HOME FEDERAL BANCORP, INC. OF LOUISIANA
Form 10-K
September 03, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

x Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended June 30, 2010

OR

o Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 000-51117

HOME FEDERAL BANCORP, INC. OF LOUISIANA

(Exact name of registrant as specified in its charter)

Federal	86-1127166
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
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 under Section 12(b) of the Act:	None
Securities registered under Section 12(g) of the Act:	

Common Stock (par value $.01 per share)

(Title of Class)

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

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

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 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 o No o

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. x

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	o		Accelerated filer	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	x

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

As of September 1, 2010, the aggregate value of the 852,000 shares of Common Stock of the Registrant issued and outstanding on such date, which excludes an aggregate of 352,000 shares held by all directors and executives officers of the Registrant, the Registrant s Employee Stock Ownership Plan (ESOP), and Employees Savings and Profit Sharing Plan (401(k) Plan), and 2.1 million shares held by Home Federal Mutual Holding Company of Louisiana as a group, was approximately $8.3 million. This figure is based on the closing sales price of $9.70 per share of the Registrant s Common Stock on September1, 2010. 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 1, 2010: 3,343,601

DOCUMENTS INCORPORATED BY REFERENCE

Set forth below are the documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated.

(1) Portions of the Annual Report to Shareholders are incorporated into Part II, Items 5 through 8 and Part IV, Item 15 of this Form 10-K.

(2) Portions of the Definitive Proxy Statement for the 2010 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, 2010

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PART I

Item 1. Business

Market Area

Home Federal Bancorp s 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. According to the U.S. Census Bureau, Caddo Parish and Bossier Parish had estimated populations of approximately 254,000 and 111,000 people, respectively, in 2009. Between 2000 and 2009, the population of Caddo Parish grew 0.6% and Bossier Parish grew 13.4%, compared to an increase in the overall population of Louisiana of 6.5% for the same period.

In 2008, the median household income in Caddo Parish and Bossier Parish was $37,000 and $49,000, respectively. According to the U.S. Department of Labor, the unemployment rate as of June 2010 was 8.4% in Caddo Parish and 6.3% in Bossier Parish, compared to 7.0% for the entire state of Louisiana and 9.5% nationwide.

The Shreveport-Bossier City metropolitan statistical area is considered the economic and healthcare center for northwest Louisiana, east Texas and southwest Arkansas. The primary employers in our market area are the Louisiana Department of Civil Service, Barksdale Air Force Base, Louisiana State University Medical Center and the Willis-Knighton Health System. The gaming industry also supports service sector employment.

General. On January 18, 2005, Home Federal Bank, completed its reorganization to the mutual holding company form of organization and formed Home Federal Bancorp, Inc. of Louisiana to serve as the stock holding company for Home Federal Bank. In connection with the reorganization, Home Federal Bancorp sold 1,423,583 shares of its common stock in a subscription and community offering at a price of $10.00 per share. Home Federal Bank also issued 60% of its then outstanding common stock in the reorganization to Home Federal Mutual Holding Company of Louisiana, or 2,135,375 shares. As of June 30, 2010, Home Federal Mutual Holding Company held 63.8% of Home Federal Bancorp s issued and outstanding common stock. Home Federal Bank is a federally chartered, stock savings bank and is subject to federal regulation by the Federal Deposit Insurance Corporation and the Office of Thrift Supervision. Effective April 8, 2009, Home Federal Savings and Loan Association changed its name to Home Federal Bank.

Services are provided to Home Federal Bank s customers by three branch offices and one agency office, all of which are located in the City of Shreveport, Louisiana. The area served by Home Federal Bank is primarily the Shreveport-Bossier City metropolitan area; however, loan and deposit customers are found dispersed in a wider geographical area covering much of northwest Louisiana. Home Federal Bank has purchased packages of single family loans for its portfolio from a mortgage originator in Arkansas that are secured by properties primarily located in predominantly rural areas of Texas and to a lesser extent, Tennessee, Arkansas, Alabama, Louisiana and Mississippi, however, no such purchases were made during fiscal 2009 or 2010. Under the terms of the loan agreements, the seller must repurchase any loan that becomes more than 90 days delinquent.

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. If Home Federal Bancorp commences any significant activities other than holding all of the outstanding common stock of Home Federal Bank, Home Federal Bancorp and Home Federal Bank will amend the expense sharing agreement to provide for the equitable sharing of all expenses of such other activities that may be attributable to Home Federal Bancorp.

