IF Bancorp, Inc.
Form 10-Q
June 27, 2011
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2011

OR

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission File No. 333-172843

IF Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**45-1834449**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
201 East Cherry Street, Watseka, Illinois	**60970**
(Address of Principal Executive Offices)	**Zip Code**

(815) 432-2476

(Registrant s telephone number)

N/A

(Former name or former address, if changed since last report)

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 requirements for the past 90 days. YES ¨ NO x

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ¨ NO ¨

Indicate by check mark 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. (Check one)

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if 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 ¨ NO x

No shares of the Registrant s common stock, par value $0.01 per share, were issued and outstanding as of June 27, 2011.

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EXPLANATORY NOTE

IF Bancorp, Inc., a Maryland corporation (the Company), was formed on March 4, 2011 to serve as the stock holding company for Iroquois Federal Savings and Loan Association (the Association) as part of the Association s mutual-to-stock conversion. As of March 31, 2011, the conversion had not been completed, and, as of that date, the Company had no assets or liabilities, and had not conducted any business other than that of an organizational nature. Accordingly, financial and other information of the Association is included in this Quarterly Report.

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Part I. Financial Information

Item 1. Financial Statements

Iroquois Federal Savings and Loan Association

Condensed Consolidated Balance Sheets

(Dollars in thousands)

	March 31, 2011 (Unaudited)	June 30, 2010
Assets		
Cash and due from banks	$ 7,772	$ 4,705
Interest-bearing demand deposits	574	2,131
Cash and cash equivalents	8,346	6,836
Interest-bearing time deposits in banks	250	
Available-for-sale securities	140,811	125,747
Loans held for sale	152	460
Loans, net of allowance for loan losses of $2,800 and $2,767 at March 31, 2011 and June 30, 2010, respectively	240,628	233,753
Premises and equipment, net of accumulated depreciation of $4,710 and $4,423 at March 31, 2011 and June 30, 2010	4,144	4,204
Federal Home Loan Bank stock, at cost	3,121	3,121
Foreclosed assets held for sale	458	497
Accrued interest receivable	2,093	1,718
Deferred income taxes	246	
Bank-owned life insurance	7,171	6,978
Mortgage servicing rights	349	156
Other	1,728	1,312
Total assets	$ 409,497	$ 384,782
Liabilities and Equity		
Liabilities		
Deposits		
Demand	$ 10,506	$ 5,833
Savings, NOW and money market	119,927	111,495
Certificates of deposit	203,353	198,229
Brokered certificates of deposit	6,001	5,000
Total deposits	339,787	320,557
Federal Home Loan Bank advances	28,000	22,500
Advances from borrowers for taxes and insurance	1,245	830
Deferred income taxes		311
Accrued post-retirement benefit obligation	1,787	1,727
Accrued interest payable	221	185
Other	997	1,384

Total liabilities	372,037	347,494
Commitments and Contingencies		
Equity		
Retained earnings	36,763	34,498
Accumulated other comprehensive income, net of tax	697	2,790
Total equity	37,460	37,288
Total liabilities and equity	$ 409,497	$ 384,782

See accompanying notes to the unaudited condensed consolidated financial statements.

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Iroquois Federal Savings and Loan Association

Condensed Consolidated Statements of Income (Unaudited)

(Dollars in thousands)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010
Interest and Dividend Income				
Interest and fees on loans	$ 3,102	$ 3,195	$ 9,559	$ 9,680
Securities				
Taxable	1,010	1,176	3,097	3,628
Tax-exempt	30	25	93	63
Federal Home Loan Bank dividends	2		2	
Deposits with other financial institutions	2	1	6	3
Total interest and dividend income	4,146	4,397	12,757	13,374
Interest Expense				
Deposits	933	1,319	3,204	4,398
Federal Home Loan Bank advances	221	254	679	785
Total interest expense	1,154	1,573	3,883	5,183
Net Interest Income	2,992	2,824	8,874	8,191
Provision for Loan Losses	225	194	850	1,163
Net Interest Income After Provision for Loan Losses	2,767	2,630	8,024	7,028
Noninterest Income				
Customer service fees	129	149	453	495
Other service charges and fees	49	29	205	112
Insurance commissions	116	102	443	461
Brokerage commissions	139	102	440	295
Net realized gains (losses) on sales of available-for-sale securities	(26)	336	352	640
Mortgage banking income, net	134	16	554	179
Bank-owned life insurance income, net	63	62	193	191
Other	158	182	447	401
Total noninterest income	762	978	3,087	2,774
Noninterest Expense				
Compensation and benefits	1,631	1,343	4,807	4,049
Office occupancy	122	119	360	338
Equipment	169	164	477	426
Federal deposit insurance	114	113	331	331
Stationary, printing and office	32	39	104	109
Advertising	81	97	221	206
Professional services	27	23	153	91
Supervisory examinations	53	52	106	100
Audit and accounting services			23	21
Organizational dues and subscriptions	12	17	52	52
Insurance bond premiums	18	29	71	71
Telephone and postage	50	45	150	149

