

HomeTrust Bancshares, Inc.
Form 10-Q
May 08, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

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

For the transition period from _____ to _____

Commission file number: 001-35593

HOMETRUST BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation of organization)

45-5055422

(IRS Employer Identification No.)

10 Woodfin Street, Asheville, North Carolina 28801

(Address of principal executive offices; Zip Code)

(828) 259-3939

(Registrant's telephone number, including area code)

None

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Exchange Act 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 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

There were 20,234,574 shares of common stock, par value of \$.01 per share, issued and outstanding as of May 6, 2015.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

(Dollars in thousands, except per share data)

	(Unaudited)	
	March 31, 2015	June 30, 2014
Assets		
Cash	\$40,988	\$19,801
Interest-bearing deposits	253,671	26,029
Cash and cash equivalents	294,659	45,830
Certificates of deposit in other banks	204,596	163,780
Securities available for sale, at fair value	230,512	168,749
Other investments, at cost	19,142	3,697
Loans held for sale	2,225	2,537
Total loans, net of deferred loan fees and discount	1,641,057	1,496,528
Allowance for loan losses	(22,681)	(23,429)
Net loans	1,618,376	1,473,099
Premises and equipment, net	58,943	47,411
Accrued interest receivable	7,249	6,787
Real estate owned (REO)	8,558	15,725
Deferred income taxes	57,649	58,381
Bank owned life insurance	77,050	71,285
Goodwill	13,768	9,815
Core deposit intangibles	10,850	4,014
Other assets	5,060	3,344
Total Assets	\$2,608,637	\$2,074,454
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	\$1,913,773	\$1,583,047
Other borrowings	250,000	50,000
Capital lease obligations	1,984	1,998
Other liabilities	60,945	62,258
Total liabilities	2,226,702	1,697,303
Stockholders' Equity		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$0.01 par value, 60,000,000 shares authorized, 20,335,781 shares issued and outstanding at March 31, 2015; 20,632,008 at June 30, 2014	203	207
Additional paid in capital	223,234	225,889
Retained earnings	165,799	160,332
Unearned Employee Stock Ownership Plan (ESOP) shares	(9,125)	(9,522)
Accumulated other comprehensive income	1,824	245
Total stockholders' equity	381,935	377,151
Total Liabilities and Stockholders' Equity	\$2,608,637	\$2,074,454

The accompanying notes are an integral part of these consolidated financial statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Income

(Dollars in thousands, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Interest and Dividend Income				
Loans	\$19,575	\$13,557	\$57,954	\$42,010
Securities available for sale	919	376	2,608	1,097
Certificates of deposit and other interest-bearing deposits	781	439	1,846	1,346
Other investments	261	20	551	47
Total interest and dividend income	21,536	14,392	62,959	44,500
Interest Expense				
Deposits	1,220	1,247	3,710	4,172
Other borrowings	128	1	271	5
Total interest expense	1,348	1,248	3,981	4,177
Net Interest Income	20,188	13,144	58,978	40,323
Recovery of Loan Losses	—	(1,800)	(250)	(4,800)
Net Interest Income after Recovery for Loan Losses	20,188	14,944	59,228	45,123
Noninterest Income				
Service charges on deposit accounts	1,732	620	4,111	1,954
Mortgage banking income and fees	672	632	2,232	2,417
Gain from sales of securities available for sale	—	10	61	10
Other, net	909	763	2,497	2,161
Total noninterest income	3,313	2,025	8,901	6,542
Noninterest Expense				
Salaries and employee benefits	10,629	7,496	30,506	22,192
Net occupancy expense	2,381	1,284	6,266	3,746
Marketing and advertising	461	336	1,472	1,028
Telephone, postage, and supplies	912	403	2,348	1,269
Deposit insurance premiums	608	321	1,453	989
Computer services	1,763	828	4,366	2,652
Loss (gain) on sale and impairment of REO	(32)	468	(268)	673
REO expense	390	333	1,178	1,154
Core deposit intangible amortization	842	31	1,740	95
Merger-related expenses	1,686	449	5,417	711
Other	2,385	1,447	6,179	4,109
Total other expense	22,025	13,396	60,657	38,618
Income Before Income Taxes	1,476	3,573	7,472	13,047
Income Tax Expense	314	967	2,005	4,238
Net Income	\$1,162	\$2,606	\$5,467	\$8,809
Per Share Data:				
Net income per common share:				
Basic	\$0.06	\$0.14	\$0.28	\$0.46
Diluted	\$0.06	\$0.14	\$0.28	\$0.46
Average shares outstanding:				
Basic	19,113,387	18,302,672	19,146,025	18,724,242
Diluted	19,192,702	18,378,159	19,232,791	18,815,416

