Home Federal Bancorp, Inc.
Form 10-K
March 15, 2013
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the Fiscal Year Ended December 31, 2012
or

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

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 No.)
500 12th Avenue South, Nampa, Idaho (Address of principal executive offices)	83651 (Zip Code)
Registrant's telephone number, including area code:	(208) 466-4634
Securities registered pursuant to Section 12(b) of the Act:	
Common Stock, par value $.01 per share	Nasdaq Global Select Market
(Title of Each Class)	(Name of Each Exchange on Which Registered)
Securities registered pursuant to Section 12(g) of the Act:	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	Yes [ ] No [X]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	Yes [ ] No [X]
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	Yes [X] No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	Yes [X] No [ ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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.	Yes [X] No [ ]

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	[ ]	Accelerated filer	[X]	Non-accelerated filer	[ ]	Smaller reporting company	[ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).	Yes [ ] Yes [ ]

As of March 4, 2013, there were 14,487,691 shares of the registrant’s common stock outstanding. The aggregate market value of the voting stock held by nonaffiliates of the registrant based on the closing sales price of the registrant's common stock as quoted on The Nasdaq Global Select Market on June 30, 2012, was approximately $154,894,000 (14,751,783 shares at $10.50 per share).

DOCUMENTS INCORPORATED BY REFERENCE

Part II and Part III - Portions of the Registrant’s definitive Proxy Statement for its 2013 Annual Meeting of Stockholders.

Table of Contents

HOME FEDERAL BANCORP, INC.
2012 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

Table of Contents

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

This Annual Report on Form 10-K 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-term and long-term interest rates, deposit interest rates, our net interest margin and funding sources;
- risks related to acquiring assets in or entering markets in which we have not previously operated and may not be familiar;
- fluctuations in the demand for loans, the number of unsold homes and properties in foreclosure and fluctuations in real estate values in our market areas;
- results of examinations of the Company by the Federal Reserve Board and of our bank subsidiary by the Federal Deposit Insurance Corporation (FDIC) and the Idaho Department of Finance 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 and could increase our deposit premiums;
- legislative or regulatory changes, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and its implementing regulations that adversely affect our business, as well as changes in regulatory policies and principles or the interpretation of regulatory capital or other rules, including as a result of Basel III;
- our ability to attract and retain deposits;
- increases in premiums for deposit insurance;
- our ability to realize the residual values of our leases;
- our ability to control operating costs and expenses;
- the use of estimates in determining the fair value of certain of our assets or cash flows on purchased credit impaired loans, 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;
- costs and effects of litigation, including settlements and judgments;
- our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- the possibility that the expected benefits from 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 and the value of our investments;
- the inability of key third-party providers to perform their obligations to us;

Table of Contents

- 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 this 2012 Form 10-K and our subsequently filed Quarterly Reports on Form 10-Q. Such developments could have an adverse impact on our financial position and our results of operations.

Some of these and other factors are discussed in this Annual Report on Form 10-K under the caption “Risk Factors” and elsewhere in this document and in the documents incorporated by reference herein. 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 annual 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. We undertake 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 2013 and beyond to differ materially from those expressed in any forward-looking statements by or on behalf of us, and could negatively affect our financial condition, liquidity and operating and stock price performance.

As used throughout this report, the terms “we”, “our”, “us” or the “Company” or "Home Federal Bancorp" refer to Home Federal Bancorp, Inc., and its consolidated subsidiaries, including Home Federal Bank ("Bank"), unless the context otherwise requires.

PART I.

Item 1. Business

Organization

Home Federal Bancorp, Inc., a Maryland corporation, was organized by Home Federal Mutual Holding Company (MHC), Home Federal Bancorp, Inc., and Home Federal Bank to facilitate the "second-step" conversion of the Bank from the mutual holding company structure to the stock holding company structure (Conversion). Upon consummation of the Conversion, which occurred on December 19, 2007, the Company became the holding company for Home Federal Bank and now owns all of the issued and outstanding shares of the Bank's common stock. As part of the Conversion, shares of the Company's common stock were issued and sold in an offering to certain depositors of the Bank and others. Concurrent with the offering, each share of MHC's common stock owned by public shareholders was exchanged for 1.136 shares of the Company's common stock, which resulted in an 853,133 increase in outstanding shares, with cash being paid in lieu of issuing any fractional shares.

As part of the Conversion, a total of 9,384,000 new shares of the Company were sold in the offering at $10 per share. Proceeds from the offering totaled $87.8 million, net of offering costs of approximately $5.9 million. The Company contributed $48.0 million or approximately 50% of the net proceeds to the Bank in the form of a capital contribution. The Company loaned $8.2 million to the Bank's Employee Stock Ownership Plan (ESOP) and the ESOP used those funds to acquire 816,000 shares of the Company's common stock at $10 per share.

The Conversion was accounted for as a reorganization in corporate form with no change in the historical basis of the Company's assets, liabilities or stockholders' equity. All references to the number of shares outstanding, including references for purposes of calculating per share amounts, are restated to give retroactive recognition to the exchange ratio applied in the Conversion.

On May 31, 2011, the Company completed its reorganization from a savings and loan holding company to a bank holding company regulated by the Board of Governors of the Federal Reserve System (Federal Reserve). In connection with the Company's holding company reorganization, the Bank completed its charter conversion by converting from a federally-chartered stock savings bank to an Idaho commercial bank. As a result of the reorganization and charter conversion, the Company's primary regulator changed from the Office of Thrift Supervision (OTS) to the Federal Reserve and the Bank's primary regulator changed from the OTS to the Idaho Department of Finance (Department). The Bank continues to be regulated by the FDIC as insurer of its deposits.

On January 24, 2012, the Company reported its decision to change its fiscal year end to December 31 from a fiscal year ending on September 30, effective January 1, 2012. This change in fiscal year end makes the Company's year-end coincide with the regulatory reporting periods now effective with the Company's reorganization to a bank holding company and the Bank's conversion to a commercial bank. As a result of the change in fiscal year, the Company filed a transition report on Form 10-QT covering the transition period from October 1, 2011 to December 31, 2011. References the Company makes to a particular year before 2012 in this report applies to the Company's fiscal year and not the calendar year, unless otherwise noted.