(Gain) loss on foreclosed assets, net		(28)		(11)		(112)		47
Other		204		211		809		709
Total noninterest expense		2,485		2,241		7,552		6,699
Income Before Income Tax		1,044		1,367		3,559		3,103
Provision for Income Tax		379		511		1,294		1,096
Net Income	$	665	$	856	$	2,265	$	2,007

See accompanying notes to the unaudited condensed consolidated financial statements.

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Iroquois Federal Savings and Loan Association

Condensed Consolidated Statement of Equity (Unaudited)

(Dollars in thousands)

	Retained Earnings	Accumulated Other Comprehensive Income	Total
For the nine months ended March 31, 2011			
Balance, July 1, 2010	$ 34,498	$ 2,790	$ 37,288
Comprehensive income:			
Net income	2,265		2,265
Change in unrealized appreciation on available-for-sale securities, net of tax benefit of $(1,282)		(2,093)	(2,093)
Total comprehensive income			172
Balance, March 31, 2011	$ 36,763	$ 697	$ 37,460
For the nine months ended March 31, 2010			
Balance, July 1, 2009	$ 31,821	$ 1,435	$ 33,256
Comprehensive income:			
Net income	2,007		2,007
Change in unrealized appreciation on available-for-sale securities, net of tax expense of $232		379	379
Total comprehensive income			2,386
Balance, March 31, 2010	$ 33,828	$ 1,814	$ 35,642

See accompanying notes to the unaudited condensed consolidated financial statements.

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Iroquois Federal Savings and Loan Association

Condensed Consolidated Statement of Cash Flows (Unaudited)

(Dollars in thousands)

	Nine Months Ended March 31, 2011	2010
Operating Activities		
Net income	$ 2,265	$ 2,007
Items not requiring (providing) cash		
Depreciation	287	180
Provision for loan losses	850	1,163
Amortization of premiums and discounts on securities	483	349
Deferred income taxes	724	(61)
Net realized gains on loan sales	(554)	(179)
Net realized gains on sales of available-for-sale securities	(352)	(640)
(Gain) loss on foreclosed assets held for sale	(112)	47
Bank-owned life insurance income, net	(193)	(191)
Originations of loans held for sale	(26,391)	(10,259)
Proceeds from sales of loans held for sale	27,060	10,588
Changes in		
Accrued interest receivable	(375)	(496)
Other assets	(416)	(1,313)
Accrued interest payable	36	(26)
Other liabilities	(326)	(141)
Net cash provided by operating activities	2,986	1,028
Investing Activities		
Net increase in interest-bearing deposits	(250)	
Purchases of available-for-sale securities	(96,104)	(78,515)
Proceeds from the sales of available-for-sale securities	58,423	43,265
Proceeds from maturities and pay-downs of available-for-sale securities	19,112	12,186
Purchases of held-to-maturity securities		(1,341)
Proceeds from sales of held-to-maturity securities		11,283
Proceeds from maturities and pay-downs of held-to-maturity securities		4,610
Net change in loans	(7,878)	(9,037)
Purchase of premises and equipment	(227)	(229)
Proceeds from sale of foreclosed assets	304	168
Net cash used in investing activities	(26,620)	(17,610)
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	13,105	4,678
Net increase in certificates of deposit, including brokered certificates	6,124	10,805
Net increase in advances from borrowers for taxes and insurance	415	452
Proceeds from Federal Home Loan Bank advances	15,500	
Repayments of Federal Home Loan Bank advances	(10,000)	(1,000)
Net cash provided by financing activities	25,144	14,935
Net Increase (Decrease) in Cash and Cash Equivalents	1,510	(1,647)
Cash and Cash Equivalents, Beginning of Period	6,836	11,902

Cash and Cash Equivalents, End of Period	$	8,346	$	10,255
Supplemental Cash Flows Information				
Interest paid	$	3,847	$	5,209
Income taxes paid, net of refunds		1,422		1,021
Foreclosed assets acquired in settlement of loans		153		427
Transfer of held-to-maturity securities to available-for-sale securities, amortized cost				11,112

See accompanying notes to the unaudited condensed consolidated financial statements.