Home Federal Bank is a federally chartered savings and loan association located in Shreveport, Louisiana, which is the parish seat of Caddo Parish. Home Federal Bank s business consists primarily of attracting deposits from the general public and using those funds to invest in securities and originate single-family and consumer loans. Historically, Home Federal Bank has been a traditional thrift institution with an emphasis on fixed-rate long-term single-family residential first mortgage loans. As part of implementing our business strategy, we diversified the loan products we offer and increased our efforts to originate higher yielding commercial real estate loans and lines of credit and, to a lesser extent commercial business loans, in the last half of fiscal 2009. We recently hired senior management officers with significant commercial lending experience in our market area. Commercial real estate loans and lines of credit were deemed attractive due to their generally higher yields and shorter anticipated lives compared to single-family residential mortgage loans. In July 2009, Home Federal Bank began offering security brokerage and advisory services through its agency office located in Shreveport, Louisiana.

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 the 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.

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Lending Activities

General. At June 30, 2010, our net loan portfolio amounted to $93.1 million, representing approximately 50.3% of total assets at that date. Historically, our principal lending activity was the origination of one- to four-family residential loans. At June 30, 2010, one- to four-family residential loans amounted to $36.3 million, or 38.7% of the total loan portfolio. As part of our desire to diversify the loan portfolio, we began to offer commercial real estate loans and commercial business loans in fiscal 2009, which amounted to $15.4 million and $9.5 million, respectively, at June 30, 2010.

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 Thrift Supervision 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, 2010, our regulatory limit on loans-to-one borrower was $4.6 million and the five largest loans or groups of loans-to-one borrower, including related entities, aggregated $4.4 million, $4.2 million, $3.9 million, $3.8 million and $2.9 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, 2010. For our largest loan to one borrower, during fiscal 2010 we utilized the higher limit applicable for domestic residential housing units upon approval by the Office of Thrift Supervision. The $4.4 million group of loans is to a limited partnership established by the Housing Authority of Bossier City, Louisiana. The loans are secured by a first mortgage lien on real estate and low to moderate income rental units in Bossier City, Louisiana as well as a conditional assignment of rents.

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

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

	June 30, 2010		2009	
	Amount	Percent of Total Loans	Amount	Percent of Total Loans
	(Dollars in thousands)			
Real estate loans:				
One- to four-family residential(1)	$ 36,257	38.65%	$ 22,106	46.50%
Commercial-real estate secured:				
Owner occupied	14,550	15.51	8,193	17.24
Non-owner occupied	872	0.93		
Total commercial-real estate secured	15,422	16.44	8,193	17.24
Multi-family residential	9,079	9.68	4,884	10.27
Commercial business	9,454	10.08	3,904	8.21
Land	8,442	9.00	2,348	4.94
Construction	7,793	8.31	338	0.71
Home equity loans and second mortgage loans	2,963	3.16	4,914	10.34
Equity lines of credit	4,069	4.33	451	0.95
Total real estate loans	93,479	99.65	47,138	99.16
Non-real estate loans:				
Savings accounts	285	0.30	359	0.76
Automobile	48	0.05	40	0.08
Total non-real estate loans	333	0.35	399	0.84
Total loans	93,812	100.00%	47,537	100.00%
Less:				
Allowance for loan losses	(489)		(466)	
Deferred loan fees	(267)		(123)	
Net loans receivable(1)	$ 93,056		$ 46,948	

(1) Does not include loans held for sale amounting to $13.4 million and $1.3 million at June 30, 2010 and June 30, 2009, respectively.

Origination of Loans. Our lending activities are subject to the written underwriting standards and loan origination procedures established by the board of directors and management. Loan originations are obtained through a variety of sources, primarily from existing customers and referrals from existing customers. Written loan applications are taken by one of our loan officers. The loan officer also supervises the procurement of credit reports, appraisals and other documentation involved with a loan. As a matter of practice, we obtain independent outside appraisals on substantially all of our loans although we may prepare an in-house valuation depending on the characteristics of the loan and the profile of the borrower. Under our lending policy, a title opinion must be obtained for each real estate loan. 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. Residential loans up to $417,000, the Fannie Mae conforming loan limit for single-family mortgage loans for 2010, must be approved by our Residential Loan Committee which currently consists of the Chief Executive Officer, the President, the Chief Financial

Officer, the Senior Vice President Mortgage Lending and the Vice President of Lending. Residential loans in excess of $417,000 must be approved by the board of directors. Commercial real estate secured loans and lines of credit and commercial business loans up to $1.0 million must be approved by the President or the Chief Executive Officer, up to $2.0 million by both the President and the Chief Executive Officer, up to $3.0 million by the Commercial Loan Committee and in excess of $3.0 million by the Executive Loan Committee. In accordance with past practice, all loans are ratified by our board of directors.

