

HOME FEDERAL BANCORP, INC. OF LOUISIANA
Form 10QSB
November 14, 2005

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2005

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission File Number: 000-51117

HOME FEDERAL BANCORP, INC. OF LOUISIANA

(Exact name of small business issuer as specified in its charter)

Federal

86-1127166

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

624 Market Street, Shreveport, Louisiana 71101

(Address of principal executive offices)

(318) 222-1145

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last
report)

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12
months (or for such shorter period that the registrant was required to file
such reports), and (2) has been subject to such filing requirements for the
past 90 days. Yes No

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

Shares of common stock, par value \$.01 per share, outstanding as of November 14, 2005: The registrant had 3,558,958 shares of common stock outstanding, of which 2,135,375 shares were held by Home Federal Mutual Holding Company of Louisiana, the registrant's mutual holding company, and 1,423,583 shares were held by the public and directors, officers and employees of the registrant, and the registrant's employee benefit plans.

Transitional Small Business Disclosure Format: Yes No X

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Table with 2 columns: Item description and Page. Includes sections like PART I - FINANCIAL INFORMATION, Item 1: Financial Statements (Unaudited), and PART II - OTHER INFORMATION.

SIGNATURES

HOME FEDERAL BANCORP, INC. OF LOUISIANA
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

September 30, 2005 June 30, 2005

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	(Unaudited)	(Audited)
	-----	-----
ASSETS		
Cash and Cash Equivalents	\$ 12,680,995	\$ 9,292,489
Securities Available-for-Sale	74,794,600	75,760,424
Securities Held-to-Maturity	1,544,616	1,612,657
Loans Held-for-Sale	526,200	70,000
Loans Receivable, Net	19,532,176	23,575,037
Accrued Interest Receivable	413,044	435,534
Premises and Equipment, Net	962,404	524,755
Deferred Tax Asset	246,218	--
Other Assets	47,297	59,936
	-----	-----
Total Assets	\$110,747,550	\$111,330,832
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	\$ 71,297,483	\$ 69,995,056
Advances from Borrowers for Taxes and Insurance	236,594	170,037
Advances from Federal Home Loan Bank of Dallas	7,550,871	8,224,459
Deferred Tax Liability	--	186,118
Other Accrued Expenses and Liabilities	520,116	323,688
	-----	-----
Total Liabilities	79,605,064	78,899,358
	-----	-----
COMMITMENTS		
STOCKHOLDERS' EQUITY		
Common stock - 8,000,000 shares of \$.01 par value authorized; 3,558,958 shares issued at September 30, 2005 and June 30, 2005, respectively	14,236	14,236
Additional paid-in capital	13,398,030	13,391,061
Retained Earnings - Partially Restricted	19,954,083	19,827,439
Unallocated Shares held by ESOP	(1,096,443)	(1,110,683)
Unearned RRP Trust Stock	(654,040)	--
Accumulated Other Comprehensive (Loss) Income	(473,380)	309,421
	-----	-----
Total Stockholders' Equity	31,142,486	32,431,474
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$110,747,550	\$111,330,832
	=====	=====

See accompanying notes to consolidated financial statements.

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HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

Three Months Ended
September 30,

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	2005	2004
	-----	-----
INTEREST INCOME		
Loans, Including Fees	\$ 384,524	\$ 381,119
Investment Securities	60,822	20,448
Mortgage-Backed Securities	891,725	781,403
Other Interest-Earning Assets	42,709	10,369
	-----	-----
Total Interest Income	1,379,780	1,193,339
	-----	-----
INTEREST EXPENSE		
Deposits	489,741	439,759
Federal Home Loan Bank Borrowings	62,970	69,703
	-----	-----
Total Interest Expense	552,711	509,462
	-----	-----
Net Interest Income	827,069	683,877
	-----	-----
PROVISION FOR LOAN LOSSES		
	--	--
	-----	-----
Net Interest Income after Provision for Loan Losses	827,069	683,877
	-----	-----
NON-INTEREST INCOME		
Gain on Sale of Loans	4,079	4,338
Gain on Sale of Investments	52,209	--
Other Income	7,661	6,444
	-----	-----
Total Non-Interest Income	63,949	10,782
	-----	-----
NON-INTEREST EXPENSE		
Compensation and Benefits	351,718	330,842
Occupancy and Equipment	43,949	42,851
Data Processing	20,184	16,491
Audit and Professional Fees	74,907	25,815
Other Expense	100,562	69,732
	-----	-----
Total Non-Interest Expense	591,320	485,731
	-----	-----
Income Before Income Taxes	299,698	208,928
	-----	-----
PROVISION FOR INCOME TAX EXPENSE	101,875	70,805
	-----	-----
Net Income	\$ 197,823	\$ 138,123
	=====	=====
INCOME PER COMMON SHARE:		
Basic	\$.06	n/a
	=====	
Diluted	\$.06	n/a
	=====	