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Iroquois Federal Savings and Loan Association

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(Table dollar amounts in thousands)

Notes to Condensed Consolidated Financial Statements

Note 1: Basis of Financial Statement Presentation

The unaudited condensed consolidated financial statements include the accounts of Iroquois Federal Savings and Loan Association (the Association) and its wholly-owned subsidiary, L.C.I. Service Corporation. All significant inter-company accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and with instructions for Form 10 Q and Regulation S X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ from these estimates. In the opinion of management, the preceding unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial condition of the Association as of March 31, 2011 and June 30, 2010, and the results of its operations for the three and nine month periods ended March 31, 2011 and 2010. These consolidated financial statements should be read in conjunction with the consolidated financial statements of the Association for the year ended June 30, 2010 included as part of IF Bancorp, Inc. s Prospectus dated May 13, 2011 as filed with the Securities and Exchange Commission pursuant to Securities Act Rule 424(b)(3) on May 20, 2011 (the Prospectus).

The results of operations for the three and nine month periods ended March 31, 2011 are not necessarily indicative of the results that may be expected for the entire year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Prospectus.

Note 2: New Accounting Pronouncements

Recent and Future Accounting Requirements

In January 2010, the FASB issued ASU No. 2010-06 *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements.* ASU 2010-06 amends the fair value disclosure guidance. The amendments include new disclosures and changes to clarify existing disclosure requirements. ASU 2010-06 was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements of Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this update did not have a material effect on the Association s financial statements.

FASB ASC 310 *Receivables* (ASC310) was amended to enhance disclosures about credit quality of financing receivables and the allowance for credit losses. The amendments require an entity to disclose credit quality information, such as internal risk grades, more detailed nonaccrual and past due information and modifications of its financing receivables. The disclosures under ASC 310, as amended, were effective for interim and annual reporting periods ending on or after December 15, 2010. This amendment did not have a significant impact on the Association s financial results, but it has significantly expanded the disclosures that the Association is required to provide.

In April 2011, the FASB issued ASU No. 2011-02, *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring.* The provisions of ASU No. 2011-02 provide additional guidance related to determining whether a creditor has granted a concession, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibit creditors from using the borrower s effective rate test to evaluate whether a concession has been granted to the borrower, and add factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in ASU No. 2011-02 also ends the FASB s deferral of the additional disclosures about troubled debt restructurings as required by ASU No. 2010-20. The provisions of ASU No. 2011-02 are effective for the Association s reporting period ending September 30, 2011. The adoption of ASU 2011-02 is not expected to have a material impact on the Association s statements of income and condition.

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Note 3: Securities

The amortized cost and approximate fair value of securities, together with gross unrealized gains and losses, of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
March 31, 2011 (unaudited):				
U.S. government agencies	$ 126,297	$ 2,163	$ (2,179)	$ 126,281
Mortgage-backed:				
Government-sponsored enterprises (GSE) residential	11,160	772		11,932
State and political subdivisions	2,486	112		2,598
	$ 139,943	$ 3,047	$ (2,179)	$ 140,811
June 30, 2010:				
U.S. Government and federal agency	$ 103,807	$ 3,010	$	$ 106,817
Mortgage-backed:				
Government-sponsored enterprises (GSE) residential	15,121	1,084		16,205
State and political subdivisions	2,576	149		2,725
	$ 121,504	$ 4,243	$	$ 125,747

With the exception of U.S. Government and federal agency and GSE securities and GSE residential mortgage-backed securities with a book value of approximately $126,297,000 and $11,160,000, respectively, and a market value of approximately $126,281,000 and $11,932,000, respectively, at March 31, 2011 (unaudited), the Association held no securities at March 31, 2011 (unaudited) with a book value that exceeded 10% of total equity.

All mortgage-backed securities at March 31, 2011 (unaudited), and June 30, 2010 were issued by government sponsored enterprises.

The amortized cost and fair value of available-for-sale securities at March 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale	
	Amortized Cost	Fair Value
Within one year	$ 146	$ 149
One to five years	27,525	29,269
Five to ten years	101,047	99,396
After ten years	65	65
Mortgage-backed securities	11,160	11,932
Totals	$ 139,943	$ 140,811

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The carrying value of securities pledged as collateral to secure public deposits and for other purposes was $42,607,747 and $38,407,436 as of March 31, 2011 and June 30, 2010, respectively.