Historically, 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. No such mortgage loans were purchased during fiscal 2009 or fiscal 2010. 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, 2010, we had approximately $8.8 million of such loans in our portfolio with an average age of approximately seven years.

In recent periods, we have originated and sold substantially all of our fixed-rate conforming mortgages to correspondent banks. For the year ended June 30, 2010, we originated $113.8 million of one- to four-family residential loans and sold $71.6 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,	
	2010	**2009**
	(In thousands)	
Loan originations:		
One- to four-family residential	$ 113,753	$ 32,160
Commercial real estate secured (owner occupied and non-owner occupied)	8,645	8,217
Multi-family residential	7,780	
Commercial business	12,877	2,770
Land	7,561	3,502
Construction	11,569	339
Home equity loans and lines of credit and other consumer	6,488	3,702
Total loan originations	168,673	50,690
Loans purchased		
Total loan originations and loans purchased	168,673	50,690
Loans sold	(71,554)	(16,157)
Loan principal repayments	(50,844)	(15,609)
Total loans sold and principal repayments	(122,398)	(31,766)
Increase (decrease) due to other items, net(1)	(167)	(239)
Net increase in loan portfolio	$ 46,108	$ 18,685

(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 Parish, 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, 2010, we were within each of the above lending limits.

During fiscal 2010 and 2009, we sold $71.6 million and $16.2 million of loans, respectively. We recognized gain on sale of loans of $644,000 during fiscal 2010 and $1,567 during fiscal 2009. 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 amount of time, typically 90 days. The loans sold primarily consisted of long-term, fixed rate residential real estate loans. These loans were originated during a 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, 2010, 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, 2010 in:								
One year or less	$ 1,275	$ 1,071	$ 115	$ 2,882	$ 3,398	$ 4,355	$ 2,862	$ 15,958
After one year through two years	1,419	520	3,909	846	4,735	2,751	245	14,425
After two years through three years	2,414	434		1,354			83	4,285
After three years through five years	13,198	11,770	633	4,080	309	687	4,042	34,719
After five years through ten years	1,258	1,230		292			133	2,913
After ten years through fifteen	1,529		788					2,317

years								
After fifteen years	15,164	397	3,634					19,195
Total	$ 36,257	$ 15,422	$ 9,079	$ 9,454	$ 8,442	$ 7,793	$ 7,365	$ 93,812

The following table sets forth the dollar amount of all loans, before net items, due after June 30, 2010 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	$ 27,351	$ 8,906	$ 36,257
Commercial real estate secured	15,422		15,422
Multi-family residential	9,079		9,079
Commercial business	9,454		9,454
Land	8,442		8,442
Construction	7,793		7,793
Home equity loans and lines of credit and other consumer	7,365		7,365
Total	$ 84,906	$ 8,906	$ 93,812

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, 2010, $36.3 million, or 38.7%, of the total loan portfolio, before net items, consisted of one- to four-family residential loans.

The loan-to-value ratio, maturity 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, 2010, $27.4 million, or 75.4%, 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 over the past two years.

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 and Multi-Family Residential Loans General. In February 2009, we hired three commercial loan officers, including our President, Mr. Barlow, with over 12 years of commercial banking experience, particularly in the local Shreveport market. Although commercial loans are generally considered to have greater credit risk than other certain types of loans, management expects to mitigate such risk by originating such loans in its market area to known borrowers.

Commercial Real Estate Loans. As of June 30, 2010, Home Federal Bank had outstanding $15.4 million of loans secured by commercial real estate. 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 mortgage 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 5 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 3 to 5 year amortizations.

