HOME FEDERAL BANCORP, INC. OF LOUISIANA
Form 10QSB
May 16, 2005

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2005

OR

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

For the transition period from ____________ to _______________

Commission File Number: 000-51117

HOME FEDERAL BANCORP, INC. OF LOUISIANA
(Exact name of small business issuer as specified in its charter)

Federal	86-1127166
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

624 Market Street, Shreveport, Louisiana 71101
(Address of principal executive offices)

(318) 222-1145
(Issuer's telephone number)

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

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 ___

Shares of common stock, par value $.01 per share, outstanding as of May 16, 2005: The registrant had 3,558,958 shares of common stock outstanding, of which

2,135,375 shares were held by Home Federal Mutual Holding Company of Louisiana, the registrant's mutual holding company, and 1,423,583 shares were held by the public and directors, officers and employees of the registrant.

Transitional Small Business Disclosure Format: Yes _____ No X _____

INDEX

HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	March 31, 2005 (Unaudited)	June 30, 2004 (Audited)
ASSETS		
Cash and Cash Equivalents	$ 10,352,840	$ 4,342,125
Securities Available-for-Sale	72,208,421	64,253,764
Securities Held-to-Maturity	1,689,958	2,515,557
Loans Held-for-Sale	141,000	107,500
Loans Receivable, Net	22,419,109	22,678,740
Accrued Interest Receivable	418,420	405,812
Premises and Equipment, Net	535,421	467,783
Deferred Tax Asset	289,499	832,752
Other Assets	17,288	58,555
Total Assets	$ 108,071,956	$ 95,662,588
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$ 68,666,327	$ 68,133,506
Advances from Borrowers for Taxes and Insurance	97,079	232,947
Advances from Federal Home Loan Bank of Dallas	7,862,886	9,748,316
Other Accrued Expenses and Liabilities	355,750	238,666
Total Liabilities	76,982,042	78,353,435
COMMITMENTS		
STOCKHOLDERS' EQUITY		
Common stock - 8,000,000 shares of $.01 par value authorized; 3,558,958 and none shares issued at March 31, 2005 and June 30, 2004, respectively	14,235	--
Additional paid-in capital	13,391,275	--
Retained Earnings - Partially Restricted	19,400,644	18,977,541
Unallocated Shares held by ESOP	(1,124,634)	--
Accumulated Other Comprehensive Loss	(591,606)	(1,668,388)
Total Stockholders' Equity	31,089,914	17,309,153
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 108,071,756	$ 95,662,588

See accompanying notes to consolidated financial statements.

1

HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31,		Nine Months Ende March 31,	
	2005	2004	2005	
INTEREST INCOME				
Loans, Including Fees	$ 378,983	$ 475,141	$ 1,143,406	$ 1
Investment Securities	49,929	22,232	97,024	
Mortgage-Backed Securities	790,083	709,173	2,357,745	2
Other Interest-Earning Assets	56,821	13,746	87,549	
Total Interest Income	1,275,816	1,220,292	3,685,724	3
INTEREST EXPENSE				
Deposits	435,557	456,235	1,320,045	1
Federal Home Loan Bank Borrowings	62,906	70,336	200,454	
Total Interest Expense	498,463	526,571	1,520,499	1
Net Interest Income	777,353	693,721	2,165,225	2
PROVISION FOR LOAN LOSSES	-	-	-	
Net Interest Income after Provision for Loan Losses	777,353	693,721	2,165,225	2
NON-INTEREST INCOME				
Gain on Sale of Loans	1,121	10,193	10,374	
Gain on Sale of Investments	-	133,316	-	
Other Income	16,812	9,548	30,198	
Total Non-Interest Income	17,933	153,057	40,572	
NON-INTEREST EXPENSE				
Compensation and Benefits	369,465	369,286	1,035,913	1
Occupancy and Equipment	48,315	46,703	136,918	
Data Processing	17,400	27,866	50,600	
Deposit Insurance Premiums	2,483	2,674	7,482	
Other Expense	127,723	90,781	340,633	
Total Non-Interest Expense	565,386	537,310	1,571,546	1
Income Before Income Taxes	229,900	309,468	634,251	1
PROVISION FOR INCOME TAX EXPENSE	74,092	103,917	211,148	

Net Income	$ 155,808	$ 205,551	$ 423,103	$
Income per common share				
Basic	$ .05	n/a	$ .12	
Diluted	$ .05	n/a	$ .12	

See accompanying notes to consolidated financial statements.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED MARCH 31, 2005 AND 2004