Gross gains of $386,157 and $690,848, and gross losses of $34,180 and $51,007, resulting from sales of available-for-sale securities were realized for the nine month periods ended March 31, 2011 and 2010, respectively.

During 1995, mortgage-backed securities available-for-sale with an amortized cost of $10,501,878 and fair value of $9,671,776 were transferred to the held-to-maturity portfolio. The excess amortized cost over fair value of the mortgage-backed securities, net of tax, at the date of transfer of $514,663 is being amortized to accumulated other comprehensive income (loss) over the life of the related securities. During March 2010, the Association transferred all remaining held-to-maturity securities to available-for-sale which eliminated the remaining unamortized balance.

During the quarter ended March 31, 2010, the Association sold securities with an amortized cost of $11,058,429 from held-to-maturity securities to realize investment gains and to reinvest in securities that would improve the Associations interest rate risk. The Association realized a net gain of $224,689 from the sale of the investments.

During March 2010, the Association transferred securities with an amortized cost of $11,112,338 and unrealized gains of $437,329 from held-to-maturity securities to available-for-sale. The securities were transferred due to the sale of held-to-maturity securities. The securities transferred were accounted for at fair value and the unrealized gain was recorded in accumulated other comprehensive income, net of income tax.

Certain investments in debt and marketable equity securities are reported in the financial statements at amounts less than their historical cost. Total fair value of these investments at March 31, 2011 was $85,655,383, which is approximately 60.8% of the Association s available-for-sale investment portfolio. These declines primarily resulted from recent increases in market interest rates and failure of certain investments to maintain consistent credit quality ratings. Management believes the declines in fair value for these securities are temporary.

The following table shows the Association s securities gross unrealized losses and fair value of the Association s securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2011 (unaudited):

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Available-for-sale:						
U.S. government agencies	$ 85,655	$ (2,179)	$	$	$ 85,655	$ (2,179)
Total temporarily impaired securities	$ 85,655	$ (2,179)	$	$	$ 85,655	$ (2,179)

U.S. Government Agencies

The unrealized losses on the Association s investments in direct obligations of U.S. government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Association does not intend to sell the investments and it is not more likely than not the Association will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Association does not consider those investments to be other-than-temporarily impaired at March 31, 2011 (unaudited).

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Note 4: Loans and Allowance for Loan Losses

Categories of loans include:

	March 31, 2011 (Unaudited)	June 30, 2010
Real estate loans:		
One-to-four family, including home equity loans	$ 149,367	$ 153,314
Multifamily	26,364	19,232
Commercial	26,577	24,956
Home equity lines of credit	9,888	7,854
Total real estate loans	212,196	205,356
Construction	2,653	2,112
Commercial	13,757	13,410
Consumer	15,846	16,874
Total loans	244,452	237,752
Deferred loan costs (fees)	(20)	(35)
Loans in process	(1,004)	(1,197)
Allowance for loan losses	(2,800)	(2,767)
Loans, net	$ 240,628	$ 233,753

The Association believes that sound loans are a necessary and desirable means of employing funds available for investment. Recognizing the Association s obligations to its depositors and to the communities it serves, authorized personnel are expected to seek to develop and make sound, profitable loans that resources permit and that opportunity affords. The Association maintains lending policies and procedures in place designed to focus our lending efforts on the types, locations, and duration of loans most appropriate for our business model and markets. The Association s principal lending activity is the origination of one-to four-family residential mortgage loans but also includes multi-family loans, commercial real estate loans, home equity lines of credits, commercial business loans, consumer (consisting primarily of automobile loans), and, to a much lesser extent, construction loans and land loans. The primary lending market includes the Illinois counties of Vermilion and Iroquois, as well as the adjacent counties in Illinois and Indiana. The Association also has a loan production and wealth management office in Osage Beach, Missouri, which serves the Missouri counties of Camden, Miller, and Morgan. Generally, loans are collateralized by assets, primarily real estate, of the borrowers and guaranteed by individuals. The loans are expected to be repaid from cash flows of the borrowers or from proceeds from the sale of selected assets of the borrowers.