Multi-Family Residential Loans. At June 30, 2010, we had outstanding approximately $9.1 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. In conjunction with our introduction of loans and lines of credit secured by commercial real estate, we initiated non-real estate secured commercial lending. At June 30, 2010, we had outstanding approximately $9.5 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, 2010, land loans were $8.4 million, or 9.0% of the total loan portfolio. 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 source 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, 2010, we had outstanding approximately $7.8 million of construction loans which included loans for the construction of residential and commercial property. Our residential construction loans typically have terms of 6 to eleven 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, 2010, we held $3.4 million of speculative construction loans, $2.3 million of which related to speculative office condominium projects, which are limited to eight units at any one time.

Home Equity and Second Mortgage Loans. At June 30, 2010, we held $3.0 million of home equity and second mortgage loans compared to $4.9 million of home equity and second mortgage loans at June 30, 2009. 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 $4.1 million, or 4.3% of the total loan portfolio, at June 30, 2010. 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.

Non-real Estate Loans General. We are authorized to make loans for a wide variety of personal or consumer purposes. We originate consumer loans in order to accommodate our customers and because such loans generally have shorter terms and higher interest rates than residential mortgage loans. The consumer loans we offer consist of loans secured by deposit accounts with us, automobile loans and other unsecured loans.

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 offer loans secured by deposit accounts held with us, which loans amounted to $285,000, or .30% of the total loan portfolio, at June 30, 2010. 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 2010, we engaged a third party to review loans, policies, and procedures. The scope of the services to be provided includes credit underwriting, adherence to our loan policies as well as regulatory policies, and recommendations regarding reserve allocations. We expect to have such reviews 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. We held no real estate owned at June 30, 2010 and June 30, 2009.

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

	June 30, 2010				June 30, 2009			
	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	4	$ 265	1	$ 15	1	$ 75	2	$ 349
Commercial real estate secured								
Multi-family residential								
Commercial business								
Land								
Construction			1	345				
Home equity loans and lines of credit and other consumer								
Total delinquent loans	4	$ 265	2	$ 360	1	$ 75	2	$ 349
Delinquent loans to total net loans		0.28%		0.39%		0.16%		0.74%
Delinquent loans to total loans		0.28%		0.38%		0.16%		0.73%

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 did not have accruing loans 90 days or more past due, real estate owned or troubled debt restructurings at either of the dates indicated.

	June 30,	
	2010	2009
	(Dollars in thousands)	
Non-accruing loans:		
One- to four-family residential	$ 15	$ 349
Commercial real estate secured		
Multi-family residential		
Commercial business		
Land		
Construction	345	
Home equity loans and lines of credit and other consumer		
Total non-accruing loans	360	349
Accruing loans 90 days or more past due		

Total non-performing loans(1)	360	349
Real estate owned, net		
Total non-performing assets	$ 360	$ 349
Total non-performing loans as a percent of loans, net	0.39%	0.74%
Total non-performing assets as a percent of total assets	0.19%	0.23%

(1) Non-performing loans consist of non-accruing loans plus accruing loans 90 days or more past due.

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

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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, 2010, we held $227,000 of assets classified special mention and $563,000 classified as substandard. The classified assets are related to one mutual fund investment, three mortgage loans and one construction loan.

Allowance for Loan Losses. At June 30, 2010, our allowance for loan losses amounted to $489,000. 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 2010, we recorded a provision for loan losses of $36,000 as compared to $240,000 recorded for the fiscal year 2009. The 2010 provision reflects our estimate to maintain the allowance for loan losses at a level to cover probable losses inherent in the loan portfolio.

The increase in the provision for fiscal year 2010 reflects the increased risk associated with our commercial lending (both real estate secured and non-real estate secured), as well our consideration of the downturn in the national economy. As noted previously, total non-performing assets increased by approximately $11,000 over the prior year.

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.

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The following table shows changes in our allowance for loan losses during the periods presented. We had $13,000 and $9,000 of loan charge-offs during fiscal 2010 and 2009, respectively.

