Home Federal Bancorp, Inc.
Form 10-K
December 14, 2009

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 September 30, 2009
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	68-0666697
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 12th Avenue South, Nampa, Idaho	83651
(Address of principal executive offices)	(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 [ ] 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. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 [ ] No [X]

As of December 4, 2009, there were 16,698,168 shares of the registrant's common stock outstanding. The aggregate market value of the voting stock held by non−affiliates of the registrant based on the closing sales price of the registrant's common stock as quoted on The Nasdaq Global Select Market on March 31, 2009, was approximately $142,400,319 (16,311,606 shares at $8.73 per share).

DOCUMENTS INCORPORATED BY REFERENCE

Part II and Part III - Portions of the Registrant's definitive Proxy Statement for its 2010 Annual Meeting of Stockholders.

HOME FEDERAL BANCORP, INC.

2009 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

		Page
	PART I.	
Item 1 -	Business	2
Item 1A -	Risk Factors	43
Item 1B -	Unresolved Staff Comments	53
Item 2 -	Properties	54
Item 3 -	Legal Proceedings	56
Item 4 -	Submission of Matters to a Vote of Security Holders	56
	PART II.	
Item 5 -	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	56
Item 6 -	Selected Financial Data	59
Item 7 -	Management’s Discussion and Analysis of Financial Condition and Results of Operations	61
Item 7A -	Quantitative and Qualitative Disclosures About Market Risk	89
Item 8 -	Financial Statements and Supplementary Data	90
Item 9 -	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	130
Item 9A-	Controls and Procedures	130
Item 9B -	Other Information	130
	PART III.	
Item 10 -	Directors, Executive Officers and Corporate Governance	130
	Executive Compensation	131

Item 11 -		
Item 12 -	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	131
Item 13 -	Certain Relationships and Related Transactions, and Director Independence	131
Item 14 -	Principal Accounting Fees and Services	131
	PART IV.	
Item 15 –	Exhibits, Financial Statement Schedules	132

Forward-Looking Statements

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This Form 10-K contains forward-looking statements, which can be identified by the use of words such as "believes," "expects," "anticipates," "estimates" or similar expressions. Forward-looking statements include:

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

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

- the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets;
- changes in general economic conditions, either nationally or in our market areas;
- changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources;
- fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas;
- secondary market conditions for loans and our ability to sell loans in the secondary market;
- results of examinations of us by the Office of Thrift Supervision 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;
- our compliance with regulatory enforcement actions;
- legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules;
- our ability to attract and retain deposits;
- further increases in premiums for deposit insurance;
- our ability to control operating costs and expenses;
- the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation;

- § difficulties in reducing risks associated with the loans on our balance sheet;
- § staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges;

1

- 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;
- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and savings habits;
- the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions;
- our ability to pay dividends on our common stock;
- adverse changes in the securities markets;
- inability of key third-party providers to perform their obligations to us;
- changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; and
- other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described elsewhere in this prospectus and the incorporated documents.

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.

PART I

Item 1. Business

Organization

Home Federal Bancorp, Inc. ("old Home Federal Bancorp") was organized as a federally chartered stock corporation at the direction of Home Federal Savings and Loan Association of Nampa ("Association") in connection with its mutual holding company reorganization ("Reorganization"). On December 6, 2004, the Association completed the Reorganization and minority stock offering. In connection with the Reorganization, the Association converted to a federally chartered stock savings bank and changed its name to Home Federal Bank (the "Bank"). Old Home Federal Bancorp sold 40.06% of its outstanding shares of common stock (6,083,500 shares) to the public and issued 59.04% of its outstanding shares of common stock (8,979,246 shares) to Home Federal MHC, the mutual holding company parent of old Home Federal Bancorp. In connection with the Reorganization, old Home Federal Bancorp received $53.6 million in net proceeds after deducting expenses, and issued an additional 146,004 shares and $365,010 in cash to the Home Federal Foundation, Inc. (the "Foundation"), a charitable foundation established as part of the Reorganization.

On May 11, 2007, the Boards of Directors of Home Federal MHC, old Home Federal Bancorp, Inc., and Home Federal Bank adopted a Plan of Conversion and Reorganization (the "Conversion") pursuant to which Home Federal Bank reorganized from the mutual holding company structure to the stock holding company structure. Pursuant to the terms of the Plan, Home Federal MHC converted to a federal interim stock savings bank and simultaneously merged with and into Home Federal Bank, with Home Federal Bank as the survivor. Additionally, Home Federal Bancorp, Inc. converted to a federal interim stock savings bank and simultaneously merged with and into Home Federal Bank, with Home Federal Bank as the survivor. Home Federal Bank then formed a new stock holding company, Home Federal Bancorp, Inc. ("we", "us", the "Company" or "Home Federal Bancorp"), that serves as the holding company for Home Federal Bank. Home Federal Bancorp, Inc., is a Maryland corporation. The conversion was completed on December 19, 2007.

As part of the Conversion, a total of 9,384,000 new shares of the Company were sold at $10 per share in subscription, community and syndicated community offerings through which the Company received proceeds of approximately $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 (the "ESOP") and the ESOP used those funds to acquire 816,000 shares of the Company's common stock at $10 per share. As part of the Conversion, shares of outstanding common stock of the old Home Federal Bancorp were exchanged for 1.136 shares of the Company's common stock. No fractional shares were issued. Instead, cash was paid to stockholders at a rate of $10 per share for any fractional shares that would otherwise be issued. The exchange resulted in an additional 853,133 outstanding shares of the Company for a total of 17,326,169 outstanding shares as of the closing of the Conversion on December 19, 2007.

