HomeTrust Bancshares, Inc.
Form 10-K
September 28, 2012

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

FORM 10-K

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

For the Fiscal Year Ended June 30, 2012

OR

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

For the Transition Period From __________________ To __________________

Commission File Number 1-35593

HOMETRUST BANCSHARES, INC.
(Exact Name of Registrant as Specified in its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	45-5055422 (I.R.S. Employer Identification No.)
10 Woodfin Street, Asheville, North Carolina (Address of Principal Executive Offices)	28801 (Zip Code)

Registrant’s Telephone Number, Including Area Code: (828) 259-3939

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act:

Preferred Share Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ].

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the 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 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 [ ]
Non-Accelerated Filer [X] (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 [X].

As of September 21, 2012, there were issued and outstanding 21,160,000 shares of the Registrant's Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Registrant as of September 21, 2012, computed by reference to the closing price of such stock as of September 21, 2012, was $267.4 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the Registrant that such person is an affiliate of the Registrant.)

HOMETRUST BANCSHARES, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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Forward-Looking Statements

Certain matters in this Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of the words “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” “intends,” “plans,” “targets,” “potentially,” “probably,” “projects,” “outlook” or similar expressions or future or co verbs such as “may,” “will,” “should,” “would” and “could.” Forward-looking statements include statements with respect to o beliefs, plans, objectives, goals, expectations, assumptions and statements about future economic performance and projections of financial items. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated or implied by our forward-looking statements, including, but not limited to: 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; decreases in the secondary market for the sale of loans that we originate; results of examinations of us by the Office of the Comptroller of the Currency (“OCC”) 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; legislative or regulatory changes that adversely affect our business including the effect of Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III; our ability to attract and retain deposits; increases in premiums for deposit insurance; management’s assumptions in determining the adequacy of the allowance for loan losses; our ability to control operating costs and expenses, especially new costs associated with our operation as a public company; 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; 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; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; statements with respect to our intentions regarding disclosure and other changes resulting from the Jumpstart Our Business Strategies Act of 2012 (“JOBS Act”); changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services; and the other risks detailed from time to time in our filings with the Securities and Exchange Commission, including this report on Form 10-K.

Any of the forward-looking statements are based upon management’s beliefs and assumptions at the time they are made. We undertake no obligation to publicly update or revise any forward-looking statements included in this report or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur and you should not put undue reliance on any forward-looking statements.

As used throughout this report, the terms “we”, “our”, “us”, “HomeTrust Bancshares” or the “Company” refer to HomeTr Bancshares, Inc. and its consolidated subsidiaries, including HomeTrust Bank (“HomeTrust”) unless the context indicates otherwise.

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PART I

Item 1. Business

General

HomeTrust Bancshares, Inc., a Maryland corporation, was formed for the purpose of becoming the bank holding company for HomeTrust Bank in connection with HomeTrust Bank's conversion from mutual to stock form, which was completed on July 10, 2012 (the "Conversion"). In connection with the Conversion, HomeTrust Bancshares issued an aggregate of 21,160,000 shares of common stock at an offering price of $10.00 per share for gross proceeds of $211.6 million. HomeTrust Bancshares received $208.4 million in net proceeds from the stock offering of which $104.2 million or 50% of the net proceeds were contributed to HomeTrust Bank upon completion of the Conversion. HomeTrust Bancshares' business activities generally are limited to passive investment activities and oversight of its investment in HomeTrust Bank. Since the Conversion was not completed as of June 30, 2012, the information set forth in this report, including consolidated financial statements and related data, relates primarily to HomeTrust Bank. HomeTrust Bank is the largest thrift headquartered in North Carolina and the tenth largest banking institution headquartered in North Carolina based on asset size. Our headquarters is located in Asheville, North Carolina.

HomeTrust Bancshares is a bank holding company and is subject to regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve"). HomeTrust Bank is regulated by the OCC, its primary federal regulator, and by the Federal Deposit Insurance Corporation ("FDIC"), the insurer of its deposits. HomeTrust Bank is a member of the Federal Home Loan Bank of Atlanta ("FHLB" or "FHLB of Atlanta"), which is one of the 12 regional banks in the Federal Home Loan Bank System ("FHLB System"). At June 30, 2012, HomeTrust Bank had total assets of $1.7 billion, total deposits of $1.5 billion and total stockholders' equity of $172.5 million.

HomeTrust Bank was originally chartered in 1926, in Clyde, North Carolina, as Clyde Building & Loan Association. We expanded our product offerings over the years and changed our name to Clyde Savings Bank. As we continued to grow beyond a single market area, on July 22, 2003, we rebranded by changing our name to HomeTrust Bank.

In 1996, HomeTrust Bank's board of directors and executive management implemented their vision of a new banking partnership which is branded as the HomeTrust Banking Partnership. Our mission has been to create a unique partnership, where hometown community banks could combine their financial resources while retaining their separate identities. Together, we can better respond to the continuous changes in the banking industry and offer all the products, services and technology needed to be relevant and competitive in all of our communities- while better preserving our hometown values and culture focused on building caring relationships with our employees, customers and communities while delivering on our brand promise that "It's Just Better Here."

Between fiscal years 1996 and 2011, five hometown mutual saving banks joined the HomeTrust Banking Partnership. In addition, in 2007 we formed a de novo branch, known as the Rutherford County Bank, as another partner. Each now operates as a banking division of HomeTrust Bank under its hometown name, brand and local management, board of directors and employees. HomeTrust Bank and its banking divisions are set forth below:

- HomeTrust Bank, since 1926, Asheville, North Carolina
- Tryon Federal Bank, since 1935, Tryon, North Carolina
- Shelby Savings Bank, since 1905, Shelby, North Carolina

- Home Savings Bank, since 1909, Eden, North Carolina
- Industrial Federal Bank, since 1929, Lexington, North Carolina
- Cherryville Federal Bank, since 1912, Cherryville, North Carolina
- Rutherford County Bank, since 2007, Forest City, North Carolina

Each banking division, which we sometimes refer to as a "partner bank" in this report, also has at least one representative from its board of directors serving on the board of directors of HomeTrust Bank and HomeTrust Bancshares.

Brought together by shared values, trust and mutual respect, these partner banks have combined their resources to build a technology and operations center, develop new products and services for retail and business customers and achieve organic growth by attracting new loan customers and related core deposits in the communities that they serve. Through the HomeTrust Banking Partnership, we created a more efficient operating structure with greater capabilities to compete with larger, out of town competitors.

We currently have 20 banking offices serving nine counties in Western North Carolina and the "Piedmont" region of North Carolina. Although we intend to expand primarily through organic growth, we continue to explore opportunities to expand our unique HomeTrust Banking Partnership through the acquisition of other financial institutions and/or bank branches. Our goal is to continue to enhance our franchise value and earnings through strategic, planned growth in our banking operations, while maintaining the community-focused, relationship style of exceptional customer service that has differentiated our brand and characterized our success to date.

Our principal business consists of attracting deposits from the general public and investing those funds, along with borrowed funds, in loans secured primarily by first and second mortgages on one- to four-family residences including home equity loans and construction and land/lot loans, commercial real estate loans, construction and development loans, and municipal leases. Municipal leases are secured primarily by a ground lease for a firehouse or an equipment lease for fire trucks and firefighting equipment to fire departments located throughout North and South Carolina. We also purchase investment securities consisting primarily of mortgage-backed securities issued by United States Government agencies and government-sponsored enterprises.

We offer a variety of deposit accounts for individuals, businesses and nonprofit organizations. Deposits are our primary source of funds for our lending and investing activities.

Market Areas

Through our seven banking divisions we operate in nine counties in North Carolina, three of which, Buncombe, Haywood and Henderson Counties, are located in the Asheville, North Carolina, metropolitan area. Asheville is the county seat of Buncombe County, North Carolina and we consider Buncombe, Haywood, Henderson, Polk, Rutherford, western Gaston, and Cleveland Counties in Western North Carolina and Davidson and Rockingham counties in the Piedmont region of North Carolina, as well as the surrounding areas, to be our primary market areas. Asheville is situated in the Blue Ridge Mountains at the confluence of the Swannanoa River and French Broad River and is known for its natural beauty and scenic surroundings. In addition, the Asheville metropolitan area has a vibrant cultural and arts community that parallels that of many larger cities in the United States and is home to a number of historical attractions, the most prominent of which is the Biltmore Estate, a historic mansion with gardens and a winery that draws approximately 900,000 tourists each year. Due to its scenic location and diverse cultural and historical offerings, the Asheville metropolitan area has become a popular destination for tourists, which has historically positively impacted our local economy. In addition, affordable housing prices compared to many bigger cities, combined with the region's favorable climate, scenic surroundings and cultural attractions, have also made the Asheville metropolitan area an increasingly attractive destination for retirees seeking to relocate from other parts of the United States.