	At or for the Year Ended June 30,	
	2010	**2009**
	(Dollars in thousands)	
Total loans outstanding at end of period	$ 93,812	$ 47,537
Average loans outstanding	77,879	32,630
Allowance for loan losses, beginning of period	$ 466	$ 235
Provision for loan losses	36	240
Charge-offs	(13)	(9)
Allowance for loan losses, end of period	$ 489	$ 466
Allowance for loan losses as a percent of non-performing loans	135.83%	133.52%
Allowance for loan losses as a percent of loans outstanding	0.52%	0.98%

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

	June 30,			
	2010		**2009**	
	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	$ 30	38.65%	$ 29	46.50%
Commercial real estate	95	16.44	91	17.23
Multi-family residential	70	9.68	67	10.27
Commercial business	140	10.08	133	8.21
Land	75	9.00	71	4.94
Construction	74	8.31	71	0.71
Home equity loans and lines of credit and other consumer	5	7.85	4	12.13
Total	$ 489	100.00%	$ 466	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 bankers acceptances and federal funds. Our investment strategy is established by the board of directors.

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The following table sets forth certain information relating to our investment securities portfolio at the dates indicated.

	June 30,			
	2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Securities Held-to-Maturity:				
FHLB stock	$ 1,840	$ 1,840	$ 1,806	$ 1,806
Mortgage-backed securities	298	323	378	389
Total Securities Held-to-Maturity	2,138	2,163	2,184	2,195
Securities Available-for-Sale:				
Corporate securities	1,538	1,559	2,415	1,727
Mortgage-backed securities	58,974	62,129	89,567	90,920
Total Securities Available-for-Sale	60,512	63,688	91,982	92,647
Total Investment Securities	$ 62,650	$ 65,851	$ 94,166	$ 94,842

The following table sets forth the amount of investment securities which contractually mature during each of the periods indicated and the weighted average yields for each range of maturities at June 30, 2010. The amounts reflect the fair value of our securities at June 30, 2010.

	Amounts at June 30, 2010 which Mature in							
	One Year or Less	Weighted Average Yield	Over One Year Through Five Years	Weighted Average Yield	Over Five Through Ten Years	Weighted Average Yield	Over Ten Years	Weighted Average Yield
	(Dollars in thousands)							
Bonds and other debt securities:								
Mortgage-backed securities	$ 8	6.08%	$ 5	6.41%	$ 866	3.52%	$ 61,573	4.95%
Equity securities(1):								
ARM Fund							1,559	3.54
FHLB stock							1,840	.37
Total investment securities and FHLB stock	$ 8	6.08%	$ 5	6.41%	$ 866	3.52%	$ 64,972	4.78%

(1) None of the listed equity securities has a stated maturity.

Our investment in equity securities consists primarily of FHLB stock and a $1.5 million (book value) investment in an adjustable-rate mortgage fund (referred to as the ARM Fund). The fair value of the ARM Fund has traditionally correlated with the interest rate environment. At June 30, 2010, the unrealized gain on this investment was $21,000. During fiscal 2010, we evaluated our position in the ARM Fund to determine if the impairment was other than temporary. Based on the assessment of the underlying assets of the ARM Fund, as well our ability and intent to hold the investment until it recovers its value, we determined that the investment s impairment was other than temporary resulting in an impairment charge against earning of $627,000. Management will continue to monitor its investment portfolio to determine whether any investment securities which have unrealized losses should be considered other than temporarily impaired.

Mortgage-backed securities represent a participation interest in a pool of one- to four-family or multi-family mortgages. The mortgage originators use intermediaries (generally U.S. Government agencies and government-sponsored enterprises) to pool and repackage the participation interests in the form of securities, with investors receiving the principal and interest payments on the mortgages. Such U.S. Government agencies and government-sponsored enterprises guarantee the payment of principal and interest to investors.

Mortgage-backed securities are typically issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with interest rates that are within a range and have varying maturities. The underlying pool of mortgages, *i.e.*, fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder. The life of a mortgage-backed pass-through security approximates the life of the underlying mortgages.

Our mortgage-backed securities consist of Ginnie Mae securities (GNMA), Freddie Mac securities (FHLMC) and Fannie Mae securities (FNMA). Ginnie Mae is a government agency within the Department of Housing and Urban Development which is intended to help finance government-assisted housing programs. Ginnie Mae securities are backed by loans insured by the Federal Housing Administration, or guaranteed by the Veterans Administration. The timely payment of principal and interest on Ginnie Mae securities is guaranteed by Ginnie Mae and backed by the full faith and credit of the U.S. Government. Freddie Mac is a private corporation chartered by the U.S. Government. Freddie Mac issues participation certificates backed principally by conventional mortgage loans. Freddie Mac guarantees the timely payment of interest and the ultimate return of principal on participation certificates. Fannie Mae is a private corporation chartered by the U.S. Congress with a mandate to establish a secondary market for mortgage loans. Fannie Mae guarantees the timely payment of principal and interest on Fannie Mae securities. Freddie Mac and Fannie Mae securities are not backed by the full faith and credit of the U.S. Government. In September 2008, the Federal Housing Finance Agency was appointed as conservator of Fannie Mae and Freddie Mac. The U.S. Department of the Treasury agreed to provide capital as needed to ensure that Fannie Mae and Freddie Mac continue to provide liquidity to the housing and mortgage markets.