The accompanying notes are an integral part of these consolidated financial statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(Dollars in thousands)

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Net Income	\$1,162	\$2,606	\$5,467	\$8,809
Other Comprehensive Income (Loss)				
Unrealized holding gains (losses) on securities available for sale				
Gains (losses) arising during the period	1,216	434	2,336	(47)
Deferred income tax (expense) benefit	(413)	(148)	(794)	16)
Reclassification of securities gains recognized in net income	—	10	57	—
Deferred income tax expense	—	(3)	(20)	—)
Total other comprehensive income (loss)	\$803	\$293	\$1,579	\$(31)
Comprehensive Income	\$1,965	\$2,899	\$7,046	\$8,778

The accompanying notes are an integral part of these consolidated financial statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
 Consolidated Statements of Changes in Stockholders' Equity
 (Dollars in thousands)

	Common Stock	Additional Paid In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at June 30, 2013	\$208	\$227,397	\$149,990	\$(10,051)	\$(29)	\$367,515
Net income	—	—	8,809	—	—	8,809
Stock repurchased	(12)	(20,483)	—	—	—	(20,495)
Stock option expense	—	971	—	—	—	971
Restricted stock expense	—	1,027	—	—	—	1,027
ESOP shares allocated	—	243	—	397	—	640
Other comprehensive loss	—	—	—	—	(31)	(31)
Balance at March 31, 2014	\$196	\$209,155	\$158,799	\$(9,654)	\$(60)	\$358,436
Balance at June 30, 2014	\$207	\$225,889	\$160,332	\$(9,522)	\$245	\$377,151
Net income	—	—	5,467	—	—	5,467
Stock repurchased	(4)	(5,222)	—	—	—	(5,226)
Exercised stock options	—	259	—	—	—	259
Stock option expense	—	1,010	—	—	—	1,010
Restricted stock expense	—	1,078	—	—	—	1,078
ESOP shares allocated	—	220	—	397	—	617
Other comprehensive gain	—	—	—	—	1,579	1,579
Balance at March 31, 2015	\$203	\$223,234	\$165,799	\$(9,125)	\$1,824	\$381,935

The accompanying notes are an integral part of these consolidated financial statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (continued)

(Dollars in thousands)