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

	Common Stock	Additional Paid-in Capital	Unearned ESOP Stock	Unearned RRP Trust Stock	Retained Earnings
	-----	-----	-----	-----	-----
BALANCE - JUNE 30, 2004	\$ --	\$ --	\$ --	\$ --	\$18,977,541
Net Income	--	--	--	--	138,123
Other Comprehensive Income:					
Changes in Unrealized Gain					
(Loss) on Securities Available-					
for-Sale, Net Tax Effects	--	--	--	--	--
	-----	-----	-----	-----	-----
BALANCE - SEPTEMBER 30, 2004	\$ --	\$ --	\$ --	\$ --	\$19,115,664
	=====	=====	=====	=====	=====
BALANCE - JUNE 30, 2005	\$14,236	\$13,391,061	\$ (1,110,683)	\$ --	\$19,827,439
Net Income	--	--	--	--	197,823
Other Comprehensive Loss:					
Changes in Unrealized Gain					
(Loss) on Securities Available-					
for-Sale, Net of Tax Effects	--	--	--	--	--
Purchase of Common Stock for RRP Trust	--	--	--	(654,040)	--
Stock Options Vested	--	7,396	--	--	--
ESOP Compensation Earned	--	(427)	14,240	--	--
Dividends Declared	--	--	--	--	(71,179)
	-----	-----	-----	-----	-----
BALANCE - SEPTEMBER 30, 2005	\$14,236	\$13,398,030	\$ (1,096,443)	\$ (654,040)	\$19,954,083
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended September 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 197,823	\$ 138,123
Adjustments to Reconcile Net Income to Net Cash (Used in) Provided by Operating Activities		
Net Amortization and Accretion on Securities	(24,244)	19,556
Gain on Sale of Investments	(52,209)	--
Amortization of Deferred Loan Fees	(11,837)	(10,483)
Depreciation of Premises and Equipment	15,588	10,318
ESOP Expense	13,813	--
Stock Option Expense	7,396	--
Recognition and Retention Plan Expense	16,189	--
Deferred Income Tax	(2,515)	--
Changes in Assets and Liabilities		
Loans Held-for-Sale - Originations	(456,200)	107,500
Accrued Interest Receivable	22,490	121,720
Other Operating Assets	16,470	(154,238)
Other Operating Liabilities	149,849	(3,006)
Net Cash (Used in) Provided by Operating Activities	(107,387)	229,490
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Originations and Purchases, Net of Principal Collections	4,050,665	561,120
Deferred Loan Fees Collected	4,033	1,351
Acquisition of Premises and Equipment	(453,237)	(49,709)
Activity in Available-for-Sale Securities:		
Proceeds from Sales of Securities	3,378,017	--
Principal Payments on Mortgage-backed Securities	2,913,023	--
Purchases of Securities	(6,434,826)	(1,863,313)
Activity in Held-to-Maturity Securities		
Proceeds from Redemption or Maturity of Investments	--	270,000
Principal Payments on Mortgage-Backed Securities	68,041	96,471
Net Cash Provided by (Used in) Investing Activities	3,525,716	(984,080)

See accompanying notes to consolidated financial statements.