Acquisition of Assets and Liabilities of Community First Bank. On August 7, 2009, the Bank entered into a purchase and assumption agreement with loss sharing agreements with the FDIC to assume all of the deposits and certain assets of Community First Bank, a full-service commercial bank, headquartered in Prineville, Oregon (CFB Acquisition). Community First Bank operated eight locations in central Oregon. Home Federal Bank assumed approximately $142.8 million of the deposits of Community First Bank. Additionally, Home Federal Bank purchased approximately $142.3 million of loans and $12.9 million of real estate and other repossessed assets (REO). The loans and REO purchased are covered by loss sharing agreements between the FDIC and Home Federal Bank which affords the Bank significant protection. Under the loss sharing agreements, 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 the first $34.0 million of losses and certain related expense and 95% of losses and expenses that exceed that amount. The loss sharing agreements provide support on non-single family loans for five years and for ten years on single family loans, from the date of the CFB Acquisition. This acquisition was accounted for as a purchase under Statement of Financial Accounting Standard (SFAS) No. 141, Business Combinations (SFAS No. 141), with the assets acquired and liabilities assumed recorded at their respective fair values.

Table of Contents

Acquisition of Assets and Liabilities of LibertyBank. On July 30, 2010, the Bank entered into a purchase and assumption agreement with loss sharing agreements with the FDIC to assume all of the deposits and certain assets of LibertyBank, a full-service commercial bank headquartered in Eugene, Oregon (LibertyBank Acquisition). LibertyBank operated fifteen locations in central and western Oregon. The LibertyBank Acquisition consisted of assets with a fair value of approximately $690.6 million, including $373.1 million of cash and cash equivalents, $197.6 million of loans and leases and $34.7 million of securities. Liabilities with a fair value of $688.6 million were also assumed, including $682.6 million of deposits.

Included in the LibertyBank Acquisition were three subsidiaries of LibertyBank, which became subsidiaries of Home Federal Bank. Two of the subsidiaries, Liberty Funding, Inc., and Liberty Investment Services, Inc., had no business activities and were dissolved in September 2012. The third subsidiary, Commercial Equipment Lease Corporation (CELC) finances and leases equipment under equipment finance agreements and lease contracts, typically for terms of less than 5 years. The book value of the stock of CELC was $10.3 million on the date of the LibertyBank Acquisition. CELC conducted business in all fifty states, with a primary focus on Oregon, California and Washington State. Home Federal Bank is winding down the operations of CELC and the accounts of CELC have been consolidated in the accompanying Consolidated Financial Statements.

Home Federal Bank also entered into loss sharing agreements with the FDIC in the LibertyBank Acquisition. Under the loss sharing agreements, the FDIC has agreed to reimburse Home Federal for 80% of losses and certain related expenses on purchased REO and nearly all of the loans and leases of LibertyBank and CELC. The loss sharing agreements provide support on non-single family loans for five years and for ten years on single family loans, from the date of the LibertyBank Acquisition.

In September 2020, approximately ten years following the LibertyBank Acquisition date, the Bank is required to make a payment to the FDIC in the event that losses on covered assets under the loss sharing agreements have been less than the intrinsic loss estimate, which was determined by the FDIC prior to the LibertyBank Acquisition. The payment amount will be 50% of the excess, if any, of 20% of the Total Intrinsic Loss Estimate of $60.0 million, which equals $12.0 million, less the sum of the following:

- 20% of the Net Loss Amount, which is the sum of all loss amounts on covered assets less the sum of all recovery amounts realized. This amount is not yet known;
- 25% of the asset premium (discount). This amount is ($7.5) million; and
- 3.5% of the total covered assets under the loss share agreements. This amount is $10.1 million.

The Company has estimated the minimum level of losses to avoid a true-up provision payment to the FDIC to be $46.7 million. At December 31, 2012, the Company accrued $528,000 as an estimate of the true-up provision obligation.

Business Activities

The Company's primary business activity is the ownership of the outstanding common stock of Home Federal Bank. Home Federal Bancorp neither owns nor leases any property but instead uses the premises, equipment and other property of Home Federal Bank with the payment of appropriate management fees, as required by applicable law and regulations. At December 31, 2012, Home Federal Bancorp had no significant assets, other than $8.4 million of cash and cash equivalents, $10.1 million of mortgage-backed securities and all of the outstanding shares of Home Federal Bank, and had no significant liabilities.

Home Federal Bank was founded in 1920 as a building and loan association and reorganized as a federal mutual savings and loan association in 1936. Home Federal Bank's deposits are insured by the FDIC up to applicable legal limits under the Deposit Insurance Fund. The Bank has been a member of the Federal Home Loan Bank (FHLB) System since 1937. Home Federal Bank's primary regulators are the FDIC and the Department.

We are in the business of attracting deposits from consumers and businesses in our market areas and utilizing those deposits to originate loans. We offer a wide range of loan products to meet the credit needs of our clients. The Board of Directors and the management team have undertaken efforts to change the Company's strategy from that of a traditional savings and loan association to a full-service community commercial bank. This transition includes a reduced reliance on one-to-four family loans originated for the Bank's portfolio. As a result, the Bank's lending activities have expanded in recent years to include commercial business lending, including commercial real estate and builder finance

Table of Contents

loans. The CFB Acquisition and the LibertyBank Acquisition significantly increased the Bank's commercial loan concentration.

At December 31, 2012, the Company had total assets of $1.0 billion, net loans of $409.8 million, deposit accounts of $850.9 million and stockholders' equity of $179.8 million.

Operating Lines

Home Federal Bancorp's sole subsidiary is Home Federal Bank. Management has determined that the Bank, as a whole, is the sole reporting unit and that no reportable operating segments exist other than Home Federal Bank.

Market Area

Home Federal Bank currently has operations in three distinct market areas. The Bank's primary market area is 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. The CFB Acquisition resulted in the Bank's entrance into the Tri-County Region of Central Oregon, including the counties of Crook, Deschutes and Jefferson. Through the LibertyBank Acquisition, Home Federal Bank expanded its markets into Lane, Josephine, Jackson and Multnomah counties in Western Oregon, including the communities of Eugene, Grants Pass and Medford, Oregon, in addition to deepening its presence in Central Oregon.