The Conversion was accounted for as 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 August 7, 2009, the Bank entered into a purchase and assumption agreement with loss share with the Federal Deposit Insurance Corporation ("FDIC") to assume all of the deposits (excluding nearly all brokered deposits) and certain assets of Community First Bank, a full service commercial bank, headquartered in Prineville, Oregon (the "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 in loans and $12.9 million of real estate and other repossessed assets ("REO"). The loans and REO purchased are covered by a loss share agreement between the FDIC and Home Federal Bank which affords the Bank significant protection. Under the loss sharing agreement, Home Federal Bank will share in the losses on assets covered under the agreement (referred to as covered assets). The FDIC has agreed to reimburse Home Federal Bank for 80% of losses up to $34.0 million, and 95% of losses that exceed that amount. In addition, Home Federal Bank also purchased cash and cash equivalents and investment securities of Community

---

First Bank valued at $37.7 million at the date of the Acquisition, and assumed $18.3 million in Federal Home Loan Bank advances and other borrowings. This acquisition was accounted for as a purchase under Financial Accounting Standard (“FAS”) No. 141, “Business Combinations,” with the assets acquired and liabilities assumed recorded at their respective fair values.

Business Activities

Home Federal Bancorp’s business activity is the ownership of the outstanding capital stock of Home Federal Bank and investment management of the offering proceeds retained from the Reorganization and the Conversion. 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. In the future, Home Federal Bancorp may acquire or organize other operating subsidiaries; however, there are no current plans to do so. Home Federal Bancorp has no significant assets, other than cash and cash equivalents, mortgage-backed securities and all of the outstanding shares of Home Federal Bank, and 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 regulator is the Office of Thrift Supervision (“OTS”).

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 customers. Historically, lending activities have been primarily directed toward the origination of residential and commercial real estate loans. Residential real estate lending activities have been primarily focused on first mortgages on owner occupied, one-to-four family residential properties. The Bank now originates nearly all of its one-to-four family residential loans for sale in the secondary market.

The Board of Directors and the management team have undertaken efforts to change the Company’s strategy from that of a traditional thrift to a full-service community 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. While continuing our commitment to residential lending through our secondary market program, management expects commercial lending to become increasingly important for the Company.

At September 30, 2009, the Company had total assets of $827.9 million, net loans of $510.6 million, deposit accounts of $514.9 million and stockholders’ equity of $209.7 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 two 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 Acquisition resulted in the Bank’s entrance to the Tri-County Region of Central Oregon, including the counties of Crook, Deschutes and Jefferson. In total we have 23 full-service banking offices, one loan center, 24 automated teller machines and Internet banking services. Included in our 23 full-service banking offices were five Wal-Mart in-store branch locations at

September 30, 2009. However, in the fourth quarter of fiscal year 2009 we announced our intent to close two of those Wal-Mart in-store locations in October 2009 and to open two full-service locations in Boise and Meridian, Idaho, in October and November 2009, respectively. For more information, see "Item 2. Properties."

The following table summarizes key economic and demographic information about these market areas:

	Idaho Canyon	Ada	Gem	Elmore	Oregon Deschutes	Crook	Jefferson	National U.S.
Median household income	$ 48,904	$ 63,612	$ 44,033	$ 45,691	$ 53,995	$ 43,781	$ 45,610	$ 54,719
Change 2000 – 2009	36.4%	37.8%	27.9%	29.6%	29.5%	24.5%	27.3%	29.8%
Population	188,496	390,996	17,455	29,540	166,648	24,799	22,156	
Change 2000 – 2009	43.4%	29.9%	14.9%	1.41%	44.4%	29.3%	16.6%	10.1%
Unemployment rate(1)								
September 2009	10.6%	9.1%	10.4%	7.7%	13.5%	16.1%	12.9%	9.5%
September 2008	5.6%	4.5%	5.5%	4.8%	4.8%	4.8%	4.8%	6.1%
Total industry deposits(2)								
June 2009	$ 1,509	$ 6,644	$ 144	$ 402	$ 2,823	$ 259	$ 136	
June 2008	1,467	6,244	145	355	2,191	271	133	
Home Federal Bank's deposit market share								
June 2009	14.0%	2.1%	20.6%	6.3%	2.7%	34.4%	11.9%	

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

Southwest Idaho Region. Within Idaho, Home Federal Bank maintains its largest branch presence in Ada County with eight locations, followed by Canyon County with five offices, including Home Federal Bank's corporate headquarters in Nampa. As of June 30, 2009, the Bank had a 5.02% market share of the FDIC-insured deposits in these two counties, ranking it fifth among all insured depository institutions in these counties, according to the FDIC. The two remaining Idaho branches are located in Elmore and Gem counties.

The local economy is primarily urban with Boise, the state capital of Idaho, being the most populous of the markets that the Bank serves, followed by Nampa, the state's second largest city. Nearly 40% of the state's population lives and works in the four counties of Ada, Canyon, Elmore and Gem that are served by Home Federal Bank.

