911	-
Consumer and other	1,799	415
Total loans delinquent 30 to 89 days	\$ 12,272	\$ 7,870

The allowance for loan losses was \$17.9 million, or 3.76%, of gross loans at June 30, 2010, compared to \$28.7 million, or 5.32% of gross loans at September 30, 2009. At June 30, 2010, \$3.2 million of the recorded allowance was on loans purchased in the Acquisition and \$14.7 million on loans in the Idaho Region loan portfolio. Approximately \$5.7 million of the allowance for loan losses on the Idaho Region portfolio is allocated to nonperforming loans.

Since the Acquisition, the Company has continued to review preliminary estimates of fair values of loans purchased in the Acquisition. During this allocation period, management obtained information on additional loans that evidence credit impairment on the date of the Acquisition. Additionally, management updated the preliminary fair values of loans previously identified as purchased impaired loans on the date of acquisition. These adjustments reduced the preliminary estimated fair values of purchased impaired loans. Lastly, management updated preliminary estimated loss rates for loans acquired, which resulted in a reduction in the allowance for loan losses. The adjustment in the allowance for loan losses on purchased loans resulted in a reduction in the FDIC indemnification receivable due to lower loss estimates, which was offset somewhat by the reduction in estimated fair values of purchased impaired loans. The difference between the allowance for loan losses adjustment and the reduction in the FDIC indemnification receivable resulted in other income due to fair value adjustments of \$278,000 during the quarter ended June 30, 2010. Should loans purchased in the Acquisition deteriorate further, the Company may be required to record a provision for loan losses and increase the allowance for loan losses in future periods.

Loans that exhibited evidence of credit deterioration on the date of the Acquisition were recorded at fair value under ASC 310-30, which means an allowance for loan losses is not reported separately on the Consolidated Balance Sheets. Because of the loss sharing agreement with the FDIC on these assets, we do not expect to incur excessive future losses on the acquired loan portfolio. However, our inability to perform specific requirements under the purchase and assumption agreement with the FDIC or to properly service and manage the workout of troubled loans in the loss share portfolio may result in certain loans losing eligibility for reimbursement of losses under the loss share

agreement.

Nonperforming assets, which include all loans past due greater than 90 days, loans on nonaccrual status and real estate and other property owned, totaled \$60.6 million at June 30, 2010, compared to \$56.9 million at September 30, 2009. The delinquency table above includes \$5.8 million, and \$5.1 million of loans that were placed on nonaccrual

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status at June 30, 2010, and September 30, 2009, respectively, which are also included in the table below that summarizes total nonperforming loans (including nonaccrual and impaired loans) and real estate owned:

(in thousands)	June 30, 2010			September 30, 2009		
	Covered Assets	Legacy Portfolio	Total	Covered Assets	Legacy Portfolio	Total
Acquisition and development	\$7,936	\$3,378	\$11,314	\$6,985	\$623	\$7,608
One-to-four family construction	347	446	793	481	2,283	2,764
Commercial real estate						