	Nine Months Ended March 31,	
	2015	2014
Operating Activities:		
Net income	\$5,467	\$8,809
Adjustments to reconcile net income to net cash provided by operating activities:		
Recovery of loan losses	(250)	(4,800)
Depreciation	2,707	1,675
Deferred income tax expense	1,841	4,226
Net amortization and accretion	(3,189)	(701)
Loss (gain) on sale and impairment of REO	(268)	673
Gain on sale of loans held for sale	(1,232)	(1,276)
Origination of loans held for sale	(47,381)	(55,788)
Proceeds from sales of loans held for sale	48,925	69,898
Gain on sale of securities available for sale	(61)	(10)
Decrease in deferred loan fees, net	(915)	(260)
Increase in accrued interest receivable and other assets	(2,754)	(1,699)
Amortization of core deposit intangibles	1,740	95
ESOP compensation expense	617	640
Restricted stock and stock option expense	2,088	1,998
Decrease in other liabilities	(6,800)	(2,474)
Net cash provided by operating activities	535	21,006
Investing Activities:		
Purchase of securities available for sale	(87,955)	(67,271)
Proceeds from maturities of securities available for sale	21,885	27,225
Proceeds from sale of securities available for sale	10,387	2,086
Purchase of certificates of deposit in other banks	(80,591)	(37,266)
Maturities of certificates of deposit in other banks	39,775	14,184
Principal repayments of mortgage-backed securities	20,017	7,015
Net redemptions (purchases) of other investments	(14,654)	764
Net decrease (increase) in loans	(54,796)	36,559
Purchase of premises and equipment	(5,111)	(1,174)
Capital improvements to REO	(93)	(126)
Proceeds from sale of REO	8,564	8,214
Acquisition of BankGreenville Financial Corporation, net of cash paid	—	1,475
Acquisition of Bank of Commerce, net of cash received	(7,759)	—
Acquisition of Bank of America branches, net of cash paid	310,868	—
Net cash provided by (used in) investing activities	160,537	(8,315)
Financing Activities:		
Net decrease in deposits	(92,090)	(31,954)
Net increase (decrease) in other borrowings	184,828	(2,527)
Common stock repurchased	(5,226)	(20,495)
Exercised stock options	259	—
Decrease in capital lease obligations	(14)	(13)
Net cash provided by (used in) financing activities	87,757	(54,989)
Net Increase (Decrease) in Cash and Cash Equivalents	248,829	(42,298)

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Cash and Cash Equivalents at Beginning of Period	45,830	125,713
Cash and Cash Equivalents at End of Period	\$294,659	\$83,415

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Supplemental Disclosures:	Nine Months Ended	
	2015	2014
Cash paid during the period for:		
Interest	\$3,589	\$4,047
Income taxes	222	113
Noncash transactions:		
Unrealized gain (loss) in value of securities available for sale, net of income taxes	1,579	(31)
Transfers of loans to REO	2,171	4,166
Transfers of loans to held for sale	—	4,340
Loans originated to finance the sale of REO	460	94
Business Combinations:		
Assets acquired	464,179	103,905
Liabilities assumed	444,374	94,352
Net assets acquired	19,805	9,553
The accompanying notes are an integral part of these consolidated financial statements.		

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

1. Summary of Significant Accounting Policies

The consolidated financial statements presented in this report include the accounts of HomeTrust Bancshares, Inc., a Maryland corporation ("HomeTrust"), and its wholly-owned subsidiary, HomeTrust Bank, National Association (the "Bank"). As used throughout this report, the term the "Company" refers to HomeTrust and the Bank, its consolidated subsidiary, unless the context otherwise requires.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all the information and footnotes required by US GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. It is recommended that these unaudited interim consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2014 ("2014 Form 10-K") filed with the SEC on September 15, 2014. The results of operations for the three and nine months ended March 31, 2015 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2015. Certain prior year amounts have been reclassified to conform to current fiscal year presentation. The reclassifications had no impact on previously reported net income or equity.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Various elements of the Company's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, management has identified several accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's financial statements. These policies relate to (i) the determination of the provision and the allowance for loan losses, (ii) business combinations, (iii) the valuation of REO, (iv) the calculation of post-retirement plan expenses and benefits, and (v) the valuation of or recognition of deferred tax assets and liabilities. These policies and judgments, estimates and assumptions are described in greater detail in subsequent notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations (Critical Accounting Policies) in our 2014 Form 10-K. Management believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate based on the factual circumstances at the time. However, given the sensitivity of the financial statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in the Company's results of operations or financial condition. Further, subsequent changes in economic or market conditions could have a material impact on these estimates and the Company's financial condition and operating results in future periods.

2. Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-04, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure". The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded

investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective, for the Company, for interim and annual reporting periods beginning after June 30, 2015. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU No. 2014-14, "Receivables-Troubled Debt Restructuring by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure". The amendments in this ASU require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim of the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this ASU are effective, for the Company, for annual periods, and interim periods within those annual periods, beginning after June 30, 2015. The adoption of ASU No. 2014-14 is not expected to have a material impact on the Company's Consolidated Financial Statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement-Extraordinary and Unusual Items (Subtopic 225-20)". The ASU eliminates the need to separately classify, present, and disclose extraordinary events. The disclosure of events or transactions that are unusual or infrequent in nature will be included in other guidance. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU No. 2015-1 is not expected to have a material impact on the Company's consolidated financial statements.

3. Business Combinations

On November 14, 2014, the Bank completed its acquisition of ten branch banking operations in Southwest Virginia and Eden, North Carolina from Bank of America Corporation (the "Branch Acquisition"). Under the terms of the agreement, the Bank paid a deposit premium of \$9,805 equal to 2.86% of the average daily deposits for the 30 calendar day period prior to the acquisition date. In addition, the Bank acquired approximately \$1,045 in loans and all related premises and equipment valued at \$8,993.

The Branch Acquisition was accounted for as a business combination using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at acquisition date fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available.

The following table presents the consideration paid by the Bank in the acquisition of these Bank of America branches and the assets acquired and liabilities assumed as of November 14, 2014:

	As Recorded By Bank of America	Fair Value and Other Merger Related Adjustments	As Recorded by the Company
Consideration Paid			
Cash paid as deposit premium			\$9,805
Total consideration			\$9,805
Assets			
Cash and cash equivalents	\$320,673	\$—	\$320,673
Loans, net of allowance	1,045	—	1,045
Premises and equipment, net	6,303	2,690	8,993
Accrued interest receivable	3	—	3
Deferred income taxes	—	353	353
Core deposit intangibles	—	8,156	8,156
Total assets acquired	\$328,024	\$11,199	\$339,223
Liabilities			
Deposits	\$328,007	\$1,394	\$329,401
Other liabilities	17	—	17
Total liabilities assumed	\$328,024	\$1,394	\$329,418
Net identifiable assets acquired over liabilities assumed	\$—	\$9,805	\$9,805
Goodwill			\$—

On July 31, 2014, the Bank completed its acquisition of Bank of Commerce in accordance with the terms of the Agreement and Plan of Share Exchange dated March 3, 2014. Under the terms of the agreement, Bank of Commerce shareholders received \$6.25 per share in cash consideration, representing approximately \$10,000 of aggregate deal consideration. In addition, all \$3,200 of Bank of Commerce's preferred stock was redeemed.

Bank of Commerce was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at acquisition date fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. The excess of the merger consideration over the

fair value of Bank of Commerce's net assets was allocated to goodwill. The book value as of July 31, 2014, of assets acquired was \$122,530 and liabilities assumed was \$114,672. The Company recorded \$3,953 in goodwill related to the acquisition.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

The following table presents the consideration paid by the Bank in the acquisition of Bank of Commerce and the assets acquired and liabilities assumed as of July 31, 2014:

	As Recorded By Bank of Commerce	Fair Value and Other Merger Related Adjustments	As Recorded by the Company
Consideration Paid			
Cash paid			\$10,000
Total consideration			\$10,000
Assets			
Cash and cash equivalents	\$2,241	\$—	\$2,241
Securities available for sale	24,228	—	24,228
Loans, net of allowance	89,339	(3,131) 86,208
Federal Home Loan Bank ("FHLB") Stock	791	—	791
REO	224	—	224
Premises and equipment, net	135	—	135
Accrued interest receivable	355	(100) 255
Deferred income taxes	286	1,064	1,350
Core deposit intangibles	—	640	640
Other assets	4,931	—	4,931
Total assets acquired	\$122,530	\$(1,527) \$121,003
Liabilities			
Deposits	\$93,303	\$112	\$93,415
Other borrowings	15,000	172	15,172
Other liabilities	6,369	—	6,369
Total liabilities assumed	\$		