The regional economy is well diversified with government, healthcare, manufacturing, high technology, call centers 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, J.R. Simplot Company and Boise Cascade, LLC. Other major employers include Hewlett-Packard, Supervalu, 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 five years, which led to an increase in residential community developments. Historically, the unemployment rate has been lower than the national rate. The current economic slowdown, which has been led by significant deterioration in residential home sales, has caused acceleration in unemployment in the Treasure Valley. This slowdown has created an over-supply of speculative construction and land development projects. During the build-up of residential construction, commercial real estate construction accelerated and many speculative construction commercial projects, as well as existing commercial buildings, are now vacant, contributing to falling property values. Continued deterioration in the local economy may result in additional losses in the Bank’s loan portfolio, restrict management’s ability to execute the Company’s growth plans or impact the Bank’s liquidity due to a shrinking deposit base. See “Risk Factors” under Item 1A of this Annual Report Form 10-K.

Central Oregon Region. Within Oregon, Home Federal Bank operates eight branches, six in Deschutes County and one each in Crook and Jefferson Counties. As of June 30, 2009, these eight branches served a 5.81% market share of the FDIC-insured deposits in these counties, which ranks it fifth overall for the three counties in Oregon in which

the Bank operates. 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.

While much smaller than the Southwest Idaho market, 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 over 3,000 employees and Les Schwab Tires Centers, headquartered in Central Oregon, employs 1,500 people. Call centers and resorts are also in the top ten employers in the region.

Central Oregon has experienced rapid population growth and significant new construction has occurred over the last five years as the region's natural beauty and resorts gained greater renown. 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. Additionally, commercial real estate vacancies in the region rose quickly and the median home prices in September 2009 have fallen 50% from their peak.

Operating Strategy

Management's operating strategy centers on the continued development into a full service, community-oriented bank from a traditional savings and loan business model. Our goal is to continue to enhance our franchise value and earnings through controlled growth in our banking operations, especially lending to small to medium-sized businesses, while maintaining the community-oriented customer 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 customer 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 customer 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 expect to bid on failed bank transactions facilitated by the FDIC. We purchased loans and certain assets and assumed certain deposits and liabilities of a failed bank headquartered in Prineville, Oregon, in August 2009. The acquisition was consummated through a loss sharing agreement with the FDIC that provides significant credit loss mitigation and protection of our capital. However, the long-term success of such transactions is dependent upon our ability to integrate the operations of the acquired businesses. We will also consider whole bank acquisitions through market transactions that provide the potential for significant earnings growth and franchise value enhancement. However, such a transaction would be unlikely to occur due to the current economic environment and the favorable protection offered in an FDIC-assisted acquisition.

Expand Our Product Offerings. We intend to continue our emphasis on originating commercial lending products that diversify our loan portfolio by increasing the percentage of assets consisting of higher-yielding commercial real estate and commercial business loans with higher risk adjusted returns, shorter maturities and more sensitivity to interest rate fluctuations, while still providing high quality loan products for single-family residential borrowers. 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 are planning a conversion of our core processing system in the fourth quarter of fiscal 2010, which we believe will significantly enhance and expand our commercial banking applications and products.

Focus on our Branch Utilization. Branch expansion has played a significant role in our ability to grow loans, deposits and customer relationships in the past. We have now increased our focus on branch efficiency and deployment. In fiscal year 2008, we opened two full-service banking offices to replace a Wal-Mart banking office and another small office in order to better deliver the products and services we now offer. We recently completed

6

construction of two full service banking offices in Boise and Meridian, Idaho, that opened in October and November 2009, respectively, that replaced two Wal-Mart banking offices in Meridian and Nampa, Idaho.

Increase Our Core Transaction 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 transaction accounts, we intend to reduce our reliance on higher-cost certificates of deposit and borrowings such as advances from the Federal Home Loan Bank of Seattle. In order to expand our core deposit franchise, we are focusing on introducing additional products and services to obtain money market and time deposits by bundling them with other consumer and small business services. Business deposits are being pursued by the introduction of cash management products and by specific targeting of small business customers.

Hire Experienced Employees With a Customer Service Focus. Our ability to continue to attract and retain banking professionals with strong business banking and service skills, community relationships and significant knowledge of our markets is key to our success. We believe that by focusing on hiring experienced bankers who are established in their communities, we enhance our market position and add profitable growth opportunities. We emphasize to our employees the importance of delivering exemplary customer service and seeking opportunities to build further relationships with our customers. Our goal is to compete by relying on the strength of our customer service and relationship banking approach.

Develop and Nurture an Internal Management Culture Which is Driven by a Focus on Profitability, Productivity and Accountability for Results and Which Responds Proactively to the Challenge of Change. The primary method for reinforcing our culture is the comprehensive application of our “Pay for Performance” total compensation program. Every employee has clearly defined accountabilities and performance standards that tie directly or indirectly to our profitability. All incentive compensation is based on specific profitability measures, sales volume goals or a combination of specific profitability measures and individual performance goals. This approach encourages all employees to focus on our profitability and has created an environment that embraces new products, services and delivery systems. However, we also recognize that our compensation program, particularly incentive and other variable pay plan, must be structured and administered in a manner that provides incentive for achieving our goals as to growth while not encouraging disproportionate or excessive risk taking.