At December 31, 2012, the Bank operated through 28 full-service branches and two commercial loan production offices. In November 2012, the Bank announced plans to close four of its branches by February 28, 2013. We monitor the performance of our branches and analyze market growth opportunities, current market share, and client transaction levels in determining underperforming branches. We identified four branches located in Grants Pass, Medford and Bend, Oregon, as branches least likely to provide profitable returns in the long-term and decided to close them and transition clients to our nearest branch upon closure. Those branches are noted in the table under "Item 2. Properties."

The following table summarizes key economic and demographic information about these market areas by state and county as compared to national trends:

	Median Household Income	Population Change	Projected Population Change	Unemployment Rate[1]		Total FDIC Deposits By County[2]		Home Federal Bank's Deposit Market Share
	2011	2010-2011	2011-2016	Dec 2012	Dec 2011	June 2012	June 2011	June 2012
Idaho								
Canyon	$41,205	1.38 %	5.81 %	7.5 %	10.5 %	$1,498	$1,468	12.0 %
Ada	53,419	1.65	7.01	5.5	7.5	6,547	6,341	2.3
Gem	37,662	0.14	2.83	8.0	10.9	136	132	22.9
Elmore	38,729	0.21	1.71	7.3	9.1	151	143	18.8
Oregon								
Deschutes	$48,310	1.29 %	6.37 %	10.8 %	12.3 %	$2,351	$2,354	7.5 %
Lane	41,728	0.75	3.61	7.9	8.7	4,132	4,155	2.9
Josephine	36,136	0.24	2.53	11.4	11.6	1,211	1,247	6.6
Jackson	40,790	0.86	4.70	9.5	10.3	2,783	2,742	2.2
Crook	43,031	(0.50)	1.30	14.2	15.6	206	197	19.1
Jefferson	42,211	0.57	3.63	12.8	13.4	139	139	11.5
National	$50,227	0.63 %	3.42 %	7.8 %	8.5 %			

(1) Not seasonally adjusted. December 2012 is preliminary.
(2) In millions. Excludes deposits in credit unions.
Source: FDIC, SNL Financial, Bureau of Labor Statistics

Idaho Region. The local economy is primarily urban with Boise, the state capital of Idaho, being the most populous city in Idaho, followed by Nampa and Meridian, the state’s second and third largest cities. Nearly 40% of the state’s population lives and/or works in the four counties of Ada, Canyon, Elmore and Gem that are served by Home Federal Bank. The population of the Boise-Nampa MSA is approximately 628,000 people.

Table of Contents

The regional economy is well diversified with government, education, health care, manufacturing, high technology, and construction providing sources of employment. In addition, agriculture and related industries continue to be key components of the economy in southwestern Idaho. Generally, sources of employment are concentrated in Ada and Canyon counties and include the headquarters of Micron Technology and J.R. Simplot Company, and a Walmart distribution center. Other major employers include Hewlett-Packard, Idaho Power, two regional medical centers and Idaho state government agencies. Boise is also home to Boise State University, the state's largest university.

The Treasure Valley has enjoyed strong population growth over the last ten years, which led to an increase in residential community developments. Historically, the unemployment rate has been lower than the national rate. The recent recession led to significant deterioration in residential home sales, caused acceleration in unemployment in the Treasure Valley from 2008 through 2010. These weak economic conditions created an over-supply of speculative construction and land development projects. During the build-up of residential construction, commercial real estate construction also accelerated and subsequently many speculative commercial construction projects became vacant, which contributed to falling property values. During 2012, the unemployment rate in the Boise-Nampa MSA fell quickly and residential and commercial construction activity increased significantly, particularly in Meridian, Idaho. As a result, general real estate values are rising after nearly two years of annual declines and the labor market has grown to levels near its pre-recession peak. However, overall economic output has not increased enough to support strong commercial loan growth from creditworthy borrowers. See "Risk Factors" under Item 1A of this Annual Report on Form 10-K.

Central Oregon Region. Within Central Oregon, Home Federal Bank operates in Deschutes, Crook and Jefferson counties. Central Oregon has become a year-round destination resort for visitors and tourists worldwide offering premiere skiing, golfing, fishing, hiking, museums, biking, kayaking, festivals and world-class destination resorts. The largest communities in the Central Oregon Region are Bend, Redmond and Prineville. The population of the Bend MSA is approximately 160,000 people.

While much smaller than the Idaho Region, Central Oregon's economy is primarily driven by healthcare, government, tourism and other service industries. St. Charles Medical Center in Bend is the largest private employer with Les Schwab Tires Centers, which is headquartered in Central Oregon, call centers and resorts also within the top ten employers in the region.

Central Oregon experienced rapid population growth and significant new construction occurred between 2003 and 2007 as the region's natural beauty and resorts gained greater renown; however, this growth has slowed significantly during the recent four years. Commercial and residential real estate values increased rapidly as construction of retail centers and new residential developments maintained pace with population growth. The median home price in Bend and Redmond rose 70% between April 2005 and April 2007 when values peaked. However, the economic slowdown nationally has reduced spending on vacations and tourism traffic in the region, resulting in very high unemployment in many Central Oregon communities. Additionally, commercial real estate vacancies in the region rose quickly and the median home prices in September 2011 had fallen approximately 50% from their peak. While unemployment in this region remains above the national average, home values began to increase during the second half of 2012.

Western Oregon Region. A benefit from the LibertyBank Acquisition was the expansion of our markets into the communities of Eugene, Springfield, Medford and Grants Pass, Oregon. Eugene is Oregon's second largest city with a population of more than 156,000 people. Manufacturing, retail trade and healthcare and social assistance make up nearly 40% of total employment in Lane County. Since the University of Oregon and a Federal courthouse are located there, government employment helps add stability to Lane County's economy. While unemployment in Lane County has not been as severe as in Central Oregon, it has trended above national unemployment rates.

Medford, a city of approximately 75,000 people in the southern Oregon county of Jackson, has healthcare as the largest employment industry, along with Lithia Motors and specialty food retailer Harry & David. Nearby Grants Pass, Oregon in Josephine County, is a city of approximately 35,000 people. The Rogue River serves as a primary source for tourism in both of these counties. The combined metropolitan areas of Medford and Grants Pass total approximately 250,000 people.