Management reviews and approves the Association s lending policies and procedures on a routine basis. Management routinely (at least quarterly) reviews our allowance for loan losses and reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Our underwriting standards are designed to encourage relationship banking rather than transactional banking. Relationship banking implies a primary banking relationship with the borrower that includes, at minimum, an active deposit banking relationship in addition to the lending relationship. The integrity and character of the borrower are significant factors in our loan underwriting. As a part of underwriting, tangible positive or negative evidence of the borrower s integrity and character are sought out. Additional significant underwriting factors beyond location, duration, the sound and profitable cash flow basis underlying the loan and the borrower s character are the quality of the borrower s financial history, the liquidity of the underlying collateral and the reliability of the valuation of the underlying collateral.

The Association s policies and loan approval limits are established by the Board of Directors. The loan officers generally have authority to approve one-to-four family residential mortgage loans up to $100,000, other secured loans up to $50,000, and unsecured loans up to $10,000. Managing Officers (those with designated loan approval authority), generally have authority to approve one-to-four family residential mortgage loans up to $300,000, other secured loans up to $300,000, and unsecured loans up to $150,000. In addition, any two individual officers may combine their loan authority limits to approve a loan. Our Loan Committee may approve one-to-four family residential mortgage loans, commercial real estate loans, multi-family real estate loans and land loans up to $1,000,000 in aggregate loans or $750,000 for individual loans, and unsecured loans up to $500,000. All loans above these limits must be approved by the Operating Committee, consisting of the Chairman, the President, and up to four other Board members. At no time is a borrower s total borrowing relationship to exceed our regulatory lending limit. Loans to related parties, including executive officers and the Association s directorates, are reviewed for compliance with regulatory guidelines and the board of directors at least annually.

The Association conducts internal loan reviews that validate the loans against the Association s loan policy quarterly for mortgage, consumer, and small commercial loans on a sample basis, and all larger commercial loans on an annual basis. Beginning January 1, 2011, the Association also began receiving independent loan reviews performed by a third party on larger commercial loans to be performed annually. In addition to compliance with our policy, the loan review process reviews the risk assessments made by our credit department, lenders and loan committees. Results of these reviews are presented to management and the board of directors.

The Association s lending can be summarized into six primary areas; one-to-four family residential mortgage loans, commercial real estate and multi-family real estate loans, home equity lines of credits, real estate construction, commercial business loans, and consumer loans. The primary lending market includes the Illinois counties of Vermilion and Iroquois, as well as the adjacent counties in Illinois and Indiana, and the Missouri counties of Camden, Miller, and Morgan.

One-to-four family Residential Mortgage Loans

The Association offers one-to four-family residential mortgage loans that conform to Fannie Mae and Freddie Mac underwriting standards (conforming loans) as well as non-conforming loans. In recent years there has been an increased demand for long-term fixed-rate loans, as market rates have dropped and remained near historic lows. As a result, the Association has sold a substantial portion of the fixed-rate one-to-four family residential mortgage loans with terms of 15 years or greater. Generally, the Association retains fixed-rate one-to-four family residential mortgage loans with terms of less than 15 years, although this has represented a small percentage of the fixed-rate loans originated in recent years due to the favorable long-term rates for borrower.

In addition, the Association also offers home equity loans that are secured by a second mortgage on the borrower s primary or secondary residence. Home equity loans are generally underwritten using the same criteria used to underwrite one-to-four family residential mortgage loans.

As one-to-four family residential mortgage and home equity loan underwriting are subject to specific regulations, the Association typically underwrites its one-to-four family residential mortgage and home equity loans to conform to widely accepted standards. Several factors are considered in underwriting including the value of the underlying real estate and the debt to income and credit history of the borrower.

Commercial Real Estate and Multi-Family Real Estate Loans

Commercial real estate mortgage loans are primarily secured by office buildings, owner-occupied businesses, strip mall centers, farm loans secured by real estate and churches. In underwriting commercial real estate and multi-family real estate loans, the Association considers a number of factors, which include the projected net cash flow to the loan s debt service requirement, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower s experience in owning or managing similar properties. Personal guarantees are typically obtained from commercial real estate and multi-family real estate borrowers. In addition, the borrower s financial information on such loans is monitored on an ongoing basis by requiring periodic financial statement updates. The repayment of these loans is primarily dependent on the cash flows of the underlying property. However, the commercial real estate loan generally must be supported by an adequate underlying collateral value. The performance and the value of the underlying property may be adversely affected by economic factors or geographical and/or industry specific factors. These loans are subject to other industry guidelines that are closely monitored by the Association.