The Asheville metropolitan area benefits from a diverse economy, and there is no single employer or industry upon which a significant number of our customers are dependent. In addition to the tourism industry, Western North Carolina is also home to a number of manufacturing and technology companies, including Wilsonart International, Inc., Eaton Corporation, Thermo Fischer Scientific and Arvato Digital Services. Furthermore, the region is home to a number of educational organizations, private colleges and large public universities, such as the University of North Carolina at Asheville. Mission Health System, a leading employer in the Asheville metropolitan area, has also been nationally recognized as a top hospital network for cardiovascular and orthopedic medicine.

The Asheville Economic Development Coalition and Chamber of Commerce are actively pursuing initiatives to attract and expand employment opportunities and economic growth to the area. On June 30, 2011, in conjunction with the Economic Development Coalition for Asheville-Buncombe County, Canadian-based Linamar

Corporation announced its newest manufacturing facility will be located in Asheville, with the creation of 400 jobs and an investment of $125 million by 2020. The Asheville community was selected following an exhaustive search of major southeastern markets, which evaluated skilled workforce availability, manufacturing specialization, and proximity to Linamar's major customers. Linamar sought a community which could accommodate its continued plan of expansion into the North American marketplace. The long history of metals machining in Western North Carolina coupled with the presence of a significant customer base played a key role in the site selection process. In addition, Thermo Fischer Scientific recently expanded their Asheville operations to create over 100 additional jobs.

Not unlike many areas across the country, the recent economic recession has caused the Asheville metropolitan area to experience a decline in tourism and a reduced influx of retirees from other parts of the country. In addition, the recent economic recession has also resulted in increased job losses in the manufacturing services sector. Over the course of the past year, the tourism industry in the Asheville metropolitan area has largely recovered, which has positively impacted the economy in a number of our local markets, such as Buncombe and Henderson Counties, that directly benefit from this industry. However, the Asheville metropolitan area has continued to experience a reduced number of relocating retirees and a decline in the manufacturing industry. Based on information from the North Carolina Association of Realtors, the average home price in the Asheville metropolitan area in 2011 was $216,000, an 8% decrease from 2010 and an 11% decrease from 2009. Existing home sales in the Asheville metropolitan area in 2011 increased by 3.3% and 2.3% as compared to 2010 and 2009, respectively.

Our Industrial Federal Bank division, located in Davidson County and our Home Savings Bank division, with banking offices in the cities of Eden and Reidsville, in Rockingham County, operate in the Piedmont region of our North Carolina market area.

Davidson County has provided a strong foundation for industry in the area. After beginning with a focus on furniture and textiles, the area's industries now include companies such as PPG Industries, Inc. and Kimberly-Clark Corporation. Davidson County is just a few hours from the beaches of both North and South Carolina and less than two hours from the Blue Ridge Parkway. Also, within roughly an hour's drive from Davidson County are over two dozen colleges and universities, including North Carolina State, the University of North Carolina, Wake Forest University, Duke University, and UNC-Charlotte. Closer to home, the Yadkin River borders the county to the west with High Rock Lake serving as one of its primary reservoirs and one of the area's best recreational facilities.

Rockingham County is located in the northern part of the Piedmont region, just south of the Virginia border. Covering over 500 square miles, it is approximately a one-hour drive to the mountains in the west or a three-hour drive to North Carolina's beaches in the east. Eden and Reidsville have a combined population of just over 30,000 persons. Reidsville is rapidly growing with a 411-acre technology and industrial park that is home to two international companies: AFG Wipes (based in Israel) and Alcan Packaging (based in Canada). Businesses are attracted to the area with its low cost of living, construction costs over 30% less than the national average and state tax credits that include a 25% credit for research and development, as well as its close proximity to Piedmont Triad International Airport and Raleigh-Durham International Airport.

There are indications over the past year that the U.S. job market, including the job market in our market areas, is improving. According to the Department of Labor, the average unemployment rate in the Asheville metropolitan area in 2011 was 8.1%, a decrease from 8.6% in 2010, a decrease from 8.8% in 2009. During 2011, the average unemployment rate for Davidson and Rockingham counties was 11.3% as compared to 12.7% and 12.9% in 2010 and 2009, respectively. In June 2012, the unemployment rate in the Asheville metropolitan area and the average unemployment rate in Davidson and Rockingham counties was 7.9% and 10.5% and 11.1%, respectively. In June 2012, the national and state unemployment rates were 8.4% and 9.9%, respectively. The national unemployment rate was 9.3% and 9.4%, and the state unemployment rate was 10.9% and 9.8% as of June 2011 and 2010, respectively.

Through the HomeTrust Banking Partnership, we have built a strong foundation in the communities we serve. The directors of each partner bank work with their management team and employees to support local nonprofit and community organizations. Each partner bank helps provide critical services to meet the financial needs of its customers and improve the quality of life for individuals and businesses in its community. Initiatives supporting the core business include affordable housing, education and financial education and building healthy communities. We support these initiatives through both financial and people resources in all of our communities.

Collectively, partner bank employees volunteer thousands of hours annually in their local communities; from helping to build homes to teaching grade school youth how to start healthy savings habits, partner bank employees are making a positive difference in the lives of others every day.

Competition

We face strong competition in originating real estate and other loans and in attracting deposits. Competition in originating real estate loans comes primarily from other savings institutions, commercial banks, credit unions, life insurance companies and mortgage bankers. Other savings institutions, commercial banks, credit unions and finance companies provide vigorous competition in consumer lending. Commercial and industrial loan competition is primarily from local commercial banks. We believe that we compete effectively because we consistently deliver high-quality, personal service to our customers that results in a high level of customer satisfaction. We are currently in the process of adding significant technology resources to expand our capabilities and increase our efficiencies in residential lending.

We attract our deposits through our branch office system. Competition for deposits is principally from other savings institutions, commercial banks and credit unions located in the same communities, as well as mutual funds and other alternative investments. We believe that we compete for deposits by offering superior service and a variety of deposit accounts at competitive rates. We also have a highly competitive suite of cash management services, technology solutions, and internal support expertise specific to the needs of small to mid-sized commercial business customers. Based on the most recent branch deposit data provided by the FDIC, HomeTrust Bank was third in share of deposits in the Asheville, North Carolina Metropolitan Statistical Area, fourth in deposit share in the nine counties in which we operate and had a deposit market share of 0.45% of all banks and thrifts in North Carolina.

Overall, we believe that we distinguish ourselves from larger, national banks operating in our market areas by offering quicker decision-making in the delivery of our products and services and competitive customer-driven products with excellent service and responsiveness, and by providing customer access to our senior managers. In addition, our larger capital base and product mix enable us to compete effectively against smaller banks. Our lending staff is experienced and knowledgeable about local lending in our markets, enabling us to build on the relationship-style banking that is our hallmark.

In addition, the way we create differentiation from our competition to fuel organic growth is by focusing on “HOW” we deliver our products and services. When we promise our customers that ‘It’s Just Better Here’, more than anything, it refers to the care and responsiveness our employees provide to each and every customer. Teamwork is key to our success. Many of our employees have been a part of the HomeTrust Banking Partnership for decades, while just as many employees have more recently brought their industry knowledge and expertise to us in recent years because of their desire to be a part of a high performing team that works well together to make a difference for customers. Our culture includes relationship training and coaching with respect to banking and adding value to our customers. This “culture model” includes four key principles:

- making a difference for customers every day is fun and rewarding;
- success is built on relationships;
- we must continually add value to relationships with our customers and with each other; and
- we need to grow ourselves and our ability to make a difference and add value to relationships.

In implementing these principles, the directors, management team and employees of each partner bank work to support local nonprofit and community organizations and strive to provide critical services to meet the financial needs of its customers and improve the quality of life for individuals and businesses in our communities. We support affordable housing and education initiatives to help build healthy communities where our partner banks do business through both financial assistance and employees volunteering thousands of hours annually in their local communities. We believe the opportunity to stay close to our customers gives us a unique position in the banking industry as compared to our larger competitors and we are committed to continuing to build strong relationships with our employees, customers and communities for generations to come.

Lending Activities

The following table presents information concerning the composition of our loan portfolio in dollar amounts and in percentages (before deductions for deferred fees and discounts and allowances for losses) at the dates indicated.

	At June 30,								
	2012		2011		2010		2009		200
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
	(Dollars in thousands)								
Retail Consumer loans:									
One- to four-family	$620,486	50.36 %	$610,528	45.88 %	$509,464	39.50 %	$407,310	33.32 %	$411,833
Home equity	143,052	11.61	156,720	11.78	157,050	12.18	151,925	12.43	130,652
Construction and land/lots	53,572	4.35	68,199	5.12	79,007	6.13	79,945	6.54	90,911
Consumer	3,819	0.31	4,265	0.32	3,769	0.29	2,719	0.22	2,892
Total retail consumer loans	820,929	66.63	839,712	63.10	749,290	58.09	641,899	52.51	636,288
Commercial loans:									
Commercial real estate	238,644	19.37	269,449	20.24	270,272	20.95	277,476	22.70	243,768
Construction and development	42,362	3.44	79,458	5.97	127,054	9.85	164,797	13.48	179,344
Commercial and industrial	14,578	1.18	19,250	1.45	20,117	1.56	24,157	1.98	23,159
Municipal leases	115,516	9.38	122,921	9.24	123,099	9.54	114,041	9.33	109,912
Total commercial loans	411,100	33.37	491,078	36.90	540,542	41.91	580,471	47.49	556,183
Total loans	1,232,029	100.00 %	1,330,790	100.00 %	1,289,832	100.00 %	1,222,370	100.00 %	1,192,471
Less:									
Deferred fees and discounts	(2,984)		(4,273)		(4,509)		(2,920)		(3,359)
Allowance for losses	(35,100)		(50,140)		(41,713)		(24,996)		(13,623)
Total loans receivable, net	$1,193,945		$1,276,377		$1,243,610		$1,194,454		$1,175,489

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The following table shows the composition of our loan portfolio in dollar amounts and in percentages (before deductions for deferred fees and discounts and allowances for loan losses) at the dates indicated.