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. Commensurate with our transformation from a traditional thrift to a full-service community bank, we have been offering commercial real estate loans and to a lesser extent, multi-family loans. 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 September 30, 2009, the maximum amount of credit that we could have extended to any one borrower and the borrower's related entities under applicable regulations was $23.4 million. Our internal policy limits loans to one borrower and the borrower's related entities to 80% of the regulatory limit, or $18.7 million. At September 30, 2009, the Company had no borrowing relationship with outstanding balances in excess of this amount. Our largest single borrower relationship at September 30, 2009 included four commercial real estate loans and a home equity line of credit totaling $5.3 million. The second largest lending relationship included five commercial real estate loans totaling $5.0 million. Our third largest borrower relationship is a single loan secured by commercial real estate for $4.9 million. The fourth largest lending relationship was two commercial acquisition and development loans and a letter of credit totaling $4.7 million. The fifth largest lending relationship included four commercial real estate secured loans totaling $4.6 million. All of these loans, including those made to corporations, have personal guarantees

in place as an additional source of repayment and are secured by property or assets in our primary market area. These loans were performing according to their terms at September 30, 2009.

Our Senior Management Loan Committee, which consists of the Bank's Chief Executive Officer, the Executive Vice President/Commercial Banking and the Senior Vice President/Chief Credit Officer, is authorized to approve loans to one borrower or a group of related borrowers of up to $5.0 million in the aggregate. The single loan limit for this committee is also $5.0 million. Loan requests in excess of $5.0 million are presented to the Loan Committee

of the Board of Directors for review and approval. The entire board comprises that committee. We will apply our organic loan policy, including our underwriting standards, to loans we originate in Central Oregon. None of the loans we acquired, which are subject to a loss share agreement with the FDIC, however, were originated pursuant to underwriting standards that were comparable to those that will be applied to new loans in the future.

The following table provides a comparison of our loan portfolios as of September 30, 2009 and 2008, detailing loans purchased in the Acquisition, net of fair value purchase adjustments, and loans existing in our organic portfolio:

	September 30,			
	2009			2008
	Acquired(1)	Organic	Total	Total
	(in thousands)			
Real Estate:				
One-to-four family residential	$ 8,537	$169,774	$178,311	$210,501
Multi-family residential	6,270	10,016	16,286	8,477
Commercial	61,601	151,870	213,471	151,733
Total real estate	76,408	331,660	408,068	370,711
Real Estate Construction:				
One-to-four family residential	3,128	7,743	10,871	13,448
Multi-family residential	1,521	8,896	10,417	920
Commercial and land development	17,230	9,914	27,144	18,674
Total real estate construction	21,879	26,553	48,432	33,042
Consumer:				
Home equity	6,728	46,640	53,368	52,954
Automobile	1,188	1,176	2,364	1,903
Other consumer	1,850	1,884	3,734	1,370
Total consumer	9,766	49,700	59,466	56,227
Commercial business	18,313	5,943	24,256	5,385
Gross loans	126,366	413,856	540,222	465,365
Deferred loan fees	(1)	(857)	(858)	(973)
Allowance for loan losses(2)	(16,812)	(11,923)	(28,735)	(4,579)
Loans receivable, net	$109,553	$401,076	$510,629	$459,813

(1) Loans purchased in the Acquisition on August 7, 2009

(2) An allowance for loan losses was not recorded on $40.4 million of loans purchased in the Acquisition that were subject to accounting under Accounting Standards Codification (“ASC”) Topic 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality.” A fair value adjustment of $14.3 million was recorded directly to the loan balances that were subject to ASC 310-30. An allowance for loan losses was recorded on all other loans purchased in the Acquisition

8

Loan Portfolio Analysis. The following table sets forth the composition of the Company's loan portfolio by type of loan at the dates indicated:

	At September 30,									
	2009		2008		2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in thousands)									
Real estate:										
One-to-four family residential (1)	$ 178,311	33.01%	$ 210,501	45.23%	$ 249,545	51.55%	$ 293,640	57.88%	$ 252,126	58.00%
Multi-family residential	16,286	3.01	8,477	1.82	6,864	1.42	7,049	1.39	5,454	1.25
Commercial	213,471	39.52	151,733	32.61	133,823	27.64	125,401	24.72	116,432	26.78
Total real estate	408,068	75.54	370,711	79.66	390,232	80.61	426,090	83.99	374,012	86.03
Real estate construction:										
One-to-four family residential	10,871	2.01	13,448	2.89	20,545	4.24	23,678	4.67	14,421	3.32
Multi-family residential	10,417	1.93	920	0.20	1,770	0.37	--	--	1,427	0.33
Commercial and land development	27,144	5.02	18,674	4.01	21,899	4.52	16,344	3.22	7,470	1.72
Total real estate construction	48,432	8.96	33,042	7.10	44,214	9.13	40,022	7.89	23,318	5.37
Consumer:										
Home equity	53,368	9.88	52,954	11.38	42,990	8.88	34,143	6.73	28,558	6.57
Automobile	2,364	0.44	1,903	0.41	2,173	0.45	3,245	0.64	4,576	1.05
Other consumer	3,734	0.69	1,370	0.29	1,405	0.29	1,300	0.26	1,530	0.35
Total consumer	59,466	11.01	56,227	12.08	46,568	9.62	38,688	7.63	34,664	7.97
Commercial business	24,256	4.49	5,385	1.16	3,122	0.64	2,480	0.49	2,759	0.63
	540,222	100.00%	465,365	100.00%	484,136	100.00%	507,280	100.00%	434,753	100.00%
Less:										
Deferred loan fees	858		973		1,030		1,241		927	
Allowance for loan	28,735		4,579		2,988		2,974		2,882	

losses					
Loans receivable, net	$ 510,629	$ 459,813	$ 480,118	$ 503,065	$ 430,944

(1) Does not include loans held for sale of $862,000, $2.8 million, $4.9 million, $4.1 million, and $5.5 million, at September 30, 2009, 2008, 2007, 2006, and 2005, respectively.