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HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)

	Three Months Ended September 31,	
	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Deposits	1,302,427	1,341,774
Repayments of Advances from Federal Home Loan Bank	(673,588)	(623,541)
Net Increase in Mortgage-Escrow Funds	66,557	68,755
Dividends Paid	(71,179)	--
Acquisition of Stock for Recognition and Retention Plan	(654,040)	--
	-----	-----
Net Cash (Used in) Provided by Financing Activities	(29,823)	786,988
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,388,506	32,398
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	9,292,489	4,342,125
	-----	-----
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 12,680,995	\$4,374,523
	=====	=====
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest Paid on Deposits and Borrowed Funds	\$ 526,078	\$ 503,280
Income Taxes Paid	--	70,000
Market Value Adjustment for (Loss) Gain on Securities Available-for-Sale	(1,186,062)	2,568,186

See accompanying notes to consolidated financial statements.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Home Federal Bancorp, Inc. of Louisiana (the "Company") and its subsidiary, Home Federal Savings and Loan Association (the "Association"). These consolidated financial statements were prepared in accordance with instructions for Form 10-QSB and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the three month period ended September 30, 2005, is not necessarily indicative of the results which may be expected for the entire fiscal year.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the Consolidated Statements of Financial Condition and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan losses.

Nature of Operations

On January 18, 2005, Home Federal Savings and Loan Association (the "Association"), completed its reorganization to the mutual holding company form of organization and formed Home Federal Bancorp, Inc. of Louisiana (the "Company") to serve as the stock holding company for the Association. In connection with the reorganization, the Company sold 1,423,583 shares of its common stock in a subscription and community offering at a price of \$10.00 per share. The Company also issued 60% of its outstanding common stock in the reorganization to Home Federal Mutual Holding Company of Louisiana, or 2,135,375 shares. The Association is a federally chartered, stock savings and loan association and is subject to federal regulation by the Federal Deposit Insurance Corporation and the Office of Thrift Supervision. Services are provided to its customers by three offices, all of which are located in the City of Shreveport, Louisiana. The area served by the Association is primarily the Shreveport-Bossier City metropolitan area; however, loan and deposit customers are found dispersed in a wider geographical area covering much of northwest Louisiana.

Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash on hand, balances due from banks, and federal funds sold, all of which mature within ninety days.

Securities

The Company classifies its debt and equity investment securities into one of three categories: held-to-maturity, available-for-sale, or trading. Investments in nonmarketable equity securities and debt securities, in which the Company has the positive intent and ability to hold to maturity, are classified as held-to-maturity and carried at amortized cost. Investments in debt securities that are not classified as held-to-maturity and marketable equity securities that have readily determinable fair values are classified as either trading or available-for-sale securities. Securities that are acquired and held principally for the purpose of selling in the near term are classified as trading securities. Investments in securities not classified as trading or held-to-maturity are classified as available-for-sale.

Trading account and available-for-sale securities are carried at fair value. Unrealized holding gains and losses on trading securities are included in earnings while net unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the term of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Association to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

Loans receivable are stated at unpaid principal balances, less allowances for loan losses and unamortized deferred loan fees. Net nonrefundable fees (loan origination fees, commitment fees, discount points) and costs associated with lending activities are being deferred and subsequently amortized into income as an adjustment of yield on the related interest earning assets using the interest method. Interest income on contractual loans receivable is recognized on the accrual method. Unearned discount on property improvement and automobile loans is deferred and amortized on the interest method over the life of the loan.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral and prevailing economic conditions. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information or events, it is probable that the Association will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. When a loan is impaired, the measurement of such impairment is based upon the fair value of the collateral of the loan. If the fair value of the collateral is less than the recorded investment in the loan, the Association will recognize the impairment by creating a valuation allowance with a corresponding charge against earnings.

An allowance is also established for uncollectible interest on loans classified as substandard. Substandard loans are those, which are in excess of ninety days delinquent. The allowance is established by a charge to interest income equal to all interest previously accrued and income is subsequently recognized only to the extent that cash payments are received. When, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, the loan is returned to accrual status.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Association has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various assets and liabilities and gives current recognition to changes in tax rates and laws.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the Consolidated Statements of Financial Condition, such items, along with net income, are components of comprehensive income.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. NET INCOME PER COMMON SHARE

Basic and diluted net income per common share was \$.06 and \$.06 respectively, at September 30, 2005. Net income per common share at September 30, 2004, is not applicable since the Association had not completed its reorganization to stock form as of that date.