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Home Equity Lines of Credit

In addition to traditional one-to-four family residential mortgage loans and home equity loans, the Association offers home equity lines of credit that are secured by the borrower s primary or secondary residence. Home equity lines of credit are generally underwritten using the same criteria used to underwrite one-to-four family residential mortgage loans. As home equity lines of credit underwriting are subject to specific regulations, the Association typically underwrites its home equity lines of credit to conform to widely accepted standards. Several factors are considered in underwriting including the value of the underlying real estate and the debt to income and credit history of the borrower.

Commercial Business Loans

The Association originates commercial non-mortgage business (term) loans and adjustable lines of credit. These loans are generally originated to small- and medium-sized companies in the Association s primary market area. Commercial business loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture, and are primarily secured by business assets other than real estate, such as business equipment and inventory, accounts receivable or stock. The Association also offers agriculture loans that are not secured by real estate.

The commercial business loan portfolio consists primarily of secured loans. When making commercial business loans, the Association considers the financial statements, lending history and debt service capabilities of the borrower, the projected cash flows of the business and the value of the collateral, if any. The cash flows of the underlying borrower, however, may not perform consistent with historical or projected information. Further, the collateral securing loans may fluctuate in value due to individual economic or other factors. Virtually all of our loans are guaranteed by the principals of the borrower. The Association has established minimum standards and underwriting guidelines for all commercial loan types.

Real Estate Construction Loans

The Association originates construction loans for one-to-four family residential properties and commercial real estate properties, including multi-family properties. The Association generally requires that a commitment for permanent financing to be in place prior to closing the construction loan. The repayment of these loans is typically through permanent financing following completion of the construction. Real estate construction loans are inherently more risky than loans on completed properties as the unimproved nature and the financial risks of construction significantly enhance the risks of commercial real estate loans. These loans are closely monitored and subject to other industry guidelines.

Consumer Loans

Consumer loans consist of installment loans to individuals, primarily automotive loans. These loans are centrally underwritten utilizing the borrower s financial history, including the Fair Isaac Corporation (FICO) credit scoring and information as to the underlying collateral. Repayment is expected from the cash flow of the borrower. Consumer loans may be underwritten with terms up to seven years, fully amortized. Unsecured loans are limited to twelve months. Loan-to-value ratios vary based on the type of collateral. Association has established minimum standards and underwriting guidelines for all consumer loan collateral types.

The loan portfolio includes a concentration of loans secured by commercial real estate properties amounting to $52,941,000 and $44,188,000 as of March 31, 2011 and June 30, 2010, respectively. Generally, these loans are collateralized by multi-family and nonresidential properties. The loans are expected to be repaid from cash flows or from proceeds from the sale of the properties of the borrower.

The Association s loans receivable included purchased loans of $21,307,000 and $24,586,000 at March 31, 2011 and June 30, 2010, respectively, in out-of-area participation loans which are secured by single family homes located primarily in the Midwest.

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of the nine-month period ended March 31, 2011:

	Nine Months Ended March 31, 2011 (Unaudited) Real Estate Loans			
	One-to-Four Family	Multi-Family	Commercial	Home Equity Lines of Credit
Allowance for loan losses:				
Balance, beginning of period	$ 1,785	$ 202	$ 175	$ 71
Provision charged to expense	508	49	52	39
Losses charged off	(772)			
Recoveries	12			
Balance, end of period	$ 1,533	$ 251	$ 227	$ 110
Ending balance: individually evaluated for impairment	$ 474	$	$ 57	$ 7
Ending balance: collectively evaluated for impairment	$ 1,059	$ 251	$ 170	$ 103
Loans:				
Ending balance	$ 149,367	$ 26,364	$ 26,577	$ 9,888
Ending balance: individually evaluated for impairment	$ 4,445	$	$ 183	$ 74
Ending balance: collectively evaluated for impairment	$ 144,922	$ 26,364	$ 26,394	$ 9,814

	Nine Months Ended March 31, 2011 (Unaudited) (continued)				
	Construction Loans	Commercial Business Loans	Consumer Loans	Unallocated	Total
Allowance for loan losses:					
Balance, beginning of period	$	$ 400	$ 127	$ 7	$ 2,767
Provision charged to expense	17	66	53	66	850
Losses charged off		(30)	(39)		(841)
Recoveries			12		24
Balance, end of period	$ 17	$ 436	$ 153	$ 73	$ 2,800
Ending balance: individually evaluated for impairment	$	$ 1	$ 48	$	$ 587
Ending balance: collectively evaluated for impairment	$ 17	$ 435	$ 105	$ 73	$ 2,213
Loans:					
Ending balance	$ 2,653	$ 13,757	$ 15,846	$	$ 244,452
Ending balance: individually evaluated for impairment	$	$ 4	$ 106	$	$ 4,812
Ending balance: collectively evaluated for impairment	$ 2,653	$ 13,753	$ 15,740	$	$ 239,640