	At June 30, 2012		At June 30, 2011		At June 30, 2010	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Fixed-rate loans:						
Retail consumer loans:						
One- to four-family	$329,171	26.72 %	$309,602	23.26 %	$240,991	18.68 %
Home equity	201	0.02	100	0.01	77	0.01
Construction and land/lots	24,652	2.00	29,360	2.21	32,165	2.49
Consumer	3,797	0.31	4,207	0.32	3,703	0.29
Commercial loans:						
Commercial real estate	157,209	12.76	164,490	12.36	145,000	11.24
Construction and development	21,566	1.75	29,845	2.24	34,762	2.70
Commercial and industrial	8,660	0.70	11,905	0.89	9,501	0.74
Municipal leases	115,516	9.38	122,921	9.24	123,099	9.54
Total fixed-rate loans	660,772	53.63	672,430	50.53	589,298	45.69
Adjustable-rate loans:						
Retail consumer loans:						
One- to four-family	291,315	23.65	300,926	22.61	268,473	20.81
Home equity	142,851	11.59	156,620	11.77	156,973	12.17
Construction and land/lots	28,920	2.35	38,839	2.92	46,842	3.63
Consumer	22	-	58	-	66	0.01
Commercial loans:						
Commercial real estate	81,435	6.61	104,959	7.89	125,272	9.71
Construction and development	20,796	1.69	49,613	3.73	92,292	7.16
Commercial and industrial	5,918	0.48	7,345	0.55	10,616	0.82
Municipal leases	-	-	-	-	-	-
Total adjustable-rate loans	571,257	46.37	658,360	49.47	700,534	54.31
Total loans	1,232,029	100.00 %	1,330,790	100.00 %	1,289,832	100.00 %
Less:						
Deferred fees and discounts	(2,984)		(4,273)		(4,509)	
Allowance for losses	(35,100)		(50,140)		(41,713)	
Total loans receivable, net	$1,193,945		$1,276,377		$1,243,610	

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Loan Maturity. The following table sets forth certain information at June 30, 2012 regarding the dollar amount of loans maturing in our portfolio based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments. Loan balances do not include undisbursed loan proceeds, unearned discounts, unearned income and allowance for loan losses.

	Retail Consumer							
	One- to Four-Family		Home Equity		Construction and land/lots		Consumer	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due During Years Ending June 30,								
2013	$10,574	5.39 %	$487	5.94 %	$ 3,153	4.63 %	$569	3.79 %
2014	8,492	5.93	808	5.50	202	5.21	612	4.47
2015	5,718	5.18	654	5.14	157	6.14	629	4.81
2016 and 2017	16,691	5.66	4,820	4.69	1,057	5.16	1,138	3.75
2018 to 2021	87,587	4.52	38,345	4.65	3,391	5.64	228	3.80
2022 to 2026	99,371	4.57	91,583	4.08	10,852	5.81	72	1.93
2027 and following	392,053	4.92	6,355	4.39	34,760	5.18	571	15.17
Total	$620,486	4.85 %	$143,052	4.29 %	$ 53,572	5.31 %	$3,819	5.72 %

	Commercial Loans							
	Commercial Real Estate		Construction and Development		Commercial and Industrial		Municipal Leases	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due During Years Ending June 30,								
2013	$34,726	6.15 %	$16,705	5.08 %	$ 5,883	5.20 %	$564	7.90 %
2014	28,234	5.56	3,011	5.51	1,583	5.79	2,451	7.14
2015	26,420	5.78	7,042	5.37	2,462	5.63	948	6.75
2016 and 2017	49,385	5.31	7,894	4.75	1,978	5.04	8,464	7.51
2018 to 2021	38,723	5.66	2,456	4.65	1,918	5.26	22,414	7.58
2022 to 2026	34,910	4.62	3,438	5.67	464	4.24	34,093	7.97
2027 and following	26,246	5.30	1,816	6.23	290	5.56	46,582	8.25
Total	$238,644	5.47 %	$42,362	5.17 %	$ 14,578	5.30 %	$115,516	7.95 %

	Total	
	Amount	Weighted

			Average Rate	
	(Dollars in thousands)			
Due During Years Ending June 30,				
2013	$	72,661	5.64	%
2014		45,393	5.70	
2015		44,030	5.63	
2016 and 2017		91,427	5.47	
2018 to 2021		195,062	5.15	
2022 to 2026		274,783	4.90	
2027 and following		508,673	5.27	
Total	$	1,232,029	5.23	%

(1) The weighted average rate of municipal loans is adjusted for a 34% federal tax rate since the interest income from these leases is tax exempt.

The total amount of loans due after June 30, 2013, which have predetermined interest rates is $613.6 million, while the total amount of loans due after such dates which have adjustable interest rates is $545.7 million.

Lending Authority. Residential real estate loans up to $2.5 million may be approved at varying levels by certain officers of HomeTrust Bank. Our Chief Executive Officer, President and Chief Operating Officer and Chief Risk Officer may approve loans up to $2.5 million. Loans outside our general underwriting guidelines generally must be approved by the board of directors, or our Chief Executive Officer, President and Chief Operating Officer, Chief Risk Officer, Assistant Credit Officer, or Credit Risk Manager. Effective September 30, 2010, only the board of directors, Chief Executive Officer, President and Chief Operating Officer, Chief Credit Officer, Assistant Credit Officer, or Credit Risk Manager is authorized to approve a land or lot loan of any amount. Lending authority is also granted to certain other bank officers at lower amounts, generally up to $300,000 in total credit exposure for real estate secured loan relationships, provided the loan has no policy exceptions.

Beginning in fiscal year 2008, we have implemented continuously more stringent underwriting policies and procedures related to residential lending as the economy and housing market continued to deteriorate, which included an increased emphasis on a borrower's ongoing ability to repay a loan by requiring lower debt to income ratios, higher credit scores and lower loan to value ratios than our previous lending policies had required. As a result, the percentage of one-to four-family residential loans and home equity lines of credit made to borrowers with a credit score greater than 675 has increased from 78.6% during fiscal 2007 to 92.3% during fiscal 2012. This has also resulted in a reduced percentage of loans approved as compared to loan applications, from 83.9% during fiscal 2007 to 69.8% in fiscal 2012.

At June 30, 2012, the maximum amount under federal regulation that we could lend to any one borrower and the borrower's related entities was approximately $23.7 million. Our five largest lending relationships are with commercial borrowers and totaled $37.3 million in the aggregate, or 3.1% of our $1.19 billion net loan portfolio at June 30, 2012. The largest relationship at June 30, 2012 consisted of $16.7 million in eighteen loans. The largest loan in this borrower relationship had an outstanding balance of $3.1 million as of June 30, 2012 and was secured by a non-owner-occupied retail property located in Buncombe County. The remaining relationship exposure primarily consisted of various non-owner-occupied commercial real estate properties located throughout Buncombe County, and owner-occupied residential property located throughout Buncombe County. At June 30, 2012 these loans were performing in accordance with their original repayment terms.

The second largest lending relationship at June 30, 2012 was $6.6 million consisting of nine loans including a $2.1 million loan for a non-owner-occupied medical office building and the construction to permanent financing of a contiguous non-owner-occupied medical office building, four additional loans totaling $3.4 million which are also secured by non-owner-occupied medical office buildings with the remaining $1.2 million secured by owner-occupied residences and one owner-occupied commercial real estate property. All properties securing these loans are located in Cleveland County. At June 30, 2012, these loans were performing in accordance with their original repayment terms.

The third largest lending relationship at June 30, 2012 was $5.4 million consisting of eight loans, the largest of which is a $2.3 million loan secured by three non-owner-occupied retail buildings, land, and cash. The remaining loans are secured by an additional lien on the above mentioned collateral, an owner-occupied residence, and a multiunit retail center. As of June 30, 2012, all loans in the relationship were performing in accordance with their original repayment terms.

The fourth largest lending relationship at June 30, 2012 was $4.4 million, consisting of one loan secured by a leasehold mortgage interest in an anchored multiunit retail center located in Jackson County, NC. As of June 30, 2012 this loan was performing in accordance with its original repayment terms.