Table of Contents

Operating Strategy

Management's operating strategy centers on the continued development into a full-service, community commercial bank from a traditional savings and loan business model. Our goal is to continue to enhance our franchise value and earnings through acquisitions and organic growth in our banking operations, especially lending to small to medium-sized businesses, while maintaining the community-oriented client service and sales focus that has characterized our success to date. In order to be successful in this objective and increase stockholder value, we are committed to the following strategies:

Continue Growing in Our Existing Markets. We believe there is a large client base in our markets that are dissatisfied with the service received from larger regional banks. By offering quicker decision-making in the delivery of banking products and services, offering customized products where appropriate, and providing client access to our senior managers, we hope to distinguish ourselves from larger, regional banks operating in our market areas.

Actively Search for Appropriate Acquisitions. In order to enhance our ability to deliver products and services in our existing markets and to expand into surrounding markets, we intend to search for acquisition opportunities. We consummated FDIC-assisted transactions in August 2009 and July 2010 that increased our assets by $881.0 million, based on the fair value of assets purchased on the acquisition dates. We believe that consolidation of community banks will continue to take place and further believe that with our capital and liquidity positions, our approach to credit management and our acquisition experience, we are well positioned to take advantage of acquisition opportunities that provide the potential for significant earnings growth and enhancement of our franchise value.

Expand Our Product Offerings. We continue our emphasis on originating commercial lending products that diversify our loan portfolio by increasing the percentage of assets consisting of commercial real estate and commercial business loans with higher risk-adjusted returns, shorter maturities and less valuation sensitivity to interest rate fluctuations. We also intend to selectively add products to provide diversification of revenue sources and to capture our customers' full relationship by cross selling our loan and deposit products and services to our customers. We recently expanded our product offerings to include merchant banking and investment services as a third party agent and we launched a mobile banking product in 2012.

Increase Our Core Deposits. A fundamental part of our overall strategy is to improve both the level and the mix of deposits that serve as a funding base for asset growth. By growing demand deposit accounts and other savings and transaction accounts, we have reduced our reliance on higher-cost certificates of deposit and borrowings such as advances from the FHLB of Seattle. In order to expand our core deposit franchise, commercial deposits are being pursued through the introduction of cash management products and by specific targeting of small business customers.

Competition

We face intense competition in originating loans and in attracting deposits within our targeted geographic markets. We compete by leveraging our full-service delivery capability comprised of 28 convenient branch locations, two commercial loan production offices, a network of automated teller machines, a call center and Internet banking, and by consistently delivering high-quality, individualized service to our clients that result in a high level of client satisfaction. Our key large-bank competitors are Wells Fargo, U.S. Bank, Chase, Key Bank and Bank of America. These competitors control approximately 55% of the deposit market within our footprint. Community bank competitors include Umpqua Bank, Bank of the Cascades, Washington Trust Bank and Pacific Continental Bank. Aside from these traditional competitors, credit unions, insurance companies and brokerage firms are an increasingly competing challenge for consumer deposit relationships.

Our competition for loans comes principally from mortgage brokers, commercial banks, credit unions and finance companies. Several other financial institutions, including those previously mentioned, have greater resources than us and compete with us for lending opportunities in our targeted market areas. Among the advantages of some of these institutions are their ability to make larger loans, finance extensive advertising campaigns, access lower cost funding sources and allocate their investment assets to regions of highest yield and demand. This competition for the origination of loans may limit our future growth and earnings prospects.

Table of Contents

Subsidiaries and Other Activities

Home Federal Bank is the only subsidiary of Home Federal Bancorp. At December 31, 2012, Home Federal Bank had one active wholly-owned subsidiary of its own, Commercial Equipment Lease Corporation, which the Bank acquired through the LibertyBank Acquisition. The Bank also acquired a subsidiary through the CFB Acquisition, Community First Real Estate LLC, which owned three of our branches in Central Oregon and has no significant business activity. The Bank had three inactive subsidiaries, Idaho Home Service Corporation, Liberty Funding Inc. and Liberty Insurance Services, Inc. that had no business activities and were dissolved in September 2012.

Personnel

At December 31, 2012 we had 302 full-time equivalent employees compared to 395 at September 30, 2011. The reduction in personnel during fiscal year 2012 was primarily due to branch closures. In November 2012 we announced our intent to close four branches in February 2013 that will further reduce personnel. Our employees are not represented by any collective bargaining group. We believe our relationship with our employees is good.

Corporate Information

Our principal executive offices are located at 500 12th Avenue South, Nampa, Idaho, 83651. Our telephone number is (208) 466-4634. We maintain a website with the address www.myhomefed.com/ir. The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor’s own Internet access charges, we make available free of charge through our website our Annual Report on Form 10-K, Proxy Statements, quarterly reports on Form 10-QT or Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we have electronically filed such material with, or furnished such material to, the Securities and Exchange Commission (SEC). We have also posted our code of ethics and board committee charters on this site.

Lending Activities

General. Historically, our principal lending activity has consisted of the origination of loans secured by first mortgages on owner-occupied, one-to-four family residences and loans for the construction of one-to-four family residences. We also originate consumer loans, with an emphasis on home equity loans and lines of credit. While we intend to increase our commercial and small business loans, a substantial portion of our loan portfolio is currently secured by real estate, either as primary or secondary collateral. At December 31, 2012, real estate loans comprised 72.7% of our loan portfolio with 43.8% of gross loans secured by commercial real estate.

At December 31, 2012, the maximum amount of credit that we could have extended to any one borrower and the borrower’s related entities under applicable regulations was $22.3 million, although by internal policy we limit our exposure within a single borrower relationship to $12.0 million. The Senior Management Loan Committee, which includes executive management including the Bank's CEO, Chief Credit Officer, Chief Financial Officer and Senior Credit Officers, will approve loans once the aggregate borrowing relationship exposure exceeds $5.0 million. The Bank does not have a Board-level loan committee; however, if a single borrower relationship exceeds $12.0 million, the Senior Management Loan Committee must get approval from the Board of Directors. Additionally, the Board of Directors receives minutes of the activities of the Senior Management Loan Committee.