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	Year Ended June 30, 2010 Real Estate Loans			
	One-to-Four Family	Multi-Family	Commercial	Home Equity Lines of Credit
Allowance for loan losses:				
Balance, beginning of year	$ 938	$ 67	$ 127	$ 32
Provision charged to expense	1,303	135	48	39
Losses charged off	(474)			
Recoveries	18			
Balance, end of year	$ 1,785	$ 202	$ 175	$ 71
Ending balance: individually evaluated for impairment	$ 861	$	$ 5	$ 9
Ending balance: collectively evaluated for impairment	$ 924	$ 202	$ 170	$ 62
Loans:				
Ending balance	$ 153,314	$ 19,232	$ 24,956	$ 7,854
Ending balance: individually evaluated for impairment	$ 4,488	$	$ 129	$ 36
Ending balance: collectively evaluated for impairment	$ 148,826	$ 19,232	$ 24,827	$ 7,818

	Year Ended June 30, 2010 (continued)				
	Construction Loans	Commercial Business Loans	Consumer Loans	Unallocated	Total
Allowance for loan losses:					
Balance, beginning of year	$	$ 85	$ 112	$ 4	$ 1,365
Provision charged to expense		314	33	3	1,875
Losses charged off			(36)		(510)
Recoveries		1	18		37
Balance, end of year	$	$ 400	$ 127	$ 7	$ 2,767
Ending balance: individually evaluated for impairment	$	$ 15	$ 19	$	$ 909
Ending balance: collectively evaluated for impairment	$	$ 385	$ 108	$ 7	$ 1,858
Loans:					
Ending balance	$ 2,112	$ 13,410	$ 16,874	$	$ 237,752
Ending balance: individually evaluated for impairment	$	$ 118	$ 46	$	$ 4,817
Ending balance: collectively evaluated for impairment	$ 2,112	$ 13,292	$ 16,828	$	$ 232,935

Activity in the allowance for loan losses for the three and nine months ended March 31, 2010 was as follows:

	Three Months	Nine Months Ended

	Ended March 31, 2010 (Unaudited)	March 31, 2010 (Unaudited)
Balance, beginning of period	$ 1,945	$ 1,365
Provision charged to expense	194	1,163
Losses charged off, net of recoveries of $29 for the three months ended March 31, 2010 and $33 for the nine months ended March 31, 2010	(14)	(403)
Balance, end of period	$ 2,125	$ 2,125

Management s opinion as to the ultimate collectability of loans is subject to estimates regarding future cash flows from operations and the value of property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of borrowers.

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Allowance for Loan Losses

The allowance for loan losses represents an estimate of the amount of losses believed inherent in our loan portfolio at the balance sheet date. The allowance calculation involves a high degree of estimation that management attempts to mitigate through the use of objective historical data where available. Loan losses are charged against the allowance for loan losses when management believes the uncollectability of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Overall, we believe the reserve to be consistent with prior periods and adequate to cover the estimated losses in our loan portfolio.

The Association s methodology for assessing the appropriateness of the allowance for loan losses consists of two key elements: (1) specific allowances for estimated credit losses on individual loans that are determined to be impaired through the Association s review for identified problem loans; and (2) a general allowance based on estimated credit losses inherent in the remainder of the loan portfolio.

The specific allowance is measured by determining the present value of expected cash flows, the loan s observable market value, or for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expense. Factors used in identifying a specific problem loan include: (1) the strength of the customer s personal or business cash flows; (2) the availability of other sources of repayment; (3) the amount due or past due; (4) the type and value of collateral; (5) the strength of the collateral position; (6) the estimated cost to sell the collateral; and (7) the borrower s effort to cure the delinquency. In addition for loans secured by real estate, the Association also considers the extent of any past due and unpaid property taxes applicable to the property serving as collateral on the mortgage.