The fifth largest lending relationship at June 30, 2012 was $4.3 million consisting of seventeen loans, the largest of which is a $2.5 million loan secured by an owner occupied professional office building. The remaining loans are secured by various one-to four-family rental properties, the largest of which was $237,000, as of June 30, 2012. As of June 30, 2012, all loans in the lending relationship were performing in accordance with their respective original repayment terms.

At June 30, 2012, we had 35 additional relationships that exceeded $2.0 million, for a total of $91.7 million.

Retail Consumer Loans

One-to Four-Family Real Estate Lending. We originate loans secured by first mortgages on one-to four-family residences typically for the purchase or refinance of owner-occupied primary or secondary residences located primarily in our market areas. We originate one-to four-family residential mortgage loans primarily through referrals from real estate agents, builders and from existing customers. Walk-in customers are also important sources of loan originations. At June 30, 2012, $620.5 million, or 50.4%, of our loan portfolio consisted of loans secured by one-to four-family residences.

We originate both fixed-rate loans and adjustable-rate loans. We generally originate mortgage loans in amounts up to 80% of the lesser of the appraised value or purchase price of a mortgaged property, but will also permit loan-to-value ratios of up to 95%. For loans exceeding an 80% loan-to-value ratio we generally require the borrower to obtain private mortgage insurance covering us for any loss on the amount of the loan in excess of 80% in the event of foreclosure.

The majority of our one-to four-family residential loans are originated with fixed rates and have terms of ten to 30 years. At June 30, 2012 our one-to four-family residential loan portfolio included $329.2 million in fixed rate loans, of which $103.8 million were ten year fixed rate loans. We generally originate fifteen and thirty year fixed rate mortgage loans for sale to various secondary market investors on a servicing released basis. We also originate adjustable-rate mortgage, or ARM, loans which have interest rates that adjust annually to the yield on U.S. Treasury securities adjusted to a constant one-year maturity plus a margin. Most of our ARM loans are hybrid loans, which after an initial fixed rate period of one, five or seven years will convert to an annual adjustable interest rate for the remaining term of the loan. Our ARM loans have terms up to 30 years. Our pricing strategy for mortgage loans includes setting interest rates that are competitive with other local financial institutions and consistent with our asset/liability management objectives. Our ARM loans generally have a floor interest rate set at the initial interest rate, and a cap of two percentage points on rate adjustments during any one year and six percentage points over the life of the loan. As a consequence of using caps, the interest rates on these loans may not be as rate sensitive as is our cost of funds.

We generally retain ARM loans that we originate in our loan portfolio rather than selling them in the secondary market. The retention of ARM loans in our loan portfolio helps us reduce our exposure to changes in interest rates. There are, however, unquantifiable credit risks resulting from the potential of increased interest to be paid by the customer as a result of increases in interest rates. It is possible that during periods of rising interest rates the risk of default on ARM loans may increase as a result of repricing and the increased costs to the borrower. We attempt to reduce the potential for delinquencies and defaults on ARM loans by qualifying the borrower based on the borrower's ability to repay the ARM loan assuming that the maximum interest rate that could be charged at the first adjustment period remains constant during the loan term. Another consideration is that although ARM loans allow us to increase the sensitivity of our asset base due to changes in the interest rates, the extent of this interest sensitivity is limited by the periodic and lifetime interest rate adjustment limits. Because of these considerations, we have no assurance that yield increases on ARM loans will be sufficient to offset increases in our cost of funds.

Most of our loans are written using generally accepted underwriting guidelines, and are readily saleable to Freddie Mac, Fannie Mae, or other private investors. Our real estate loans generally contain a "due on sale" clause allowing us to declare the unpaid principal balance due and payable upon the sale of the security property. The average size of our one-to four-family residential loans was $107,000 at June 30, 2012.

A portion of our loans are “non-conforming” because they do not satisfy credit or other requirements because of personal and financial reasons (i.e., divorce, bankruptcy, length of time employed, etc.), and other requirements, imposed by secondary market purchasers. Many of these borrowers have higher debt-to-income ratios, or the loans are secured by unique properties in rural markets for which there are no sales of comparable properties to support the value according to secondary market requirements. We may require additional collateral or lower loan-to-value ratios to reduce the risk of these loans. We believe that these loans satisfy a need in our local market areas. As a result, subject to market conditions, we intend to continue to originate these types of loans.

Property appraisals on real estate securing our one-to four-family loans in excess of $250,000 that are not originated for sale are made by a state-licensed or state-certified independent appraiser approved by the board of directors. Appraisals are performed in accordance with applicable regulations and policies. For loans that are less than $250,000, we may use the tax assessed value, broker price opinions, and/or a property inspection in lieu of an appraisal. We generally require title insurance policies on all first mortgage real estate loans originated. Homeowners, liability, fire and, if required, flood insurance policies are also required for one-to four-family loans. We do not originate permanent one-to four- family mortgage loans with a negatively amortizing payment schedule, and currently do not offer interest-only mortgage loans. We have not typically originated stated income or low or no documentation one-to four- family loans. At June 30, 2012, $22.5 million of our one-to four-family loans were interest-only.

At June 30, 2012, $101.2 million of our one-to four-family loan portfolio consisted of loans secured by non-owner occupied residential properties. Loans secured by residential rental properties represent a unique credit risk to us and, as a result, we adhere to specific underwriting guidelines for such loans. Additionally, we have established specific loan portfolio concentration limits for loans secured by residential rental property to prevent excessive credit risk that could result from an elevated concentration of these loans. A primary risk factor in non-owner occupied residential real estate lending is the consistency of rental income of the property. Payments on loans secured by rental properties often depend on the successful operation and management of the properties, as well as the ability of tenants to pay rent. As a result, repayment of such loans may be subject to adverse economic conditions and unemployment trends, and may be sensitive to changes in the supply and demand for such properties. We consider and review a rental income cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property. We generally require collateral on these loans to be a first mortgage along with an assignment of rents and leases. We periodically monitor the performance and cash flow sufficiency of certain residential rental property borrowers based on a number of factors such as loan performance, loan size, total borrower credit exposure, and risk grade.

Home Equity Lines of Credit. Our home equity loans, consisting of adjustable-rate lines of credit, have been the second largest component of our retail loan portfolio over the past several years. At June 30, 2012, home equity lines of credit totaled $143.1 million or 11.6% of our loan portfolio of which $55.8 million was secured by a first lien on owner-occupied residential property. The lines of credit may be originated in amounts, together with the amount of the existing first mortgage, typically up to 80% of the value of the property securing the loan (less any prior mortgage loans). Approximately 41.8% of these loans were secured by a first lien held by us on the residential property. Home equity lines of credit are originated with an adjustable-rate of interest, based on The Wall Street Journal prime rate plus a margin. Currently, our home equity lines of credit have a floor interest rate set at 4.75%, and a cap of 18% over the life of the loan. Home equity lines of credit generally have up to a fifteen-year draw period and amounts may be reborrowed after payment at any time during the draw period. Once the draw period has lapsed, the payment is amortized over a fifteen year period based on the loan balance at that time. At June 30, 2012, unfunded commitments on these lines of credit totaled $142.5 million.

Our underwriting standards for home equity lines of credit are similar to our one-to four-family loan underwriting standards and include a determination of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income.

Home equity lines of credit generally entail greater risk than do one-to four-family residential mortgage loans where we are in the first lien position. For those home equity lines secured by a second mortgage, it is unlikely that we will be successful in recovering all or a portion of our loan proceeds in the event of default unless we are prepared to repay the first mortgage loan and such repayment and the costs associated with a foreclosure are justified by the value of the property.

Construction and Land/Lots. We have been an active originator of construction to permanent loans to homeowners building a residence. In addition, we originate land/lot loans predominately for the purchase or refinance of an improved lot for the construction of a residence to be occupied by the borrower. All of our construction and land/lot loans were made on properties located in North Carolina.

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At June 30, 2012, our construction and land/lot loan portfolio was $53.6 million compared to $68.2 million at June 30, 2011 and $79.0 million at June 30, 2010. At June 30, 2012, unfunded loan commitments totaled $13.5 million, compared to $17.7 million at June 30, 2011. Construction-to-permanent loans are made for the construction of a one-to four-family property which is intended to be occupied by the borrower as either a primary or secondary residence. Construction-to-permanent loans are originated to the homeowner rather than the homebuilder and are structured to be converted to a first lien fixed or adjustable rate permanent loan at the completion of the construction phase. We do not originate construction phase only or junior lien construction-to-permanent loans. The permanent loan is generally underwritten to the same standards as our one-to four-family residential loans and may be held by us for portfolio investment or sold in the secondary market. At June 30, 2012 our construction-to-permanent loans totaled $17.9 million and the average loan size was $141,000. During the construction phase, which typically lasts for six to twelve months, we make periodic inspections of the construction site and loan proceeds are disbursed directly to the contractors or borrowers as construction progresses. Typically, disbursements are made in monthly draws during the construction period. Loan proceeds are disbursed based on a percentage of completion. Construction-to-permanent loans require payment of interest only during the construction phase. Prior to making a commitment to fund a construction loan, we require an appraisal of the property by an independent appraiser. Construction loans may be originated up to 95% of the cost or of the appraised value upon completion, whichever is less; however, we generally do not originate construction loans which exceed the lower of 80% loan to cost or appraised value without securing adequate private mortgage insurance or other form of credit enhancement such as the Federal Housing Administration or other governmental guarantee. We also require general liability, builder’s risk hazard insurance, title insurance, and flood insurance (as applicable, for properties located or to be built in a designated flood hazard area) on all construction loans. Subject to market conditions, we expect this type of lending to continue and grow as the economy improves. At June 30, 2012, the largest construction to permanent loan had an outstanding balance of $526,000 and was performing according to the original repayment terms.