3. CONVERSION TO STOCK FORM OF OWNERSHIP

On April 14, 2004, the Board of Directors of the Association unanimously adopted the Plan of Reorganization and the Plan of Stock Issuance (together, the "Plan"). Pursuant to the Plan, on January 18, 2005, the Association converted to a stock savings and loan association as the successor to the Association in its mutual form and organized Home Federal Bancorp, Inc. of Louisiana (the "Company") as a federally-chartered corporation that owns 100% of the common stock of the Association. The Association organized Home Federal Mutual Holding Company of Louisiana (the "Mutual Holding Company") as a federally-chartered mutual holding company that acquired 60% of the Common Stock of the Company. The Company sold 1,423,583 shares of Common Stock in a subscription and community offering. In addition to the shares of the Company which it owns, the Mutual Holding Company was capitalized with \$100,000 in cash.

All depositors who had liquidation and other rights with respect to the Association as of the effective date of the reorganization continue to have such rights solely with respect to the Mutual Holding Company so long as they continue to hold deposit accounts with the Association. In addition, all persons who become depositors of the Association subsequent to the reorganization will have such liquidation and other rights with respect to the Mutual Holding Company.

The shares of common stock sold in the public offering represent a minority ownership of the estimated pro forma market value of the Association as determined by an independent appraisal. The Mutual Holding Company is the majority owner of the Company.

4. RECOGNITION AND RETENTION PLAN

On August 10, 2005, the shareholders of the Company approved the establishment of the Home Federal Bancorp, Inc. of Louisiana 2005 Recognition Plan and Trust Agreement (the "Recognition Plan") as an incentive to retain personnel of experience and ability in key positions. The aggregate number of shares of the Company's common stock subject to award under the Recognition Plan totals 69,756 shares. As shares are acquired for the Recognition Plan, the purchase price of these shares will be recorded as a contra equity account. As the shares are distributed, the contra equity account will be reduced. At September 30, 2005, the Company had purchased 66,400 shares at an aggregate cost of \$654,040.

Recognition Plan shares are earned by recipients at a rate of 20% of the aggregate number of shares covered by the Recognition Plan award over five years. Generally, if the employment of an employee or service as a non-employee director is terminated prior to the fifth anniversary of the date of grant of Recognition Plan share award, the recipient shall forfeit the right to any shares subject to the award that have not been earned. In the case of

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death or disability of the recipient or a change in control of the Company, however, the Recognition Plan awards will be vested and shall be distributed as soon as practicable thereafter.

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HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The present cost associated with the Recognition Plan is based on a share price of \$9.85, which represents the market price of the Company's stock on August 18, 2005, the date on which the Recognition Plan shares were granted. The cost is being recognized over five years.

5. STOCK OPTION PLAN

On August 10, 2005, the shareholders of the Company approved the establishment of the Home Federal Bancorp, Inc. of Louisiana 2005 Stock Option Plan (the "Option Plan") for the benefit of directors, officers, and other key employees. The aggregate number of shares of common stock reserved for the issuance under the Option Plan totaled 174,389. Both incentive stock options and non-qualified stock options may be granted under the Option Plan.

On August 18, 2005, the Company granted 174,389 options to directors and key employees. Under the Option Plan, the exercise price of each option cannot be less than the fair market value of the underlying common stock as of the date of the option grant, which was \$9.85, and the maximum term is ten years. Incentive stock options and non-qualified stock options granted under the Option Plan become vested and exercisable at a rate of 20% per year over five years, commencing one year from the date of the grant, with an additional 20% vesting on each successive anniversary of the date the option was granted. No vesting shall occur after an employee's employment or service as a director is terminated. In the event of the death or disability of an employee or director or change in control of the Company, the unvested options shall become vested and exercisable. The Company accounts for the Option Plan under the guidance of SFAS No. 123(R).