The Association establishes a general allowance for loans that are not deemed impaired to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. The general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on the Association s historical loss experience, delinquency trends, and management s evaluation of the collectability of the loan portfolio. The allowance is then adjusted for significant factors that, in management s judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors may include: (1) Management s assumptions regarding the minimal level of risk for a given loan category; (2) changes in lending policies and procedures, including changes in underwriting standards, and charge-off and recovery practices not considered elsewhere in estimating credit losses; (3) changes in international, national, regional and local economics and business conditions and developments that affect the collectability of the portfolio, including the conditions of various market segments; (4) changes in the nature and volume of the portfolio and in the terms of loans; (5) changes in the experience, ability, and depth of the lending officers and other relevant staff; (6) changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified loans; (7) changes in the quality of the loan review system; (8) changes in the value of the underlying collateral for collateral-dependent loans; (9) the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and (10) the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio. The applied loss factors are re-evaluated quarterly to ensure their relevance in the current environment.

Although the Association s policy allows for a general valuation allowance on certain smaller-balance, homogenous pools of loans classified as substandard, the Association has historically evaluated every loan classified as substandard, regardless of size, for impairment as part of the review for establishing specific allowances. The Association s policy also allows for general valuation allowance on certain smaller-balance, homogenous pools of loans which are loans criticized as special mention or watch. A separate general allowance calculation is made on these loans based on historical measured weakness, and which is no less than twice the amount of the general allowance calculated on the non-classified loans.

There have been no changes to the Association s accounting policies or methodology from the prior periods.

The Association categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. All loans are graded at inception of the loan. Subsequently, analyses are performed on an annual basis and grade changes are made as necessary. Interim grade reviews may take place if circumstances of the borrower warrant a more timely review. The Association utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Association s risk rating system, the Association classifies problem and potential problem loans as Watch, Substandard, Doubtful, and Loss. The Association uses the following definitions for risk ratings:

Pass Loans classified as pass are well protected by the ability of the borrower to pay or by the value of the asset or underlying collateral.

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Watch Loans classified as watch have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Association s credit position at some future date.

Substandard Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loss Loans classified as loss are the portion of the loan that is considered uncollectible so that its continuance as an asset is not warranted. The amount of the loss determined will be charged-off.

The following tables present the credit risk profile of the Association s loan portfolio based on rating category and payment activity:

	Real Estate Loans							
	One-to-Four Family	Multi-Family	Commercial	Home Equity Lines of Credit	Construction Loans	Commercial Business Loans	Consumer Loans	Total
March 31, 2011 (Unaudited):								
Pass	$ 144,159	$ 24,844	$ 26,394	$ 9,814	$ 2,653	$ 12,376	$ 15,740	$ 235,980
Watch	187					1,377		1,564
Substandard	4,990	1,520	183	74		4	106	6,877
Doubtful	31							31
Loss								
Total	$ 149,367	$ 26,364	$ 26,577	$ 9,888	$ 2,653	$ 13,757	$ 15,846	$ 244,452

	Real Estate Loans							
	One-to-Four Family	Multi-Family	Commercial	Home Equity Lines of Credit	Construction Loans	Commercial Business Loans	Consumer Loans	Total
June 30, 2010:								
Pass	$ 148,411	$ 19,232	$ 24,827	$ 7,818	$ 2,112	$ 11,865	$ 16,821	$ 231,086
Watch	453		129			1,511	32	2,125
Substandard	4,450			36		34	21	4,541
Doubtful								
Loss								
Total	$ 153,314	$ 19,232	$ 24,956	$ 7,854	$ 2,112	$ 13,410	$ 16,874	$ 237,752

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at the earlier date if collection of principal and interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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The following tables present the Association s loan portfolio aging analysis:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
March 31, 2011 (Unaudited):							
Real estate loans:							
One-to-four family	$ 1,385	$ 644	$ 3,669	$ 5,698	$ 143,669	$ 149,367	$ 207
Multi-family					26,364	26,364	
Commercial	366	22	81	469	26,108	26,577	
Home equity lines of credit	339	35	36	410	9,478	9,888	
Construction					2,653	2,653	
Commercial	2			2	13,755	13,757	
Consumer	191	72	24	287	15,559	15,846	22
Total	$ 2,283	$ 773	$ 3,810	$ 6,866	$ 237,586	$ 244,452	$ 229

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
June 30, 2010:							
Real estate loans:							
One-to-four family	$ 1,661	$ 325	$ 3,789	$ 5,775	$ 147,539	$ 153,314	$ 733
Multi-family					19,232	19,232	
Commercial	218						