The following table shows the composition of the Company's loan portfolio by fixed and adjustable rate loans at the dates indicated:

	At September 30,									
	2009		2008		2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
					(dollars in thousands)					
FIXED RATE LOANS										
Real estate:										
One-to-four family residential	$ 111,533	20.65%	$ 134,772	28.96%	$ 159,099	32.87%	$ 188,102	37.08%	$ 199,352	45.86%
Multi-family residential	3,501	0.65	1,947	0.42	1,993	0.41	2,055	0.41	2,119	0.48
Commercial	31,521	5.83	20,125	4.32	21,345	4.41	19,236	3.79	16,303	3.74
Total real estate	146,555	27.13	156,844	33.70	182,437	37.69	209,393	41.28	217,774	50.08
Real estate construction:										
One-to-four family residential	285	0.05	1,370	0.29	1,488	0.31	16,797	3.31	3,391	0.78
Multi-family residential	--	--	--	--	--	--	--	--	--	--
Commercial and land development	5,267	0.97	2,973	0.64	5,102	1.05	5,967	1.18	1,838	0.42
Total real estate construction	5,552	1.02	4,343	0.93	6,590	1.36	22,764	4.49	5,229	1.20
Consumer:										
Home equity	12,248	2.27	17,239	3.71	14,860	3.07	9,723	1.92	4,903	1.13
Automobile	2,364	0.44	1,903	0.41	2,173	0.45	3,245	0.64	4,576	1.05
Other consumer	3,203	0.59	1,370	0.29	1,405	0.29	1,300	0.26	1,530	0.35
Total consumer	17,815	3.30	20,512	4.41	18,438	3.81	14,268	2.82	11,009	2.53
Commercial business	7,200	1.33	1,543	0.34	1,073	0.22	622	0.12	1,091	0.25
Total fixed rate loans	$ 177,122	32.78%	$ 183,242	39.38%	$ 208,538	43.08%	$ 247,047	48.71%	$ 235,103	54.06%

(table continues on following page)

(table continued from previous page)

	At September 30,									
	2009		2008		2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in thousands)									
ADJUSTABLE RATE LOANS										
Real estate										
One-to-four family residential	$ 66,778	12.36%	$ 75,729	16.27%	$ 90,446	18.68%	$ 105,538	20.80%	$ 52,774	12.14%
Multi-family residential	12,785	2.36	6,530	1.40	4,871	1.01	4,994	0.98	3,335	0.77
Commercial	181,950	33.69	131,608	28.29	112,478	23.23	106,165	20.93	100,129	23.04
Total real estate	261,513	48.41	213,867	45.96	207,795	42.92	216,697	42.71	156,238	35.95
Real estate construction:										
One-to-four family residential	10,586	1.96	12,078	2.60	19,057	3.93	6,881	1.36	11,030	2.54
Multi-family residential	10,417	1.93	920	0.20	1,770	0.37	--	--	1,427	0.33
Commercial and land development	21,877	4.05	15,701	3.37	16,797	3.47	10,377	2.04	5,632	1.30
Total real estate construction	42,880	7.94	28,699	6.17	37,624	7.77	17,258	3.40	18,089	4.17
Consumer:										
Home equity	41,120	7.61	35,715	7.67	28,130	5.81	24,420	4.81	23,655	5.44
Automobile	--	--	--	--	--	--	--	--	--	--
Other consumer	531	0.10	--	--	--	--	--	--	--	--
Total consumer	41,651	7.71	35,715	7.67	28,130	5.81	24,420	4.81	23,655	5.44
Commercial business	17,056	3.16	3,842	0.82	2,049	0.42	1,858	0.37	1,668	0.38
Total adjustable rate loans	363,100	67.22	282,123	60.62	275,598	56.92	260,233	51.29	199,650	45.94
Total loans	540,222	100.00%	465,365	100.00%	484,136	100.00%	507,280	100.00%	434,753	100.00%
Less:										
Deferred loan fees	858		973		1,030		1,241		927	

Allowance for loan losses	28,735	4,579	2,988	2,974	2,882
Loans receivable, net	$ 510,629	$ 459,813	$ 480,118	$ 503,065	$ 430,944

One-to-four Family Residential Real Estate Lending. We originate both fixed-rate loans and adjustable-rate loans in our residential lending program. Generally, these loans are originated to meet the requirements of Fannie Mae and Freddie Mac for sale in the secondary market. We do from time to time, however, retain some of these loans in our loan portfolio to meet asset and liability management objectives.

We generally underwrite 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 lend up to 80% of the lesser of the appraised value or purchase price for one-to-four family residential loans. In situations where we grant a loan with a loan-to-value ratio in excess of 80%, we generally require 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 require our borrowers to obtain title and hazard insurance, and flood insurance, if necessary, in an amount equal to the regulatory maximum.

At September 30, 2009, $27.8 million, or 15.6%, of our one-to-four family residential mortgages consisted of loans for non-owner occupied properties. This consisted of $4.7 million of loans on second homes and $23.1 million of loans for investment. Non-owner occupied loans secured by one to two units are generally made with loan-to-value ratios of up to 80% and non-owner occupied loans secured by three units or more are generally made with loan-to-value ratios of up to 75%. In situations where we grant a loan with a loan-to-value ratio in excess of 80%, we generally require private mortgage insurance in order to reduce our exposure to 80% or less. As of September 30, 2009, delinquent non-owner occupied loans made up 3.1% of total non-owner occupied residential mortgages. Delinquent owner-occupied properties were 2.4% of total owner-occupied residential mortgages.