Based on outstanding principal balance, our largest single borrower relationship at December 31, 2012, was comprised of two commercial real estate loans on retail shopping centers totaling $13.6 million. The second largest lending relationship at that date totaled $8.2 million consisting of three loans including two term equipment notes and an operating line of credit. Our third largest borrower relationship at that date totaled $6.4 million consisting of two commercial real estate loans on office/warehouse buildings. The fourth largest lending relationship at that date was a multifamily loan on a 143-unit apartment building totaling $6.0 million. The fifth largest lending relationship at that date was comprised of two commercial real estate loans on medical office buildings totaling $5.7 million. The sixth largest lending relationship at that date was also $5.7 million and included a master line of credit, a development loan and two term loans to a residential real estate developer for speculative and presold single family homes. All of these loans are substantially secured by property or assets in our primary market area and except for one of the relationships (totaling $8.2 million to a not-for-profit corporation), loans made to corporations have personal guarantees in place as an additional source of repayment. The $8.2 million loan relationship is comprised of two term loans and a $1.4 million line of credit with the term loans subject to an 80% guarantee by the U.S. Department of Agriculture (USDA). The

8

total commitment subject to the USDA guarantee is $8.5 million. In addition, 80% of losses on $20.0 million of these loans are covered by the FDIC under a purchase and assumption agreement with loss sharing. Loans underlying one of these lending relationships totaling $13.6 million were considered in the Watch category and another $6.4 million of the loans were classified as substandard at December 31, 2012.

At December 31, 2012, the largest lending relationship not covered by the loss sharing agreements totaled $8.2 million and consisted of three loans including two term equipment notes and an operating line of credit. The second largest noncovered lending relationship consisted of a $6.0 million multifamily loan on a 143-unit apartment building. The third largest noncovered lending relationship at that date totaled $5.7 million and was comprised of two commercial real estate loans on medical office buildings.

One-to-four Family Residential Real Estate Lending. We historically originated both fixed-rate loans and adjustable-rate loans in our residential lending program. Generally, these loans were originated to meet the requirements of Fannie Mae and Freddie Mac for sale in the secondary market to investors. We generally underwrote our one-to-four family loans based on the applicant's employment, debt to income levels, credit history and the appraised value of the subject property. Generally, we lent up to 80% of the lesser of the appraised value or purchase price for one-to-four family residential loans. In situations where we granted a loan with a loan-to-value ratio in excess of 80%, we generally required private mortgage insurance in order to reduce our exposure to 80% or less. Properties securing our one-to-four family loans are generally appraised by independent fee appraisers who have been approved by us. We required our borrowers to obtain title and hazard insurance, and flood insurance, if necessary, in an amount equal to the regulatory maximum. Beginning in December 2011, we ceased the origination of one-to-four family loans for sale in the secondary market. Rather, we refer nearly all of residential mortgage loan applications to a third party originator that underwrites and closes the mortgage funding for the Bank's clients. While we may choose to directly originate some residential mortgage loans for our own portfolio from time to time, we expect very few residential mortgage loans will be originated by the Bank for its portfolio or for sale in the secondary market going forward.

Real Estate Construction. Most construction loans we originate are written with maturities of up to one year, have interest rates that are tied to The Wall Street Journal prime rate plus a margin, and are subject to periodic rate adjustments tied to the movement of the prime rate. All builder/borrower loans are underwritten to the same standards as other commercial loan credits, requiring liquid working capital, sufficient net worth and established cash reserves believed sufficient to carry projects through construction completion and sale of the project. The maximum loan-to-value ratio on both pre-sold and speculative projects originated by us is 80%.

We originate construction and site development loans to contractors and builders primarily to finance the construction of single-family homes and subdivisions, which homes typically have an average price ranging from $150,000 to $400,000. Loans to finance the construction of single-family homes and subdivisions are generally offered to experienced builders in our primary market areas. The maximum loan-to-value limit applicable to construction and site development loans is 80% and 70%, respectively, of the appraised market value upon completion of the project. Maturity dates for residential construction loans are largely a function of the estimated construction period of the project, and generally do not exceed 36 months for residential subdivision development loans. Substantially all of our residential construction loans have adjustable rates of interest based on The Wall Street Journal prime rate and during the term of construction, the accumulated interest is added to the principal of the loan through an interest reserve.

We originate land loans to local contractors and developers for the purpose of holding the land for future development. These loans are secured by a first lien on the property, are limited to 50% of the lower of the acquisition price or the appraised value of the land, and generally have a term of up to two years with an interest rate based on The Wall Street Journal prime rate. Our land loans are generally secured by property in our primary market areas. We require title insurance and, if applicable, a hazardous waste survey reporting that the land is free of hazardous or toxic waste.

Our construction and land development loans are based upon estimates of costs and value associated with the completed project. These estimates may be inaccurate. Construction and land development lending involves additional risks when compared with permanent residential lending because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. These loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of a completed project proves to be overstated, we generally require cash curtailments or additional collateral to support the shortfall.

Commercial and Multifamily Real Estate Lending. Multifamily and commercial real estate loans generally are priced at a higher rate of interest than one-to-four family residential loans. Typically, these loans have higher loan balances, are more difficult to evaluate and monitor, and involve a greater degree of risk than one-to-four family residential loans. Often payments on loans secured by multifamily or commercial properties are dependent on the successful operation and management of the property; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. At December 31, 2012, $112.8 million, or 26.6%, of our loan portfolio was comprised of loans secured by nonowner-occupied commercial real estate loans, including $91.0 million in our noncovered loan portfolio. We generally require and obtain loan guarantees from financially capable parties based upon the review of personal financial statements. If the borrower is a corporation, we generally require and obtain personal guarantees from the corporate principals based upon a review of their personal financial statements and individual credit reports.

We target individual multifamily and commercial real estate loans to small and mid-size owner occupants and investors between $500,000 and $2.0 million; however, by internal policy as of December 31,2012, we can originate loans to one borrower up to $12.0 million. Commercial real estate loans are primarily secured by office and warehouse space, professional buildings, retail sites, multifamily residential buildings, industrial facilities and restaurants located in our primary market areas.