Included in our construction and land/lot loan portfolio are land/lot loans, which are typically loans secured by developed lots in residential subdivisions located in our market areas. We originate these loans to individuals intending to construct their primary or secondary residence on the lot within one year from the date of origination. This portfolio may also include loans for the purchase or refinance of unimproved land that is generally less than or equal to five acres, and for which the purpose is to commence the improvement of the land and construction of an owner-occupied primary or secondary residence within one year from the date of loan origination. We do not currently originate interest-only land loans or loans for the speculative purchase or investment in land or lots.

Land/lot loans are typically originated in an amount up to 70% of the lower of the purchase price or appraisal, are secured by a first lien on the property, for up to a 20 year term, require payments of interest only and are structured with an adjustable rate of interest on terms similar to our one-to four-family residential mortgage loans. At June 30, 2012, our land/lot loans totaled $35.8 million and the average land/lot loan size was $74,000. At June 30, 2012, the largest land/lot loan had an outstanding balance of $1.0 million and was performing according to the original repayment terms.

Construction and land/lot lending affords us the opportunity to achieve higher interest rates and fees with shorter terms to maturity than the rates and fees generated by our one-to four-family permanent mortgage lending. Construction/permanent loans, however, generally involve a higher degree of risk than our one-to four-family permanent mortgage lending. If our appraisal of the value of the completed residence proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction and may incur a loss. Land/lot loans also pose additional risk because of the lack of income being produced by the property and the potential illiquid nature of the collateral. These risks can also be significantly impacted by supply and demand conditions.

Consumer Lending. Our consumer loans consist principally of loans secured by savings deposits; however, we also originate automobile loans and other consumer loans. At June 30, 2012, our consumer loans totaled $3.8 million, or less than one percent of our loan portfolio. We originate our consumer loans primarily in our market areas.

Consumer loans generally have shorter terms to maturity, which reduces our exposure to changes in interest rates. In addition, management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

Our underwriting standards for consumer loans include a determination of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income.

Consumer loans generally entail greater risk than do one- to four-family residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciable assets, such as automobiles. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. As a result, consumer loan collections are dependent on the borrower's continuing financial stability and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Commercial Loans

Commercial Real Estate Lending. We originate commercial real estate loans, including loans secured by hotels, office space, office/warehouse, retail strip centers, vehicle dealerships, mini-storage facilities, medical and professional buildings, retail sites and churches located in our market areas. As of June 30, 2012, $238.6 million or 19.4% of our total loan portfolio was secured by commercial real estate property, including multifamily loans totaling $22.3 million, or 1.8% of our total loan portfolio. Of that amount, $111.6 million was identified as owner occupied commercial real estate, and the remainder of $127.0 million was secured by income producing, or non-owner-occupied commercial real estate. 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 commercial or multi-family 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.

The average outstanding loan size in our commercial real estate portfolio was $302,000 as of June 30, 2012. We target individual commercial real estate loans between $250,000 and $2.5 million to small and mid-size owner occupants and investors in our market areas. At June 30, 2012, the largest commercial real estate loan in our portfolio was a $4.4 million loan secured by a leasehold deed of trust on an anchored retail shopping center and three contiguous out parcels located in Jackson County, North Carolina. Our largest multi-family loan as of June 30, 2012 was a multi-unit apartment building with an outstanding balance of $1.7 million located in Haywood County, North Carolina. These loans were performing according to their original repayment terms as of June 30, 2012.

We offer both fixed and adjustable rate loans on commercial real estate loans. Our commercial real estate mortgage loans generally include a balloon maturity of five years or less. Amortization terms are generally limited to 20 years. Adjustable rate based loans typically include a floor and ceiling interest rate and are indexed to The Wall Street Journal prime rate, plus or minus an interest rate margin and rates generally adjust daily. The maximum loan to value ratio for commercial real estate loans is generally up to 80% on purchases and refinances. We require appraisals of all non-owner occupied commercial real estate securing loans in excess of $250,000, and all owner-occupied commercial real estate securing loans in excess of $500,000, performed by independent appraisers. For loans less than these amounts, we may use the tax assessed value, broker price opinions, and/or a property inspection in lieu of an appraisal.

If we foreclose on a commercial 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. Further, our commercial 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 real estate loans, any resulting charge-offs may be larger on a per loan basis than those incurred with our retail loan portfolios.

Construction and Development Lending. For many years, we have been an active originator of commercial real estate construction loans in our market areas to builders; however, as housing markets weakened in recent years we significantly reduced our origination of new construction and development loans. Our construction and development loans are predominately for the purchase or refinance of unimproved land held for future residential development, improved residential lots held for speculative investment purposes and for the future construction of speculative one-to-four-family or commercial real estate. We also originate construction loans for the development of business properties and multi-family dwellings. All of our construction and development loans were made on properties located in North Carolina.

We have worked diligently to manage our construction and development loan portfolio and have continued to be successful at reducing our overall exposure to construction and development loans. At June 30, 2012, the balance of our construction and development loan portfolio was $42.4 million compared to $79.5 million at June 30, 2011. At June 30, 2012 $8.9 million or 21.0% of our construction and development loans required interest-only payments. Unfunded commitments at June 30, 2012 totaled $1.4 million compared to $4.8 million at June 30, 2011 and $4.2 million at June 30, 2010. We have virtually ceased the origination of new speculative construction and development loans related to residential properties except for loan renewals and on a very limited basis to select borrowers with whom we have long-standing lending relationships. The majority of these loans were for the speculative construction of residential properties, improved lots or development of land into residential lots and were originated prior to June 30, 2008. Effective September 30, 2010, only the board of directors, Chief Executive Officer, President and Chief Operating Officer, and Chief Credit Officer are authorized to approve speculative one-to-four-family construction loans, or loans for the development of land into residential lots.

Since fiscal 2009 we have not originated a significant amount of builder construction loans to fund the speculative construction of one- to four-family residential properties. These homes typically have an average price ranging from $200,000 to $500,000. Speculative construction loans are made to home builders and are termed “speculative” because the home builder does not have, at the time of loan origination, a signed contract with a home buyer who has a commitment for permanent financing with either us or another lender for the finished home. The home buyer may be identified either during or after the construction period, with the risk that the builder will have to fund the debt service on the speculative construction loan and finance real estate taxes and other carrying costs of the completed home for a significant period of time after the completion of construction, until a home buyer is identified. Loans to finance the construction of speculative single-family homes and subdivisions were generally offered to experienced builders in our primary market areas. All builders are qualified using 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. These loans require payment of interest-only during the construction phase. At June 30, 2012, loans for the speculative construction of single family properties totaled $15.9 million compared to $12.2 million at June 30, 2011 and $24.4 million at June 30, 2010. At June 30, 2012, we had one borrower with aggregate outstanding loan balances of more than $1.5 million, which totaled $1.6 million and were secured by properties located in our market areas. At June 30, 2012, nine speculative construction loans totaling $2.4 million were on non-accrual status.

Land acquisition and development loans are included in the construction and development loan portfolio, and represent loans made to developers for the purpose of acquiring raw land and/or for the subsequent development and sale of residential lots. Such loans typically finance land purchase and infrastructure development of properties (i.e. roads, utilities, etc.) with the aim of making improved lots ready for subsequent sale to consumers or builders for ultimate construction of residential units. The primary source of repayment is generally the cash flow from developer sale of lots or improved parcels of land, secondary sources and personal guarantees, which may provide an additional measure of security for such loans. Strong demand for housing led to loan growth in this category in recent years. However, the recent downturn in real estate has slowed lot and home sales within our market areas. This has impacted certain developers by lengthening the marketing period of their projects and negatively affecting borrower’s liquidity and collateral values. We have focused on reducing these loans during the past two fiscal years and plan to continue to reduce these portfolios.

Land acquisition and development loans are generally secured by property in our primary market areas. In addition, these loans are secured by a first lien on the property, are generally limited up to 65% of the lower of the acquisition price or the appraised value of the land and generally have a maximum amortization term of 10 years with a balloon maturity of up to three years. We require title insurance and, if applicable, a hazardous waste survey reporting that the land is free of hazardous or toxic waste. At June 30, 2012, our land acquisition and development loans in our commercial construction and development portfolio totaled $26.5 million. The largest land acquisition

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and development loan had an outstanding balance at June 30, 2012 of $2.3 million and was performing according to its repayment terms. The subject loan is secured by property located in Buncombe County, North Carolina. At June 30, 2012, 42 land acquisition and development loans totaling $10.2 million were on non-accrual status. We are currently not originating new loans for the speculative purchase, refinance, or development of land other than loan renewals.