In an effort to provide financing for low-to-moderate income and first-time buyers, we participate in the Idaho Housing and Finance Association's Single Family Mortgage Program. The Idaho Housing and Finance Association is a non-profit organization that provides housing resources to low-to-moderate income families through various below market housing programs. The program is designed to meet the needs of qualified borrowers in the low-to-moderate income brackets. The program has established income limits based on family size and sales price limits for both existing and new construction. We offer residential mortgage loans through this program to qualified individuals and originate the loans using modified underwriting guidelines. All of these loans have private mortgage insurance on the portion of the principal amount that exceeds 80% of the appraised value of the property. Approximately $2.8 million of loans were sold to the Idaho Housing and Finance Association in the year ended September 30, 2009.

We did not develop a nontraditional mortgage program with subprime or Alt-A loans or other products with non-standard features. None of our one-to-four family residential mortgage loans has negative amortization or payment-option features.

Real Estate Construction. We have been an active originator of real estate construction loans in our market area for many years, but the recent contraction in construction projects and increases in speculative construction project vacancies has caused us to reduce focus in this line of business until the construction market improves. At September 30, 2009, our construction and land development loans amounted to $48.4 million, or 9.0%, of the total loan portfolio. Of this amount, approximately $21.9 million of construction and land development loans were purchased in the Acquisition, net of fair value and credit loss adjustments, and are subject to a loss share agreement with the FDIC.

The following table shows the composition of the construction loan portfolio at the dates indicated:

	At September 30, 2009	At September 30, 2008
	(in thousands)	
One-to-four family residential:		
Speculative	$ 6,352	$ 11,324
Owner occupied	4,519	--
Multi-family residential	10,417	920
Commercial real estate:		
Construction	7,332	6,181
Land development loans	19,812	12,493
Total construction and land development	$ 48,432	$ 33,042

During the year ended September 30, 2009, we directly originated $12.5 million of short-term builder construction loans to fund the construction of one-to-four family residential properties. Most loans originated by us 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 minimum debt service coverage ratios and established cash reserves 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. At September 30, 2009, our largest subdivision development loan had a commitment for $2.6 million and an outstanding principal balance of $996,000. This loan was secured by a first mortgage lien and was performing according to its original terms at September 30, 2009. At September 30, 2009, the average outstanding principal balance of subdivision loans to contractors and developers was $872,000.

We also make construction loans for commercial development projects. These projects include multi-family, apartment, retail, office/warehouse and office buildings. These loans generally have an interest-only phase during construction, and generally convert to permanent financing when construction is completed. Disbursement of funds is at our sole discretion and is based on the progress of construction. The maximum loan-to-value limit applicable to these loans is 80% of the appraised post-construction value.

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 Multi-Family Real Estate Lending. Multi-family 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 multi-family 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. 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 multi-family and commercial real estate loans to small and mid-size owner occupants and investors between $500,000 and $2.0 million; however, we can by policy originate loans to one borrower up to 80% of our regulatory limit. As of September 30, 2009, the maximum we could lend to any one borrower based on this limit was $18.7 million. Commercial real estate loans are primarily secured by office and warehouse space, professional buildings, retail sites, industrial facilities and churches located in the our primary market areas.

We have offered both fixed and adjustable-rate loans on multi-family 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 multi-family 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 applicable 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 multi-family real estate loans is generally 75% on purchases and refinances. We require appraisals of all properties securing commercial and multi-family real estate loans. Appraisals are performed by independent appraisers designated by us or by our staff appraiser. We require our commercial and multi-family 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 multi-family 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 multi-family 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 and multi-family 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. Additionally, commercial and multi-family real estate

loans generally have relatively large balances to single borrowers or related groups of borrowers. Accordingly, if we make any errors in judgment in the collectability of our commercial and multi-family 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 residential loans, we offer a variety of consumer loans to our customers, 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. The maximum term we offer on automobile loans is 72 months and is applicable to new and one year old cars and light trucks. In addition, we offer loan terms of up to 120 months on motor homes, and qualifying travel trailers and boats. All automobile loans are risk priced based on the percentage of cost, or established value, being financed. Consumer loans are made with both fixed and variable interest rates and with varying terms.

At September 30, 2009, 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. 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 increasing the commercial business loans that we originate, including lines of credit, term loans and letters of credit. 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 maturity terms 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 often 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.

Loan Maturity and Repricing. The following table sets forth certain information at September 30, 2009, regarding the dollar amount of loans maturing or repricing in our portfolio based on their contractual terms to maturity or next repricing date, but does not include scheduled payments or potential prepayments. 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 1 Year	After 1 Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Beyond 10 Years	Total
			(in thousands)			
Real estate:						
One-to-four family residential	$ 21,076	$ 40,243	$ 10,124	$ 44,867	$ 62,001	$ 178,311
Multi-family residential	5,536	5,874	1,841	1,086	1,949	16,286
Commercial	54,628	82,986	53,590	21,298	969	213,471
Total real estate	81,240	129,103	65,555	67,251	64,919	408,068
Real estate construction:						
One-to-four family residential	10,871	--	--	--	--	10,871
Multi-family residential	10,417	--	--	--	--	10,417
Commercial and land development	25,746	1,162	231	5	--	27,144
Total real estate construction	47,034	1,162	231	5	--	48,432
Consumer:						
Home equity	41,131	30	247	1,107	10,853	53,368
Automobile	143	676	826	465	254	2,364
Other consumer	1,178	766	441	534	815	3,734
Total consumer	42,452	1,472	1,514	2,106	11,922	59,466
Commercial business	15,128	4,145	2,147	2,193	643	24,256
Total loans receivable	$ 185,854	$ 135,882	$ 69,447	$ 71,555	$ 77,484	$ 540,222