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

General

The Company was formed by the Association in connection with the Association's reorganization and commenced operations on January 18, 2005. The Company's results of operations initially are primarily dependent on the results of the Association, which became a wholly owned subsidiary upon completion of the reorganization. The Association's results of operations depend, to a large extent, on net interest income, which is the difference between the income earned on its loan and investment portfolios and the cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by provisions for loan losses and loan sale activities. Non-interest expense principally consists of compensation and employee benefits, office occupancy and equipment expense, data processing and other expense. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially impact our financial conditions and results of operations.

Critical Accounting Policies

The Company has identified the calculation of the allowance for loan losses as a critical accounting policy, due to the higher degree of judgment and complexity than its other significant accounting policies. Provisions for loan losses are based upon management's periodic valuation and assessment of the overall loan portfolio and the underlying collateral, trends in non-performing loans, current economic conditions and other relevant factors in order to maintain the allowance for loan losses at a level believed by management to represent all known and inherent losses in the portfolio that are both probable and reasonably estimable. Although management uses the best information available, the level of the allowance for loan losses remains an estimate which is subject to significant judgment and short-term change.

Discussion of Financial Condition Changes from June 30, 2005 to September 30, 2005

At September 30, 2005, total assets amounted to \$110.7 million compared to \$111.3 million at June 30, 2004, a decrease of approximately \$600,000, or 0.5%. This decrease was primarily due to a decrease in loans receivable of approximately \$4.0 million, or 17.1%, and a decrease of investment securities of \$1.0 million, or 1.3%. These decreases were offset by the Association's purchase of land for a proposed future branch site and an increase in cash and cash equivalents. Premises and equipment, net, amounted to \$962,404 at September 30, 2005, compared to \$524,755 at June 30, 2005, an increase of \$437,649, or 83.4%. Cash and cash equivalents at September 30, 2005 amounted to \$12.7 million, compared to \$9.3 million at June 30, 2005, an increase of \$3.4 million, or 36.6%.

Securities available-for-sale decreased \$1.0 million, or 1.3%, from a balance of \$75.8 million at June 30, 2005, compared to \$74.8 million at September 30, 2005. This decrease was due primarily to securities sold during the quarter

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ended September 30, 2005, principal paydowns on mortgage-backed securities, and the decrease in the fair value of securities available-for-sale. Securities held-to-maturity decreased \$68,041, or 4.2% for the three months ended September 30, 2005 compared to securities held-to-maturity at June 30, 2005, primarily due to maturities and principal payments.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (Continued)

The Company's total liabilities amounted to \$79.6 million at September 30, 2005, an increase of approximately \$700,000, or 0.9%, compared to total liabilities of \$78.9 million at June 30, 2005. The primary reason for the increase in liabilities was due to the \$1.3 million increase of customers' deposits due to normal deposits inflow. This increase was offset by a decrease of \$673,588, or 8.2%, in advances in Federal Home Loan Bank of Dallas.

Equity decreased \$1.3 million, or 4.0% to \$31.1 million at September 30, 2005 compared to \$32.4 million at June 30, 2005. This decrease was primarily the result of the purchase of 66,400 shares of common stock at a cost of \$654,040 for the Company's Recognition and Retention Plan, and from unrealized losses on securities available-for-sale, net of applicable tax effect, of \$782,801. These decreases were offset by the recognition of net income of \$197,823 for the three months ended September 30, 2005.

The Association is required to meet minimum capital standards promulgated by the Office of Thrift Supervision ("OTS"). At September 30, 2005, Home Federal Savings and Loan's regulatory capital was well in excess of the minimum capital requirements.

Comparison of Operating Results for the Three Month Periods Ended September 30, 2005 and 2004

General

Net income amounted to \$197,823 for the three months ended September 30, 2005 compared to \$138,123 for the same period in 2004, an increase of \$59,700, or 43.2%. The increase was primarily due to increases in net interest income and non-interest income, partially offset by increases in non-interest expense and income taxes.