We have offered both fixed and adjustable-rate loans on multifamily and commercial real estate loans, although most of these loans are now originated with adjustable rates with amortization terms up to 25 years and maturities of up to 10 years. Commercial and multifamily real estate loans are originated with rates that generally adjust after an initial period ranging from three to five years and are generally priced utilizing the five-year constant maturity treasury note yield or the five-year FHLB borrowing rate, plus an acceptable margin. Prepayment penalty structures are applied for each rate lock period.

The maximum loan-to-value ratio for commercial and multifamily real estate loans is generally 75% - 80% on purchases and refinances, depending on the property type of the collateral. We require appraisals of all properties securing commercial and multifamily real estate loans. Appraisals are performed by independent appraisers designated by us or by our staff appraiser. We require our commercial and multifamily real estate loan borrowers with outstanding balances in excess of $500,000 to submit annual financial statements and rent rolls on the subject property. We also inspect the subject property at least every three to five years if the loan balance exceeds $250,000. We generally require a minimum pro forma debt coverage ratio of 1.25 times for loans secured by commercial and multifamily properties.

These loans typically involve higher principal amounts than other types of loans, and repayment is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower's project is reduced as a result of leases not being obtained or renewed, the borrower's ability to repay the loan may be impaired. Commercial and multifamily mortgage loans also expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be sold as easily as residential real estate. In addition, many of our commercial and multifamily real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non-payment. If we foreclose on a commercial or multifamily real estate loan, our holding period for the collateral typically is longer than for one-to-four family residential mortgage loans because there are fewer potential purchasers of the collateral. Accordingly, if we make any errors in judgment in the collectability of our commercial and multifamily real estate loans, any resulting charge-offs may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios.

Consumer Lending. To a much lesser degree than commercial and construction loans, we offer a variety of consumer loans to our clients, including home equity loans and lines of credit, savings account loans, automobile loans, recreational vehicle loans and personal unsecured loans. Generally, consumer loans have shorter terms to maturity and higher interest rates than mortgage loans.

At December 31, 2012, the largest component of the consumer loan portfolio consisted of home equity loans and lines of credit. Home equity loans are made for, among other purposes, the improvement of residential properties, debt consolidation and education expenses. The majority of these loans are secured by a first or second mortgage on residential property. The maximum loan-to-value ratio is 80%, when taking into account both the balance of the home equity loan and the first mortgage loan. Home equity lines of credit allow for a ten-year draw period, plus an additional ten year repayment period, and the interest rate is tied to the prime rate as published in The Wall Street Journal, and may include a margin.

Consumer loans entail greater risk than do residential first-lien mortgage loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciating assets such as automobiles, and in second-lien loans such as home equity lines of credit in markets where residential property values have declined significantly since fiscal year 2007. In these cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment when allowed by law. In addition, consumer loan collections are dependent on the borrower’s continuing financial stability, and are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans. These risks are not as prevalent with respect to our consumer loan portfolio because a large percentage of the portfolio consists of home equity loans and lines of credit that are underwritten in a manner such that they result in credit risk that is substantially similar to one-to-four family residential mortgage loans. Nevertheless, home equity loans and lines of credit have greater credit risk than one-to-four family residential mortgage loans because they are secured by mortgages subordinated to the existing first mortgage on the property, which we may or may not hold. In addition, we do not have private mortgage insurance coverage for these loans. We do not actively participate in wholesale or brokered home equity loan origination.

Commercial Business Lending. As part of our strategic plan, we are focusing on originating commercial business loans including lines of credit, term loans and letters of credit. However, the decline in economic activity that started in 2007 has limited our ability to originate commercial business loans. Commercial business loans totaled $3.1 million at September 30, 2006, however, through our acquisitions and organic originations, increased to $28.7 million at December 31, 2012, although this balance has declined significantly from the $49.8 million at September 30, 2011, as many of the loans in the acquisition portfolio have paid down. These loans are typically secured by collateral and are used for general business purposes, including working capital financing, equipment financing, capital investment and general investment. Loan terms vary from one to seven years. The interest rates on such loans are generally floating rates indexed to The Wall Street Journal prime rate plus a margin.

Commercial business loans typically have shorter terms to maturity and higher interest spreads than real estate loans, but generally involve more credit risk because of the type and nature of the collateral. We are focusing our efforts on small to medium-sized, privately-held companies with local or regional businesses that operate in our market area. Our commercial business lending policy includes credit file documentation and analysis of the borrower’s background, capacity to repay the loan, the adequacy of the borrower’s capital and collateral, as well as an evaluation of other conditions affecting the borrower. Analysis of the borrower’s past, present and future cash flows is also an important aspect of our credit analysis. We generally obtain personal guarantees on our commercial business loans.

Repayment of our commercial business loans is generally dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value. Our commercial business loans are originated primarily based on the identified cash flow of the borrower and secondarily on the general liquidity and secondary cash flow support of the borrower. Advance ratios against collateral provide additional support to repay the loan. Most often, this collateral consists of accounts receivable, inventory or equipment. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

A significant portion of our commercial business loans ($12.3 million at December 31, 2012) were purchased from the FDIC in connection with the CFB and LibertyBank Acquisitions. All of the purchased commercial business loans in these acquisitions are covered under loss sharing agreements with the FDIC.

Table of Contents

Commercial business loans include equipment finance agreements for the purchase of personal property, business equipment and titled vehicles and construction equipment. Generally these agreements have terms of 60 months or less and the lessee is granted title to the collateral at the end of the term. All of these financing agreements were assets of CELC, the operations of which were assumed by the Bank in the LibertyBank Acquisition, and nearly all of them are covered under a loss share agreement with the FDIC. Equipment finance agreements included in commercial business loans totaled $4.4 million at December 31, 2012, net of purchase accounting adjustments. CELC also originated leases on personal property and business assets under terms similar to those collateralized by the financing agreements described above, however, at the end of the lease term, the collateral is returned to CELC and subsequently sold through a nationwide network of brokers. Leases totaled only $583,000 at December 31, 2012, net of purchase accounting adjustments as compared to $2.8 million at September 30, 2011. Nearly all of the leases outstanding at December 31, 2012, were covered under a loss sharing agreement with the FDIC. Currently, no new leases or commercial loans are being originated by CELC as we have decided to wind down the operations of CELC over the next few years.