Mortgage-backed securities generally yield less than the loans which underlie such securities because of their payment guarantees or credit enhancements which offer nominal credit risk. In addition, mortgage-backed securities are more liquid than individual mortgage loans and may be used to collateralize our borrowings or other obligations.

The following table sets forth the composition of our mortgage-backed securities portfolio at each of the dates indicated. The amounts reflect the fair value of our mortgage-backed securities at June 30, 2010 and 2009.

	June 30,	
	2010	**2009**
	(In thousands)	
Fixed rate:		
GNMA	$ 205	$ 251
FHLMC	2,812	14,087
FNMA	58,004	75,301
Total fixed rate	61,021	89,639
Adjustable rate:		
GNMA	128	155
FNMA	881	1,013
FHLMC	422	502
Total adjustable-rate	1,431	1,670
Total mortgage-backed securities	$ 62,452	$ 91,309

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Information regarding the contractual maturities and weighted average yield of our mortgage-backed securities portfolio at June 30, 2010 is presented below. Due to repayments of the underlying loans, the actual maturities of mortgage-backed securities generally are substantially less than the scheduled maturities. The amounts reflect the fair value of our mortgage-backed securities at June 30, 2010.

	Amounts at June 30, 2010 which Mature in					
	One Year or Less	Weighted Average Yield	Over One through Five Years	Weighted Average Yield	Over Five Years	Weighted Average Yield
			(In thousands)			
Fixed rate:						
GNMA	$ 8	6.08%	$	%	$ 197	7.99%
FHLMC					2,812	5.00
FNMA					58,004	4.99
Total fixed-rate	8	6.08			61,013	5.00%
Adjustable rate:						
GNMA					128	3.14%
FNMA			5	6.41	876	3.26
FHLMC					422	3.27
Total adjustable-rate			5	6.41	1,426	3.25
Total	$ 8	6.08%	$ 5	6.41%	$ 62,439	4.93%

The following table sets forth the purchases, sales and principal repayments of our mortgage-backed securities during the periods indicated.

	At or For the Year Ended June 30,	
	2010	2009
	(Dollars in thousands)	
Mortgage-backed securities at beginning of period	$ 89,945	$ 98,407
Purchases		24,253
Repayments	(14,555)	(13,957)
Sales	(16,420)	(19,048)
Amortizations of premiums and discounts, net	302	290
Mortgage-backed securities at end of period	59,272	89,945

Weighted average yield at end of period	4.95%	5.09%

Sources of Funds

General. Deposits are our primary source of funds for lending and other investment purposes. In addition to deposits, principal and interest payments on loans and investment securities are a source of funds. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may also be used on a short-term basis to compensate for reductions in the availability of funds from other sources and on a longer-term basis for general business purposes.

Deposits. We attract deposits principally from residents of Louisiana and particularly from Caddo Parish and Bossier Parish. Deposit account terms vary, with the principal differences being the minimum balance required, the time periods the funds must remain on deposit and the interest rate. We have not solicited deposits from outside Louisiana or paid fees to brokers to solicit funds for deposit. With the introduction of commercial lending in fiscal 2009, we commenced a policy of requiring commercial loan customers to have a deposit account relationship with us. This policy resulted in a significant increase in NOW accounts in fiscal 2010.

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We establish interest rates paid, maturity terms, service fees and withdrawal penalties on a periodic basis. Management determines the rates and terms based on rates paid by competitors, the need for funds or liquidity, growth goals and federal regulations. We attempt to control the flow of deposits by pricing our accounts to remain generally competitive with other financial institutions in the market area.

The following table shows the distribution of, and certain other information relating to, our deposits by type of deposit, as of the dates indicated.