Net Interest Income

Net interest income for the three months ended September 30, 2005, was \$827,069, an increase of \$143,192 in comparison to the three months ended September 30, 2004. This increase was due primarily to the increase in interest income earned from investment securities and interest earning deposits maintained at the Federal Home Loan Bank of Dallas as a result of the investment of the proceeds received from the paydowns of loans receivable and the investment of the net proceeds associated with the Company's stock issuance.

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The Company's average interest rate spread was 2.31% for the three months ended September 30, 2005, compared to 2.38% for the three months ended September 30, 2004. The Company's net interest margin was 3.06% for the three months ended September 30, 2005, compared to 2.88% for the three months ended September 30, 2004. The increase in net interest income and net interest margin is attributable primarily to the investment of the net proceeds from the Company's stock issuance which occurred in January 2005.

Provision for Losses on Loans -----

Based on an analysis of historical experience, the volume and type of lending conducted by Home Federal, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to Home Federal's market area, the decrease in the loan portfolio and other factors related to the collectibility of Home Federal's loan portfolio, no provisions for loan losses were made during the three months ended September 30, 2005 or 2004. The Association's allowance for loan losses was \$235,000, or 1% of total loans, at September 30, 2005 and at September 30, 2004. Home Federal did not have any non-performing loans at September 30, 2005 or 2004. There can be no

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MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (Continued)

assurance that the loan loss allowance will be sufficient to cover losses on nonperforming assets in the future.

Non-interest Income -----

Total non-interest income amounted to \$63,949 for the three months ended September 30, 2005, compared to \$10,782 for the same period in 2004. The increase was primarily due to the recognition of \$52,209 in gains from investment securities sold during the quarter ended September 30, 2005.

Non-interest Expense -----

Total non-interest expense increased \$105,589, or 21.7%, for the three months ended September 30, 2005 compared to the prior year period. The increase was primarily due to an increase of \$20,876, or 6.3%, in compensation and benefits expense, an increase of \$49,092, or 190.2%, in audit and professional fees, and an increase of \$30,830, or 44.2%, in other expense.

The increase in compensation and benefits expenses was a result of the Company's recognition of expense associated with the vested amount of stock options granted by the Company during the quarter ended September 30, 2005, as well as the expense associated with the Company's awards pursuant to the Recognition and Retention Plan also granted during the quarter ended September 30, 2005. Compensation expense recognized by the Company for its Stock Option and Recognition and Retention Plans amounted to \$7,396 and \$16,189, respectively, for the three months ended September 30, 2005.

The increase in audit and professional fees was due primarily to an increase in legal expense recognized by the Company during the quarter ended September 30, 2005. The increase in legal expense is attributable to services

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associated with the Company's various filings with the Securities and Exchange Commission and review of the Company's Stock Option and Recognition and Retention Plans.

The increase in other expense was due primarily to the recognition during the quarter ended September 30, 2005 of fees paid to the Company's registrar and transfer agent, and the Company's recognition of Louisiana franchise tax.

Income Taxes

Income taxes amounted to \$101,875 and \$70,805 for the three months ended September 30, 2005 and 2004, respectively, resulting in effective tax rates of 34.0% and 33.9%, respectively. The increase in income taxes for the three months ended September 30, 2005, was due to increased income before income taxes.

Liquidity and Capital Resources

Home Federal Savings and Loan maintains levels of liquid assets deemed adequate by management. The Association adjusts its liquidity levels to fund deposit outflows, repay its borrowings and to fund loan commitments. Home Federal Savings and Loan also adjusts liquidity as appropriate to meet asset and liability management objectives.

Home Federal Savings and Loan's primary sources of funds are deposits, amortization and prepayment of loans and mortgage-backed securities, maturities of investment securities and other short-term investments, loan sales and earnings and funds provided from operations. While scheduled principal

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MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (Continued)

repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Association sets the interest rates on its deposits to maintain a desired level of total deposits. In addition, Home Federal Savings and Loan invests excess funds in short-term interest-earning accounts and other assets, which provide liquidity to meet lending requirements. Home Federal Savings and Loan's deposit accounts with the Federal Home Loan Bank of Dallas amounted to \$2,841,121 at September 30, 2005.