The following table sets forth the dollar amount of all loans maturing or repricing more than one year after September 30, 2009, which have fixed interest rates and have floating or adjustable interest rates:

	Floating or Adjustable Rate	Fixed Rates	Total
		(in thousands)	
Real estate:			
One-to-four family residential	$ 47,836	$ 109,399	$ 157,235
Multi-family residential	8,801	1,949	10,750
Commercial	135,315	23,528	158,843
Total real estate	191,952	134,876	326,828
Real estate construction:			
One-to-four family residential	--	--	--
Multi-family residential	--	--	--
Commercial and land development	881	517	1,398
Total real estate construction	881	517	1,398
Consumer:			
Home equity	--	12,237	12,237
Automobile	--	2,221	2,221
Other consumer	--	2,556	2,556
Total consumer	--	17,014	17,014
Commercial business	3,305	5,823	9,128
Total loans receivable	$ 196,138	$ 158,230	$ 354,368

Loan Solicitation and Processing. As part of our commercial banking strategy, we are focusing our efforts in increasing the amount of our direct originations commercial business loans, followed by commercial and multi-family real estate loans and to a lesser extent construction loans to builders and developers. Residential real estate loans are solicited through media advertising, direct mail to existing customers and by realtor referrals. Loan originations are further supported by lending services offered through our internet website, advertising, cross-selling and through our employees' community service.

Upon receipt of a loan application from a prospective borrower, we obtain a credit report and other data to verify specific information relating to the applicant's employment, income and credit standing. An appraisal of the real estate offered as collateral is undertaken by a licensed appraiser we have retained and approved.

Mortgage loan applications are initiated by loan officers and are required to be approved by our underwriting staff who has appropriately delegated lending authority. Loans that exceed the underwriter’s lending authority must be approved by one or more members of the Management Loan Committee. 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.

Loan Originations, Servicing, Purchases and Sales. During the year ended September 30, 2009, our total loan originations were $163.3 million. The majority of all first lien residential mortgages are sold to the secondary market at the time of origination. During the year ended September 30, 2009, we sold $68.8 million to the secondary market including $2.7 million in loans originated in fiscal year 2008. The remaining $66.1 million of loans represents 97.6% of total current year one-to-four family residential loan originations. Our secondary market relationships have been major correspondent banks. The increase in loans sold during 2009 was a result of the low interest rate environment that existed during fiscal 2009.

One-to-four family home loans are generally originated in accordance with the guidelines established by Freddie Mac and Fannie Mae, with the exception of our special community development loans under the Community

Reinvestment Act. We utilize the Freddie Mac Loan Prospector and Fannie Mae Desktop Underwriter automated loan systems to underwrite the majority of our residential first mortgage loans (excluding community development loans). The remaining loans are underwritten by designated real estate loan underwriters internally in accordance with standards as provided by our Board-approved loan policy. The underwriting criteria we use on loans that are not sold to investors and retained in our portfolio are at least as stringent as those we use for the loans we sell.

Nearly all of our one-to-four family home loans are sold into the secondary market with servicing released. Loans are generally sold on a non-recourse basis. On August 28, 2008, Home Federal Bank entered into a binding agreement with another bank whereby Home Federal Bank sold its remaining servicing rights. The purchase price was 1.02% of the unpaid principal balance of all loans in the servicing portfolio, except for those loans that are 60 days or more past due, in litigation, in bankruptcy or in foreclosure as of October 31, 2008. The transfer was completed in the first quarter of the fiscal year ended September 30, 2009.

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

	Year Ended September 30,		
	2009	2008	2007
	(in thousands)		
Loans originated:			
Real estate:			
One-to-four family residential (1)	$ 67,701	$ 48,114	$ 96,254
Multi-family residential	74	1,819	2,000
Commercial	32,477	47,662	23,598
Total real estate	100,252	97,595	121,852
Real estate construction:			
One-to-four family residential	12,530	17,853	41,529
Multi-family residential	--	--	1,770
Commercial and land development	12,266	14,152	18,266
Total real estate construction	24,796	32,005	61,565
Consumer:			
Home equity	15,265	35,339	32,136
Automobile	192	894	654
Other consumer	2,643	3,104	3,264
Total consumer	18,100	39,337	36,054
Commercial business, including advances on lines of credit	20,106	21,352	5,159
Total loans originated	163,254	190,289	224,630
Loans purchased:			
Net loans purchased in Acquisition	129,162	--	--
Loans sold:			
One-to-four family residential	(68,801)	(47,968)	(96,370)
Principal repayments	(130,669)	(161,575)	(149,714)
Transfer to real estate owned	(19,513)	(1,394)	(857)
Increase (decrease) in other items, net	(24,586)	(1,730)	149

Net increase (decrease) in loans receivable and loans held for sale	$	48,847	$	(22,378)	$	(22,162)

(1) Includes originations of loans held for sale of $66.8 million, $45.9 million, and $97.2 million for the years ended September 30, 2009, 2008 and 2007, respectively.