We have made construction loans for commercial development projects. These projects include multi-family, apartment, retail, office/warehouse and office buildings. We generally do not originate commercial real estate construction loans without a satisfactory permanent financing ("take-out") commitment or non-contingent arm's length purchase contract from a reputable lender or qualified purchaser. Commercial construction and construction to permanent loans are offered on an adjustable interest rate or fixed interest rate basis. Adjustable interest rate based loans typically include a floor and ceiling interest rate and are indexed to The Wall Street Journal prime rate, plus or minus an interest rate margin. The initial construction period is generally limited to twelve months from the date of origination, and amortization terms are generally limited to 20 years; however, amortization terms of up to 25 years may be available for certain property types based on elevated underwriting and qualification criteria. Construction to permanent loans generally include a balloon maturity of five years or less; however, balloon maturities of greater than five years are allowed on a limited basis depending on factors such as property type, amortization term, lease terms, pricing, or the availability of credit enhancements. Construction loan proceeds are disbursed commensurate with the percentage of completion of work in place, as documented by periodic internal or third party inspections. The maximum loan-to-value limit applicable to these loans is generally 80% of the appraised post-construction value. Disbursement of funds is at our sole discretion and is based on the progress of construction. At June 30, 2012 we had $10.1 million of non-residential construction loans included in our commercial construction and development loan portfolio.

We require all real estate securing construction and development loans to be appraised by an independent HomeTrust Bank-approved state-licensed or state-certified real estate appraiser. General liability, builder's risk hazard insurance, title insurance, and flood insurance (as applicable, for properties located or to be built in a designated flood hazard area) are also required on all construction and development loans.

Construction and development lending affords us the opportunity to achieve higher interest rates and fees with shorter terms to maturity than the rates and fees generated by its single-family permanent mortgage lending. Construction lending, however, generally involves a higher degree of risk than single-family permanent mortgage lending because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost of the project, as well as the time needed to sell the property at completion. The nature of these loans is such that they are generally more difficult to evaluate and monitor. 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. Land acquisition and development loans also pose additional risk because of the lack of income being produced by the property and the potential illiquid nature of the collateral. These risks can be significantly impacted by the supply and demand conditions. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property or refinance the indebtedness, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss.

Commercial and Industrial Loans. We typically offer commercial and industrial loans to small businesses located in our primary market areas. These loans are primarily originated as conventional loans to business borrowers, which include 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 investments. Loan terms vary from typically one to five years. The interest rates on such loans are either fixed rate or adjustable rate indexed to The Wall Street Journal prime rate plus a margin. Inherent with our extension of business credit is the business deposit relationship which frequently includes multiple accounts and related services from which we realize low cost deposits plus service and ancillary fee income.

Commercial and industrial loans typically have shorter maturity terms and higher interest rates 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 areas. At June 30, 2012, commercial and industrial loans totaled $14.6 million, which represented 1.2% of our total loan portfolio. 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 and industrial 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 underlying collateral provided by the borrower. Most often, this collateral consists of equipment, inventory or accounts receivable. 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.

Municipal Leases. We offer ground and equipment lease financing to fire departments located primarily throughout North Carolina and, to a lesser extent, South Carolina. Municipal leases are secured primarily by a ground lease in our name with a sublease to the borrower for a firehouse or an equipment lease for fire trucks and firefighting equipment. We originate these loans primarily through a third party that assigns the lease to us after we fund the loan. All leases are underwritten directly by us prior to funding. These leases are at a fixed rate of interest and may have a term to maturity of up to 20 years.

At June 30, 2012, municipal leases totaled $115.5 million, which represented 9.4% of our total loan portfolio. At that date, $81.1 million, or 71.6% of our municipal leases were secured by fire trucks, $16.5 million, or 14.6%, were secured by firehouses, $12.7 million or 11.2%, were secured by both with the remaining $5.2 million or 2.6% secured by miscellaneous firefighting equipment. At June 30, 2012, the average outstanding municipal lease size was $314,000. These loans are our highest yielding loans since the interest earned is tax-exempt and this portfolio has the lowest delinquency rate of any of our loans.

Repayment of our municipal leases is often dependent on the tax revenues collected by the county/municipality on behalf of the fire department. Although a municipal lease does not constitute a general obligation of the county/municipality for which the county/municipality's taxing power is pledged, a municipal lease is ordinarily backed by the county/municipality's covenant to budget for, appropriate and pay the tax revenues to the fire department. However, certain municipal leases contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. In the case of a "non-appropriation" lease, our ability to recover under the lease in the event of non-appropriation or default will be limited solely to the repossession of the leased property, without recourse to the general credit of the lessee, and disposition or releasing of the property might prove difficult. At June 30, 2012, $4.0 million of our municipal leases contained a non-appropriation clause.

Loan Originations, Purchases, Sales, Repayments and Servicing

We originate both fixed-rate and adjustable-rate loans. Our ability to originate loans, however, is dependent upon customer demand for loans in our market area. Demand is affected by competition and the interest rate environment. During the past few years, we, like many other financial institutions, have experienced significant prepayments on loans due to the low interest rate environment prevailing in the United States. In periods of economic uncertainty, the ability of financial institutions, including us, to originate large dollar volumes of real estate loans may be substantially reduced or restricted, with a resultant decrease in interest income. We do not generally purchase loans or loan participations except for leases. We actively sell the majority of our long-term fixed-rate residential first mortgage loans to the secondary market at the time of origination and retain our adjustable rate residential mortgages and fixed rate mortgages with terms to maturity less than 15 years and other consumer and commercial loans. During the years ended June 30, 2012 and 2011 we sold $191.4 million and $157.3 million, respectively, in whole loans to the secondary market. We release the servicing on the loans we sell into the secondary market. Loans are generally sold on a non-recourse basis.

In addition to interest earned on loans and loan origination fees, we receive fees for loan commitments, late payments and other miscellaneous services. The fees vary from time to time, generally depending on the supply of funds and other competitive conditions in the market.

The following table shows our loan origination, purchase, sale and repayment activities for the periods indicated.

	Years Ended June 30,		
	2012	2011	2010
	(In thousands)		
Originations by type:			
Retail Consumer:			
One- to four-family	$330,106	$307,613	$219,539
Home equity	17,782	27,762	23,563
Construction and land/lots	33,668	41,704	49,889
Consumer	2,963	3,734	4,185
Commercial Loans:			
Commercial real estate	16,008	26,251	24,107
Construction and development	1,636	10,976	10,839
Commercial and industrial	2,993	6,757	8,199
Total loans originated	$405,156	$424,797	$340,321
Purchases:			
Commercial Loans:			
Commercial real estate	$580	$571	$240
Municipal leases	16,428	15,390	28,524
Loans acquired through business combination	-	59,037	88,810
Total loans purchased or acquired	$17,008	$74,998	$117,574
Sales and repayments:			
One- to four-family sales	$192,383	$157,280	$141,802
Home equity	95	-	-
Commercial real estate	534	-	-
Construction and development	6,273	-	-
Total sales	199,285	157,280	141,802
Principal repayments	315,423	303,747	258,802
Total reductions	$514,708	$461,027	$400,604
Net increase (decrease)	$(92,544)	$38,768	$57,291

Asset Quality

Loan Delinquencies and Collection Procedure. When a borrower fails to make a required payment on a residential real estate loan, we attempt to cure the delinquency by contacting the borrower. A late notice is sent 15 days after the due date, and the borrower may also be contacted by phone at this time. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower and additional collection notices and letters are sent. When a loan is 90 days delinquent, we may commence repossession or a foreclosure action. Reasonable attempts are made to collect from borrowers prior to referral to an attorney for collection. In certain instances, we may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize their financial affairs, and we attempt to work with the borrower to establish a repayment schedule to cure the delinquency.

Delinquent consumer loans are handled in a similar manner, except that late notices are sent at 30 days after the due date. Our procedures for repossession and sale of consumer collateral are subject to various requirements under the applicable consumer protection laws as well as other applicable laws and the determination by us that it would be beneficial from a cost basis.

Delinquent commercial loans are initially handled by the loan officer in charge of the loan, who is responsible for contacting the borrower. The collections department also works with the commercial loan officers to see that the necessary steps are taken to collect delinquent loans, while ensuring that standard delinquency notices and letters are mailed to the borrower. No later than 90 days past the due date, a collection officer takes over the loan for further collection activities. In addition, we have a management loan committee that meets as needed and reviews past due and classified commercial real estate loans, as well as other loans that management believes may present possible collection problems. If an acceptable workout of a delinquent commercial loan cannot be reached, we generally initiate foreclosure or repossession proceedings on any collateral securing the loan.

The following table sets forth our loan delinquencies by type, by amount and by percentage of type at June 30, 2012.