A significant portion of Home Federal Savings and Loan's liquidity consists of securities classified as available-for-sale and cash and cash equivalents. Home Federal Savings and Loan's primary sources of cash are net income, principal repayments on loans and mortgage-backed securities and increases in deposit accounts. If Home Federal Savings and Loan requires funds beyond its ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Dallas which provide an additional source of funds. At September 30, 2005, Home Federal Savings and Loan had \$7.6 million in advances from the Federal Home Loan Bank of Dallas.

At September 30, 2005, Home Federal Savings and Loan had outstanding loan commitments of \$2.8 million to originate loans. At September 30, 2005,

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certificates of deposit scheduled to mature in less than one year, totaled \$29.7 million.

Based on prior experience, management believes that a significant portion of such deposits will remain with us, although there can be no assurance that this will be the case. In addition, the cost of such deposits could be significantly higher upon renewal, in a rising interest rate environment. Home Federal Savings and Loan intends to utilize its high levels of liquidity to fund its lending activities. If additional funds are required to fund lending activities, Home Federal Savings and Loan intends to sell its securities classified as available-for-sale as needed.

Home Federal Savings and Loan is required to maintain regulatory capital sufficient to meet tangible, core and risk-based capital ratios of at least 1.5%, 3.0% and 8.0%, respectively. At September 30, 2005, Home Federal Savings and Loan exceeded each of its capital requirements with ratios of 24.34%, 24.34% and 93.71%, respectively.

In connection with the Association's reorganization to the mutual holding company form of organization, Home Federal Bancorp, Inc., the parent holding company of the Association, sold 1,423,583 shares of its common stock in a subscription and community offering, which was completed on January 18, 2005 at a price of \$10.00 per share. This includes 113,887 shares acquired by the Association's Employee Stock Ownership Plan. The Company has invested 50% of the net proceeds from the reorganization in the Association.

Off-Balance Sheet Arrangements

At September 30, 2005, the Association did not have any off-balance sheet arrangements, as defined by Securities and Exchange Commission rules.

Impact of Inflation and Changing Prices

The financial statements and related financial data presented herein have been prepared in accordance with instructions to Form 10-QSB, which require the measurement of financial position and operating

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MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (Continued)

results in terms of historical dollars, without considering changes in relative purchasing power over time due to inflation.

Unlike most industrial companies, virtually all of the Association's assets and liabilities are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than does the effect of inflation.

Forward-Looking Statements

This Form 10-QSB contains certain forward-looking statements and information relating to the Association that are based on the beliefs of management as well as assumptions made by and information currently available to management. In addition, in those and other portions of this document, the words "anticipate," "believe," "estimate," "except," "intend," "should" and similar

expressions, or the negative thereof, as they relate to the Association or the Association's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Association with respect to future looking events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary from those described herein as anticipated, believed, estimated, expected or intended. The Association does not intend to update these forward-looking statements.

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ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and our principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the applicable time periods specified by the Securities and Exchange Commission's rules and forms. There has been no change in the Association's internal control over financial reporting during the Association's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Association's internal control over financial reporting.

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PART II

ITEM 1. LEGAL PROCEEDINGS

The Association is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business, which involve amounts in the aggregate believed by management to be immaterial to the financial condition of the Association.

ITEM 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On August 10, 2005, the Company held a Special Meeting of Shareholders to obtain approval for two proxy proposals submitted on behalf of the Company's Board of Directors. Shareholders of record as of June 20, 2005, received proxy materials and were considered eligible to vote on these proposals. The following is a brief summary of each proposal and the result of the vote.

	For -----	Against -----	Abstain -----
1. To adopt the 2005 Stock Option Plan	2,876,200	201,455	6,600
2. To adopt the 2005 Recognition and Retention Plan and Trust Agreement	2,875,700	201,955	6,600

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ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following Exhibits are filed as part of this report:

No. -----	Description -----
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.0	Certification Pursuant to 18 U.S.C Section 1350

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 14, 2005

By: /s/ Daniel R. Herndon

Daniel R. Herndon
President and Chief Executive Officer

Date: November 14, 2005

By: /s/ Clyde D. Patterson

Clyde D. Patterson
Executive Vice President
(principal financial officer)