Loan Origination and Other Fees. In some instances, we receive loan origination fees on real estate related products. Loan fees generally represent a percentage of the principal amount of the loan, and are paid by the borrower. Accounting standards require that certain fees received, net of certain origination costs, be deferred and amortized over the contractual life of the loan. Net deferred fees or costs associated with loans that are prepaid or

sold are recognized as income at the time of prepayment. We had $858,000 of net deferred loan fees and costs as of September 30, 2009.

Asset Quality

The objective of our loan review process is to determine risk levels and exposure to loss. The depth of review varies by asset types, depending on the nature of those assets. While certain assets may represent a substantial investment and warrant individual reviews, other assets may have less risk because the asset size is small, the risk is spread over a large number of obligors or the obligations are well collateralized and further analysis of individual assets would expand the review process without measurable advantage to risk assessment. Asset types with these characteristics may be reviewed as a total portfolio on the basis of risk indicators such as delinquency (consumer and residential real estate loans) or credit rating. A formal review process is conducted on individual assets that represent greater potential risk. A formal review process is a total reevaluation of the risks associated with the asset and is documented by completing an asset review report. Certain real estate-related assets must be evaluated in terms of their fair market value or net realizable value in order to determine the likelihood of loss exposure and, consequently, the adequacy of valuation allowances.

We define a loan as being impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due under the contractual terms of the loan agreement. Large groups of smaller balance homogenous loans such as consumer secured loans, residential mortgage loans and consumer unsecured loans are collectively evaluated for potential loss. All other loans are evaluated for impairment on an individual basis. Accounting Standards Codification Topic ("ASC") 310-30 "Loans and Debt Securities Acquired with Deteriorated Credit Quality," applies to a loan with evidence of deterioration of credit quality since origination, acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. We determined that a significant number of the loans acquired were impaired and subject to ASC 310-30.

We generally assess late fees or penalty charges on delinquent loans of five percent of the monthly principal and interest amount. The borrower is given a 10 to 15-day grace period to make the loan payment depending on loan type. When a borrower fails to make a required payment when it is due, we institute collection procedures. The first notice is mailed to the borrower on the day following the expiration of the grace period requesting payment and assessing a late charge. Attempts to contact the borrower by telephone generally begin upon the 15th day of delinquency. If a satisfactory response is not obtained, continual follow-up contacts are attempted until the loan has been brought current. Before the 60th day of delinquency, attempts to interview the borrower are made to establish the cause of the delinquency, whether the cause is temporary, the attitude of the borrower toward the debt and a mutually satisfactory arrangement for curing the default.

The Board of Directors is informed monthly as to the number and dollar amount of loans that are delinquent by more than 30 days, and is given information regarding classified assets.

If a borrower is chronically delinquent and all reasonable means of obtaining payments have been exercised, we will seek to recover any collateral securing the loan according to the terms of the security instrument and applicable law. In the event of an unsecured loan, we will either seek legal action against the borrower or refer the loan to an outside collection agency.

Our determination of the initial fair value of loans purchased in the Acquisition involved a high degree of judgment and complexity. The carrying value of the acquired loans reflects management's best estimate of the amount to be realized from the acquired loan portfolio. However, the amounts we actually realize on these loans could differ materially from the carrying value reflected in these financial statements, based upon the timing of collections on the acquired loans in future periods, underlying collateral values and the ability of borrowers to continue to make

payments.

Because of the loss sharing agreement with the FDIC on these assets, we do not expect that we will incur any excessive losses. Under the loss sharing agreement, our share of the first $34.0 million of losses on the $155.2 million of covered assets (defined as loans and other real estate owned purchased in the Acquisition) is 20%, and thus only $6.8 million in losses could possibly be realized by the Company on that first tranche of losses. Any loss on covered assets in excess of the $34.0 million tranche will be limited to 5%, and thus another $6.1 million in

losses could possibly be realized by the Company. Therefore, we estimate that our exposure related to the assets covered under the loss sharing agreement is $12.9 million. This scenario is based upon no principal being collected from the borrowers on any of the covered assets but does not consider our share of incremental expenses to maintain foreclosed assets. As of September 30, 2009, the allowance for loan losses on acquired loans and fair value adjustments on loans subject to accounting under ASC 310-30 reflect that we estimated total losses on the acquired portfolio to be $38.4 million at that date and that our share of those losses totaled $7.0 million. As such, we believe our total additional loss exposure on covered assets to be $5.9 million (i.e., $12.9 million total losses less the $7.0 million of loss reserves and fair value adjustments net of the FDIC indemnification asset) under the loss scenario discussed above.

Delinquent Loans. The following table shows our delinquent loans by the type of loan and number of days delinquent as of September 30, 2009:

	Loans Delinquent For:				Total	
	60-89 Days		Over 90 Days		Delinquent Loans	
	Number of Loans	Principal Balance Loans	Number of Loans	Principal Balance Loans	Number of Loans	Principal Balance Loans
	(dollars in thousands)					
Real estate:						
One-to-four family residential	9	$ 1,062	32	$ 4,740	41	$ 5,802
Multi-family residential	1	201	--	--	1	201
Commercial	4	1,684	17	6,755	21	8,439
Total real estate	14	2,947	49	11,495	63	14,442
Real estate construction:						
One-to-four family residential	1	481	4	830	5	1,311
Multi-family residential	--	--	1	932	1	932
Commercial and land development	7	3,538	14	4,372	21	7,910
Total real estate construction	8	4,019	19	6,134	27	10,153
Consumer:						