	Loans Delinquent For:								
	30-89 Days			90 Days and Over			Total Loans Delinquent 30 Days or More		
	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category
	(Dollars in thousands)								
Retail Consumer Loans:									
One-to four-family	93	$10,532	1.70%	97	$ 11,629	1.87%	190	$ 22,161	3.57%
Home equity	7	388	0.27%	42	2,613	1.83%	49	3,001	2.10%
Construction and land/lots	11	789	1.47%	19	1,405	2.62%	30	2,194	4.09%
Consumer	6	54	1.41%	9	35	0.92%	15	89	2.33%
Commercial Loans:									
Commercial real estate	11	4,188	1.76%	20	6,071	2.54%	31	10,259	4.30%
Construction and development	3	331	0.78%	21	6,001	14.17%	24	6,332	14.95%
Commercial and industrial	6	155	1.06%	14	266	1.82%	20	421	2.88%
Municipal leases	-	-	-%	-	-	-%	-	-	-%
Total	137	$16,437	1.33%	222	$ 28,020	2.27%	359	$ 44,457	3.60%

Non-performing Assets. Non-performing assets increased to $80.3 million, or 4.7% of total assets, at June 30, 2012, from $62.3 million, or 3.81% of total assets at June 30, 2011 and $63.6 million, or 3.87% of total assets, at June 30, 2010. Slow sales and excess inventory in most housing markets, along with declines in property values, have been the primary cause of the elevated levels of delinquencies and foreclosures, particularly for construction and development loans, which, including related real estate owned and other foreclosed assets ("REO"), represented $17.4 million, or 21.6% of our non-performing assets at June 30, 2012. In addition, during the year ended June 30, 2012 we reclassified $25.7 million of impaired loans from impaired loans still accruing interest to non-accruing loans pursuant to regulatory guidance. Generally, these loans are paying as agreed, except that liquidation of the underlying collateral has been significantly delayed as compared to the schedule contemplated in our initial underwriting. At June 30, 2012, $28.1 million or 43.8% of total non-accruing loans (including the $25.7 million referred to above) were current on their loan payments.

Reflecting the weak housing market and value declines, the level of our provision for loan losses has remained elevated in recent periods even though total construction and development loans outstanding have declined substantially. We continue to believe our level of non-performing loans and assets is manageable, and we believe that we have sufficient capital and human resources to manage the collection of our one- to four-family residential construction and related land and land development loans and other non-performing assets in an orderly fashion. However, our operating results will continue to be adversely impacted until we are able to significantly reduce the level of our non-performing assets.

Loans are placed on nonaccrual status when the collection of principal and/or interest becomes doubtful or other factors involving the loan warrant placing the loan on nonaccrual status. Troubled debt restructurings are loans which have renegotiated loan terms to assist borrowers who are unable to meet the original terms of their loans. Such modifications to loan terms may include a lower interest rate, a reduction in principal, or a longer term to maturity. During the fiscal year ended June 30, 2012, 88 loans for $24.4 million were modified from their original terms and were identified in our asset quality reports as a troubled debt restructuring. This compares to 157 loans for $41.5 million that were modified in the fiscal year ended June 30, 2011. As of June 30, 2012, the outstanding balance of troubled debt restructured loans was $48.7 million, comprised of 239 loans as compared to $62.1 million comprised of 233 loans at June 30, 2011. Once a non-accruing troubled debt restructuring has performed according to its modified terms for six months and the collection of principal and interest under the revised terms is deemed probable, the troubled debt restructuring is removed from nonaccrual status. At June 30, 2012, $25.0 million of troubled debt restructurings were classified as nonaccrual, including $6.3 million of construction and development loans. As of June 30, 2012, 42.3%, or $20.6 million of the restructured loans have a current payment status as compared to $49.4 million at June 30, 2011. Performing troubled debt restructurings decreased $28.8 million or 58.3% from June 30, 2011 to June 30, 2012 primarily due to the reclassification of $22.1 million in troubled debt restructurings to nonaccrual status, the pay-off of $3.8 million, and transfers of $3.8 million to REO, partially offset by the addition of $9.5 million in new performing troubled debt restructurings. The table below sets forth the amounts and categories of non-performing assets.

	At June 30,				
	2012	2011	2010	2009	2008
	(In thousands)				
Non-accruing loans:					
Retail consumer loans:					
One-to four-family	$27,659	$17,821	$9,076	$8,343	$2,465
Home equity	4,781	2,536	4,059	2,987	1,060
Construction and land/lots	3,437	2,766	2,549	2,638	352
Consumer	76	23	28	74	279
Commercial loans:					
Commercial real estate	15,008	8,197	12,097	7,078	-
Construction and development	12,583	16,620	18,005	5,451	1,030
Commercial and industrial	637	40	-	5	318
Municipal leases	-	474	486	879	998
Total non-accruing loans	64,181	48,477	46,300	27,455	6,502
Foreclosed assets:					
Retail consumer loans:					
One-to four-family	7,297	4,299	6,764	610	550
Home equity	-	32	268	38	-
Construction and land/lots	1,616	1,326	416	305	-
Consumer	-	-	-	-	-
Commercial loans:					
Commercial real estate	2,449	2,023	4,095	974	-
Construction and development	4,768	6,177	5,744	1,497	-
Commercial and industrial	-	-	-	-	-
Municipal leases	-	-	-	-	-
Total foreclosed assets	16,130	13,857	17,287	3,424	550
Total non-performing assets	$80,311	$62,334	$63,587	$30,879	$7,052
	4.67 %	3.81 %	3.87 %	2.10 %	0.52 %

Total non-performing assets as a percentage of total assets					
Performing Troubled Debt Restructurings	$20,588	$49,379	$28,655	$7,754	$7,602

For the years ended June 30, 2012 and 2011, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to $3.1 million and $2.7 million, respectively. The amount that was included in interest income on such loans was $2.2 million and $1.0 million, respectively, including interest not recorded in prior periods due to a small number of large loans either becoming current or being sold. At June 30, 2012, $81.8 million in non-performing loans were individually evaluated for impairment; $1.6 million of the allowance for loan losses was allocated to these individually impaired loans at period-end. A loan is impaired when it is probable, based on current information and events, that we will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreements. Troubled debt restructurings are also considered impaired. Impaired loans are measured on an individual basis for individually significant loans based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

We record REO (acquired through a lending relationship) at fair value on a non-recurring basis. All REO properties are recorded at amounts which are equal to the lower of the related loan balance or the fair value of the properties based on independent appraisals (reduced by estimated selling costs) upon transfer of the loans to REO. From time to time, non-recurring fair value adjustments to REO are recorded to reflect partial write-downs based on an observable market price or current appraised value of property. The individual carrying values of these assets are reviewed for impairment at least annually and any additional impairment charges are expensed to operations. For the years ended June 30, 2012 and 2011, we recognized $2.4 million and $3.0 million, respectively, of impairment charges related to these types of assets.

Within our non-performing loans, as of June 30, 2012 we had a total of 12 nonaccrual lending relationships, each with aggregate loan exposures in excess of $1.0 million that collectively comprised $17.4 million, or 27.2% of our total non-performing loans. The single largest relationship was $2.8 million at that date. Our non-performing loan exposures in excess of $1.0 million are included in the following table (dollars in thousands):

Amount	Percent of Total Non-Performing Loans		Collateral Securing the Indebtedness	Geographic Location
$ 2,794	4.4	%	28 acres of developed land	Buncombe County
2,044	3.2		Owner occupied commercial property	Buncombe County
1,748	2.7		Residential and commercial properties	Buncombe County
1,357	2.1		Owner occupied commercial property	Cleveland County
1,354	2.1		Speculative residential properties and lots	Buncombe County
1,259	2.0		Speculative residential property	Buncombe County
1,223	1.9		Residential property	Buncombe County
1,178	1.8		Multi-unit commercial property	Haywood County
1,147	1.8		Undeveloped land	Polk County
1,130	1.8		Non-owner occupied commercial property	Anderson County(1)
1,116	1.7		Residential properties	Buncombe County
1,093	1.7		Non-owner occupied commercial property	Buncombe County
$ 17,443	27.2	%		

(1) Located in South Carolina

At June 30, 2012, we had $16.1 million of REO, the most significant of which is $1.6 million of undeveloped land located in Buncombe County. The second and third largest REO properties are single family homes in Buncombe County with book values of $1.2 million and $829,000, respectively. At June 30, 2012 all other REO properties have individual book values of less than $650,000.

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Our recovery experience in liquidating REO is shown in the following table. This table measures REO sales proceeds for the periods indicated, expressed as a percentage of the REO book value at the time of foreclosure.