Our leases entail many of the same types of risks as our commercial business loans. As with commercial business loans, the collateral securing our lease loans may depreciate over time, may be difficult to appraise and may fluctuate in value. We rely on the lessee’s continuing financial stability, rather than the value of the leased equipment, for the repayment of all required amounts under lease loans. In the event of a default on a lease, it is unlikely that the proceeds from the sale of the leased equipment will be sufficient to satisfy the outstanding unpaid amounts under the terms of the loan.

Lease residual value represents the present value of the estimated fair value of the leased equipment at the termination date of the lease. Realization of these residual values depends on many factors, including management’s use of estimates, assumptions, and judgment to determine such values. Several other factors outside of our control may reduce the residual values realized, including general market conditions at the time of expiration of the lease, whether there has been technological or economic obsolescence or unusual wear and tear on, or use of, the equipment and the cost of comparable equipment. If, upon the expiration of a lease, we sell the equipment and the amount realized is less than the recorded value of the residual interest in the equipment, we will recognize a loss reflecting the difference. We review the lease residuals for potential impairment monthly.

Loan Portfolio Analysis. We refer to loans and leases subject to the loss sharing agreements with the FDIC as “covered loans.” All loans purchased in the CFB Acquisition were covered loans. Consumer loans not secured by real estate that were purchased in the LibertyBank Acquisition are not subject to the loss sharing agreements. These loans totaled $1.6 million at December 31, 2012. All other loans and leases purchased in the LibertyBank Acquisition are covered loans. When appropriate within this Annual Report on Form 10-K, we segregate covered loans from our noncovered loan portfolio, since we are afforded significant protection from credit losses on covered loans due to the loss sharing agreements.

Table of Contents

The following table summarizes covered loans by type of loan at the dates indicated (dollars in thousands):

	December 31, 2012		September 30, 2011		2010		2009	
	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross
Real estate:								
One-to-four family residential	$8,173	9.1 %	$15,467	10.0 %	$20,445	7.6 %	$8,537	6.8 %
Multifamily residential	3,325	3.7	8,787	5.7	10,286	3.8	6,270	5.0
Commercial real estate	48,579	54.3	60,779	39.2	83,794	31.1	61,601	48.7
Total real estate	60,077	67.1	85,033	54.9	114,525	42.5	76,408	60.5
Real estate construction:								
One-to-four family residential	—	—	950	0.6	16,884	6.3	3,128	2.5
Multifamily residential	—	—	—	—	1,018	0.4	1,521	1.2
Commercial and land development	5,417	6.1	9,573	6.2	13,246	4.9	17,230	13.6
Total real estate construction	5,417	6.1	10,523	6.8	31,148	11.6	21,879	17.3
Consumer:								
Home equity	10,279	11.5	13,765	8.9	16,124	6.0	6,728	5.3
Automobile	210	0.2	302	0.2	683	0.3	1,188	0.9
Other consumer	762	0.9	1,099	0.7	1,434	0.5	1,850	1.5
Total consumer	11,251	12.6	15,166	9.8	18,241	6.8	9,766	7.7
Commercial business	12,265	13.7	41,737	26.9	99,045	36.7	18,312	14.5
Leases	434	0.5	2,538	1.6	6,592	2.4	—	—
Gross loans	89,444	100.0 %	154,997	100.0 %	269,551	100.0 %	126,365	100.0 %
Allowance for loan losses	(3,917)		(5,140)		(3,527)		(16,812)	
Loans receivable, net	$85,527		$149,857		$266,024		$109,553	

Table of Contents

The following table sets forth the composition of the Company's loan portfolio, including covered and noncovered loans, by type of loan at the dates indicated (dollars in thousands):

	December 31, 2012		September 30, 2011		2010		2009		2008	
	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross	Amount	Percent of Gross
Real estate:										
One-to-four family residential	$87,833	20.8 %	$125,640	26.0 %	$157,574	24.7 %	$178,311	33.0 %	$210,501	45.2 %
Multifamily residential	34,377	8.1	18,418	3.8	20,759	3.3	16,286	3.0	8,477	1.8
Commercial	185,132	43.8	205,929	42.6	228,643	35.9	213,471	39.5	151,733	32.6
Total real estate	307,342	72.7	349,987	72.4	406,976	63.9	408,068	75.5	370,711	79.6
Real estate construction:										
One-to-four family residential	13,016	3.1	9,054	1.9	24,707	3.9	10,871	2.0	13,448	2.9
Multifamily residential	520	0.1	111	—	2,657	0.4	10,417	2.0	920	0.2
Commercial and land development	25,391	6.0	16,174	3.3	21,190	3.3	27,144	5.0	18,674	4.0
Total real estate construction	38,927	9.2	25,339	5.2	48,554	7.6	48,432	9.0	33,042	7.1
Consumer:										
Home equity	41,793	9.9	48,901	10.1	56,745	8.9	53,368	9.9	52,954	11.4
Automobile	966	0.2	980	0.2	1,466	0.2	2,364	0.4	1,903	0.4
Other consumer	4,012	1.1	5,473	1.2	8,279	1.3	3,734	0.7	1,370	0.3
Total consumer	46,771	11.2	55,354	11.5	66,490	10.4	59,466	11.0	56,227	12.1
Commercial business	28,666	6.8	49,777	10.3	108,051	17.0	24,256	4.5	5,385	1.2
Leases	583	0.1	2,821	0.6	6,999	1.1	—	—	—	—
Gross loans	422,289	100.0%	483,278	100.0%	637,070	100.0%	540,222	100.0%	465,365	100.0%
Deferred loan costs (fees), net	85		(700)		(628)		(858)		(973)	
Allowance for loan losses	(12,528)		(14,365)		(15,432)		(28,735)		(4,579)	
Loans receivable, net	$409,846		$468,213		$621,010		$510,629		$459,813	

14

Table of Contents

The previous table reflects the declines in loan balances since the acquisitions as loans receivable, net, totaled $409.8 million at December 31, 2012, compared to $459.8 million at September 30, 2008. Beginning with the recession in in 2008 and continuing through the relatively weak economic conditions that persist currently, we have had limited organic lending opportunities. Additionally, we ceased originating one-to-four family loans for our portfolio in 2006. The decline in one-to-four family loans from $210.5 million at September 30, 2008, to $87.8 million at December 31, 2012, contributed significantly to the overall decline in net loans. Commercial business loans and leases declined primarily due to our decision to wind-down the operations of CELC shortly after the LibertyBank Acquisition, which resulted in a decline in the loans and leases of CELC from $59.5 million on July 30, 2010, the date of the LibertyBank Acquisition to $6.0 million in remaining principal balance at December 31, 2012. Lastly, the loan portfolios purchased in the acquisitions included a significant number of impaired and nonaccrual loans, which have since been written down, charged-off, or the collateral has been repossessed, which has also contributed to the overall decline in loan balances since the acquisition dates.