	June 30,			
	2010		2009	
	Amount	Percent of Total Deposits	Amount	Percent of Total Deposits
	(Dollars in thousands)			
Certificate accounts:				
0.00% - 0.99%	$ 12	0.01%	$ 134	0.14%
1.00% - 1.99%	30,309	25.75	11,970	13.90
2.00% - 2.99%	16,734	14.22	13,030	15.13
3.00% - 3.99%	17,497	14.86	21,405	24.85
4.00% - 4.99%	7,865	6.68	12,990	15.08
5.00% - 5.99%	1,473	1.25	3,272	3.80
Total certificate accounts	73,890	62.77	62,801	72.90
Transaction accounts:				
Savings	5,266	4.47	6,056	7.03
NOW	18,130	15.40	8,537	9.91
Money market	20,436	17.36	8,752	10.16
Total transaction accounts	43,832	37.23	23,345	27.10
Total deposits	$ 117,722	100.00%	$ 86,146	100.00%

The following table shows the average balance of each type of deposit and the average rate paid on each type of deposit for the periods indicated.

	Year Ended June 30,					
	2010			2009		
	Average Balance	Interest Expense	Average Rate Paid	Average Balance	Interest Expense	Average Rate Paid
	(Dollars in thousands)					
Savings	$ 5,588	$ 23	0.41%	$ 5,653	$ 26	0.46%

NOW	11,523	22	0.19	7,896	21	0.27
Money market	14,377	183	1.27	4,268	38	0.89
Certificates of deposit	67,981	2,010	2.96	61,780	2,378	3.85
Total deposits	$ 99,469	$ 2,238	2.25%	$ 79,597	$ 2,463	3.09%

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The following table shows our savings flows during the periods indicated.

	Year Ended June 30, 2010	2009
	(In thousands)	
Total deposits at beginning of period	$ 86,146	$ 78,359
Net deposits (withdrawals)	30,059	6,212
Interest credited	1,517	1,575
Total increase in deposits	$ 31,576	$ 7,787

The following table presents, by various interest rate categories and maturities, the amount of certificates of deposit at June 30, 2010.

	Balance at June 30, 2010 Maturing in the 12 Months Ending June 30,				
Certificates of Deposit	**2011**	**2012**	**2013**	**Thereafter**	**Total**
	(In thousands)				
0.00% - 0.99%	$ 12	$	$	$	$ 12
1.00% - 1.99%	29,338	971			30,309
2.00% - 2.99%	3,173	11,359	1,732	471	16,735
3.00% - 3.99%	1,851	1,059	3,728	10,858	17,496
4.00% - 4.99%	3,474	2,932	1,401	58	7,865
5.00% - 5.99%	521	751	201		1,473
Total certificate accounts	$ 38,369	$ 17,072	$ 7,062	$ 11,387	$ 73,890

The following table shows the maturities of our certificates of deposit in excess of $100,000 at June 30, 2010 by time remaining to maturity.

Quarter Ending:	**Amount**	**Weighted Average Rate**
	(Dollars in thousands)	
September 30, 2010	$ 3,928	2.61%
December 31, 2010	4,771	1.75
March 31, 2011	1,965	2.36
June 30, 2011	3,663	1.89
After June 30, 2011	9,808	2.96
Total certificates of deposit with balances in excess of $100,000	$ 24,135	2.45%

Borrowings. We may obtain advances from the Federal Home Loan Bank of Dallas upon the security of the common stock we own in that bank and certain of our residential mortgage loans and mortgage-backed and other investment securities, provided certain standards related to creditworthiness have been met. These advances are made pursuant to several credit programs, each of which has its own interest rate and range of maturities. Federal Home Loan Bank advances are generally available to meet seasonal and other withdrawals of deposit accounts and to permit increased lending.

As of June 30, 2010, we were permitted to borrow up to an aggregate total of $92.6 million from the Federal Home Loan Bank of Dallas. We had $31.5 million and $36.0 million of Federal Home Loan Bank advances outstanding at June 30, 2010 and 2009, respectively.

The following table shows certain information regarding our borrowings at or for the dates indicated:

	At or For the Year Ended June 30,	
	2010	2009
	(Dollars in thousands)	
FHLB advances:		
Average balance outstanding	$ 35,529	$ 35,853
Maximum amount outstanding at any month-end during the period	42,542	41,134
Balance outstanding at end of period	31,507	35,997
Average interest rate during the period	3.43%	