	As a percentage of recorded balances at time of foreclosure Real estate owned disposals, net proceeds for the quarter ended								
	Eight Quarter weighted avg. value	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
One-to four-family	91.8 %	81.4 %	98.1 %	77.2 %	73.6 %	91.0 %	92.7 %	106.9 %	95.9 %
Home Equity	97.4	134.9	0.0	-	-	-	-	-	69.9
Construction and land/lots	54.7	41.3	99.0	87.0	93.9	35.1	99.3	82.2	-
Commercial real estate	94.1	0.0	91.8	100.0	110.4	74.3	97.8	77.7	104.5
Construction and development	91.4	69.0	83.7	98.1	80.7	-	86.9	115.5	96.7
Total	87.5 %	70.5 %	94.3 %	93.2 %	82.9 %	68.2 %	94.1 %	98.7 %	97.6 %

In fiscal 2012, we liquidated $28.1 million in REO based on loan values at the time of foreclosure, realizing $11.1 million in net proceeds or 39.5% of the foreclosed loan balances. As of June 30, 2012, the book value of our REO, expressed as a percentage of the related loan balances at the time the properties were transferred to REO was 40.1%. During the year ended June 30, 2012, we disposed of $9.0 million of REO in construction and development, and realized $2.3 million, which equated to 25.6% of the related loan balances at the time of foreclosure.

Other Loans of Concern. In addition to the nonperforming assets set forth in the table above, as of June 30, 2012, there were 667 loans totaling $88.1 million with respect to which known information about the possible credit problems of the borrowers have caused management to have doubts as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such items in the nonperforming asset categories. These loans have been considered in management's determination of our allowance for loan losses.

Classified Assets. Loans and other assets, such as debt and equity securities considered to be of lesser quality, are classified as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When we classify a problem asset as either substandard or doubtful, we may establish a specific allowance for loan losses in an amount deemed prudent by management. When we classify problem assets as "loss," we either establish a specific allowance for losses equal to 100% of that portion of the asset so classified or charge off such amount. Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by our bank regulators, which may order the establishment of additional general or specific loss allowances. Assets which do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories but possess weakness are designated by us as "special mention."

We regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of management's review of our assets, at June 30, 2012, our classified assets (consisting of $117.3 million of loans and $16.1 million of REO) totaled $133.4 million and represented 84.8% of our Tier I capital plus allowance for loan losses and 7.8% of our assets, of which $64.2 million was included in nonperforming assets and nonaccruing loans. Nonperforming classified assets represent 51.0% of our Tier 1 capital plus allowance for loan losses and 4.7% of our assets. The aggregate amounts of our classified assets and special mention loans at the dates indicated (as determined by management), were as follows:

	At June 30,	
	2012	2011
	(In thousands)	
Classified Assets:		
Loss	$ 29	$ 8
Doubtful	5,956	371
Substandard – performing	52,855	98,627
– non-performing	58,291	48,107
Total Classified Loans	117,131	147,113
Real Estate Owned	16,130	13,857
Total Classified Assets	133,261	160,970

Special Mention loans		35,067		42,482
Total Classified Assets and Special Mention Loans	$	168,328	$	203,452

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Allowance for Loan Losses. The allowance for loan losses is a valuation account that reflects our estimation of the losses in our loan portfolio to the extent they are reasonable to estimate. The allowance is maintained through provisions for loan losses that are charged to earnings in the period they are established. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. Recoveries on loans previously charged off are added back to the allowance.

Over the past three-year period as housing markets continued to weaken in many of our market areas, we have experienced significantly increased delinquencies and non-performing assets, primarily in our construction and development loan portfolios. While recently improved, home and lot sales activity has still been slow, causing stress on builders' and developers' cash flows and their ability to service debt, which is reflected in our non-performing asset totals. Further, property values generally declined during the last three year period, reducing the value of the collateral securing loans. In addition, other non-housing-related segments of the loan portfolio developed signs of stress and increased levels of non-performing loans as the effects of the weak economy became more evident and the pace of recovery has remained slow. As a result, for the last three fiscal years our provision for loan losses was still at a higher level than our normal expectations. The level of delinquencies and non-accruals also has had a material adverse effect on our operating income as a result of foregone interest revenues, increased loan collection costs and carrying costs and valuation adjustments for REO. Although our future results will depend on the course of recovery from the economic recession, we are actively engaged with our borrowers in resolving problem loans and many of our credit quality indicators have shown improvement in recent quarters. We believe our reserve levels are substantial and, as a result of our impairment analysis and charge-off actions, reflect current appraisals and valuation estimates.

There were $30.6 million and $34.4 million in net loan charge-offs during the fiscal years ended June 30, 2012 and 2011, respectively. During the year ended June 30, 2012 we charged-off specific reserves totaling $16.7 million related to impaired loans in accordance with regulatory guidance. In addition, during this period we reclassified $25.7 million of impaired loans from impaired loans still accruing interest to non-accruing loans pursuant to regulatory guidance. Generally, these loans are paying as agreed, except that liquidation of the underlying collateral has been significantly delayed as compared to the schedule contemplated in our initial underwriting. At June 30, 2012, $28.1 million or 43.8% of total non-accruing loans (including the $25.7 million referred to above) were current on their loan payments. We evaluated the decline in collateral value for each of these loans and recorded no additional reserves related to these loans during the year ended June 30, 2012. Primarily as a result of this reclassification, non-accruing loans increased to $64.2 million at June 30, 2012 from $48.5 million at June 30, 2011.

At June 30, 2012, our allowance for loan losses was $35.1 million or 2.9% of our total loan portfolio, and 54.7% of total nonperforming loans. Management's estimation of an appropriate allowance for loan losses is inherently subjective as it requires estimates and assumptions that are susceptible to significant revisions as more information becomes available or as future events change. The level of allowance is based on estimates and the ultimate losses may vary from these estimates. Large groups of smaller balance homogeneous loans, such as residential real estate, small commercial real estate, home equity and consumer loans, are evaluated in the aggregate using historical loss factors adjusted for current economic conditions. Assessing the allowance for loan losses is inherently subjective as it requires making material estimates, including the amount and timing of future cash flows expected to be received. In the opinion of management, the allowance, when taken as a whole, reflects estimated loan losses in our loan portfolio.

During the year ended June 30, 2012, we revised our calculation for the allowance for loan losses to better reflect the risks within each loan class. These enhancements included: (1) dividing the land loan category previously used by HomeTrust Bank into two classes: retail consumer construction and land/lots loans and commercial construction and development loans; (2) adding new concentration adjustments for Cherryville and Industrial pre-combination loans; and (3) adjusting the qualitative factors on most of the loan classes to better reflect the overall risk in each class as a result of changes in the quantitative factors based on net historical charge-offs. In addition, as noted above we charged-off $16.7 million of specific reserves related to impaired loans in accordance with regulatory guidance which decreased the allowance for loan losses for loans individually evaluated for impairment as of June 30, 2012.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Future additions to the allowance for loan losses may be necessary if economic and other conditions in the future differ substantially from the current operating environment. In addition, the OCC as an integral part of its examination process periodically reviews our loan and foreclosed real estate portfolios and the related allowance for loan losses and valuation allowance for foreclosed real estate. The OCC may require the allowance for loan losses or the valuation allowance for foreclosed real estate to be increased based on its review of information available at the time of the examination, which would negatively affect our earnings.

The following table summarizes the distribution of the allowance for loan losses by loan category at the dates indicated.

	At June 30,									
	2012		2011		2010		2009		2008	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
	(Dollars in thousands)									
Allocated at end of period to:										
Retail consumer loans:										
One- to four-family	$14,557	50.36 %	$14,108	45.88 %	$9,188	39.50 %	$5,223	33.32 %	$3,058	34.54 %
Home equity	3,531	11.61	3,710	11.78	3,251	12.18	2,588	12.43	1,508	10.96
Construction and land/lots	2,955	4.35	5,507	5.12	2,177	6.13	1,513	6.54	1,183	7.62
Consumer	129	0.31	213	0.32	132	0.29	389	0.22	310	0.24
Commercial loans:										
Commercial real estate	6,454	19.37	9,427	20.24	10,668	20.95	6,385	22.70	3,774	20.44
Construction and development	6,253	3.44	15,599	5.97	14,648	9.85	7,394	13.48	2,497	15.04
Commercial and industrial	315	1.18	453	1.45	411	1.56	303	1.98	434	1.94
Municipal leases	906	9.38	1,123	9.24	1,238	9.54	1,201	9.33	859	9.22
Total loans	$35,100	100.00 %	$50,140	100.00 %	$41,713	100.00 %	$24,996	100.00 %	$13,623	100.00 %

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The following table sets forth an analysis of our allowance for loan losses at the dates and for the periods indicated.

	Years Ended June 30,				
	2012	2011	2010	2009	2008
	(Dollars in thousands)				
Balance at beginning of period:	$50,140	$41,713	$24,996	$13,623	$10,372
Provision for loan losses	15,600	42,800	38,600	15,000	3,315
Charge-offs:					
Retail consumer loans:					
One- to four-family	9,355	3,572	8,450	158	70
Home equity	3,573	743	1,473	406	7
Construction and land/lots	3,690	2,510	3,275	236	-
Consumer	131	10	71	29	5
Total retail consumer loans	16,749	6,835	13,269	829	82
Commercial loans:					
Commercial real estate	3,083	6,736	4,978	1,398	-