Loans by Contractual Maturity. The following table sets forth certain information at December 31, 2012, regarding the dollar amount of loans maturing based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments (in thousands). Demand loans, loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less. Loan balances do not include undisbursed loan proceeds, unearned discounts, unearned income and allowance for loan losses.

	Within One Year	After One Year Through Three Years	After Three Years Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
Real estate:						
One-to-four family residential	$2,808	$3,075	$4,481	$14,976	$62,493	$87,833
Multifamily residential	292	1,449	94	18,864	13,678	34,377
Commercial	16,657	13,676	14,524	63,141	77,134	185,132
Total real estate	19,757	18,200	19,099	96,981	153,305	307,342
Real estate construction:						
One-to-four family residential	8,647	3,177	1,192	—	—	13,016
Multifamily residential	520	—	—	—	—	520
Commercial and land development	10,262	13,296	—	1,765	68	25,391
Total real estate construction	19,429	16,473	1,192	1,765	68	38,927
Consumer:						
Home equity	1,396	4,305	13,728	12,637	9,727	41,793
Automobile	36	259	468	138	65	966
Other consumer	1,317	958	602	584	551	4,012
Total consumer	2,749	5,522	14,798	13,359	10,343	46,771
Commercial business	6,792	7,975	5,830	4,045	4,024	28,666
Leases	251	332	—	—	—	583
Gross loans	$48,978	$48,502	$40,919	$116,150	$167,740	$422,289

Table of Contents

The following table sets forth the dollar amount of all loans maturing more than one year after December 31, 2012, which have fixed interest rates and have floating or adjustable interest rates (in thousands):

	Floating or Adjustable Rate	Fixed Rate	Total
Real estate:			
One-to-four family residential	$27,148	$57,877	$85,025
Multifamily residential	24,339	9,746	34,085
Commercial	143,058	25,417	168,475
Total real estate	194,545	93,040	287,585
Real estate construction:			
One-to-four family residential	863	3,506	4,369
Commercial and land development	8,071	7,058	15,129
Total real estate construction	8,934	10,564	19,498
Consumer:			
Home equity	31,921	8,476	40,397
Automobile	33	897	930
Other consumer	562	2,133	2,695
Total consumer	32,516	11,506	44,022
Commercial business	7,160	14,714	21,874
Leases	—	332	332
Gross loans	$243,155	$130,156	$373,311

Loan Solicitation and Processing. As part of our commercial banking strategy, we are focusing our efforts in increasing the amount of direct originations of commercial business loans, commercial and multifamily real estate loans and, to construction loans to builders and developers. Loan applications are initiated by loan officers and are required to be approved by our underwriting staff who has appropriately delegated lending authority. Loan officers do not have lending authority. Rather, all lending authority is centralized within our Credit Administration Team, which includes our Chief Credit Officer, our Senior Vice President – Senior Commercial Credit Officer, our Vice President – Senior Consumer Credit Officer, and other credit officers, none of whom receives production-based incentive compensation. Loans that exceed the underwriter's lending authority must be approved by Credit Officers with adequate aggregate lending authority or the Senior Management Loan Committee once the aggregate borrowing relationship exposure exceeds $5.0 million. We require title insurance on real estate loans as well as fire and casualty insurance on all secured loans and on home equity loans and lines of credit where the property serves as collateral. As noted earlier, the Bank began referring nearly all one-to-four family loan applications through a third party originating broker beginning in December 2011.

Residential real estate loans are solicited through media advertising, direct mail to existing customers and by realtor referrals. One-to-four family loan applications are further supported by lending services offered through our Internet website, advertising, cross-selling and through our employees' community service. One-to-four family loan applications are referred to a third party loan originator for underwriting, review and approval.

Loan Originations, Servicing, Purchases and Sales. During the year ended December 31, 2012, our total loan originations were $84.2 million, which did not include any loans originated for sale. Accordingly, we did not sell any first lien residential mortgages during the year ended December 31, 2012.

Table of Contents

Historically, our one-to-four family home loans were generally originated in accordance with the guidelines established by Freddie Mac and Fannie Mae, with the exception of special community development loans originated under the Community Reinvestment Act. We fully underwrote residential first mortgage real estate loans with internal designated real estate loan underwriters in accordance with standards as provided by our Board-approved loan policy and utilize the Freddie Mac Loan Prospector and Fannie Mae Desktop Underwriter automated loan systems to ensure conformity with secondary market underwriting criteria. From 2006 through 2011, nearly all of our one-to-four family residential loans were sold into the secondary market with servicing released on a non-recourse basis. Starting in December 2011, we ceased directly originating one-to-four family residential loans and instead are referring applicants to a third party loan originator.

The following table shows total loans originated, purchased, sold and repaid during the periods indicated (in thousands):

	Year Ended December 31,	Three Months Ended December 31,	Years Ended September 30,	
	2012	2011	2011	2010
Loans originated:				
Real estate:				
One-to-four family residential [(1)]	$2,283	$3,023	$29,220	$31,209
Multifamily residential	8,744	2,061	1,087	52
Commercial	21,887	1,661	25,349	12,429
Total real estate	32,914	6,745	55,656	43,690
Real estate construction:				
One-to-four family residential	10,595	101	27,279	36,927
Multifamily residential	520	—	—	3,617
Commercial and land development	23,246	2,489	13,860	4,497
Total real estate construction	34,361	2,590	41,139	45,041
Consumer:				
Home equity	1,449	77	3,508	12,067
Automobile				