	Common Stock	Additional Paid-in Capital	Unearned ESOP Stock	Retained Earnings	Acc O Comp Inco
BALANCE - JUNE 30, 2003	$ -	$ -	$ -	$18,156,800	$
Net Income	-	-	-	672,637	
Other Comprehensive Income: Changes in Unrealized Gain (Loss) on Securities Available-for-Sale, Net Tax Effects	-	-	-	-	
BALANCE - MARCH 31, 2004	$ -	$ -	$ -	$18,829,437	$
BALANCE - JUNE 30, 2004	$ -	$ -	$ -	$18,977,541	$(1
Net Income	-	-	-	423,103	
Other Comprehensive Income: Changes in Unrealized Gain (Loss) on Securities Available-for-Sale, Net of Tax Effects	-	-	-	-	1
Capitalization of mutual holding company ($100,000)	-	(100,000)	-	-	
Issuance of common stock	14,235	13,491,560	-	-	
Common stock acquired by ESOP	-	-	(1,138,870)	-	

ESOP Compensation Earned	-	(285)	14,236	-	
BALANCE - MARCH 31, 2005	$ 14,235	$13,391,275	$(1,124,634)	$19,400,644	$

See accompanying notes to consolidated financial statements.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended March 31, 2005	Nine Months Ended March 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 423,103	$ 672,637
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Net Amortization and Accretion on Securities	37,179	11,066
Gain on Sale of Investments	-	(223,200)
Amortization of Deferred Loan Fees	(34,223)	(90,313)
Depreciation of Premises and Equipment	35,840	36,736
ESOP Expense	13,591	-
Changes in Assets and Liabilities		
Increase in Deferred Tax Asset	(12,728)	-
Loans Held-for-Sale	(33,500)	1,227,800
Accrued Interest Receivable	(12,608)	45,596
Other Operating Assets	41,267	42,244
Other Operating Liabilities	117,084	(59,276)
Net Cash Provided by Operating Activities	575,005	1,663,290
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Originations and Purchases, Net of Principal Collections	271,716	7,520,846
Deferred Loan Fees Collected	23,632	23,488
Acquisition of Depreciable Assets	(103,478)	(10,890)
Activity in Available-for-Sale Securities		
Proceeds from Sales and Principal Payments on Mortgage-Backed Securities	904,793	8,390,602
Purchases	(7,265,222)	(16,374,426)
Activity in Held-to-Maturity Securities		
Proceeds from Redemption or Maturity of Investments	541,600	544,623
Principal Payments on Mortgage-Backed Securities	504,534	868,526
Purchases	(220,403)	-

Net Cash Provided by (Used in) Investing Activities	(5,342,828)	962,769

See accompanying notes to consolidated financial statements.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)

	Nine Months Ended March 31,	
	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase (Decrease) in Deposits	532,821	(2,522,078)
Net Proceeds from Sale of Common Stock	13,405,885	-
Acquisition of ESOP Shares	(1,138,870)	-
(Repayments)/Proceeds from Advances from Federal Home Loan Bank, Net	(1,885,430)	(83,752)
Repayments on Other Long-Term Debt	-	(20,414)
Net Decrease in Mortgage-Escrow Funds	(135,868)	(116,388)
Net Cash Provided by (Used in) Financing Activities	10,778,538	(2,742,632)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,010,715	(116,573)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	4,342,125	9,470,593
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 10,352,840	$ 9,354,020
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest Paid on Deposits and Borrowed Funds	$ 1,517,382	$ 1,654,964
Income Taxes Paid	136,275	183,999
Market Value Adjustment for Gain (Loss) on Securities Available-for-Sale	1,631,487	(951,478)

See accompanying notes to consolidated financial statements.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited financial statements were prepared in accordance with instructions for Form 10-QSB and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the nine month period ended March 31, 2005, is not necessarily indicative of the results which may be expected for the entire fiscal year.

Use of Estimates

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

Nature of Operations

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

Cash and Cash Equivalents

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

Securities

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

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

Loans Held For Sale

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

Loans

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

Allowance for Loan Losses

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Off-Balance Sheet Credit Related Financial Instruments

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

Premises and Equipment

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

Income Taxes

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

Comprehensive Income

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. NET INCOME PER COMMON SHARE

Basic earnings per common share is computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common share equivalents that would arise from the exercise of dilutive securities. During the three and nine months ended March 31, 2005, the Company did not issue and does not have outstanding any dilutive securities.

3. CONVERSION TO STOCK FORM OF OWNERSHIP

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

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

The shares of common stock sold in the public offering represent a minority ownership of the estimated pro forma market value of the Association as determined by an independent appraisal. The Mutual Holding Company is the majority owner of the Stock Holding Company. Costs incurred in connection with the offering were recorded as a reduction of the proceeds from the offering. The total amount of costs incurred in connection with the offering was $730,035.

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

General

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

Critical Accounting Policies

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

Discussion of Financial Condition Changes from June 30, 2004 to March 31, 2005

At March 31, 2005, total assets amounted to $108.1 million compared to $95.7 million at June 30, 2004, an increase of $12.4 million or 13.0%. This increase was primarily due to an increase in cash and cash equivalents primarily as a result of funds received for subscription orders in the Company's subscription and community offering conducted in connection with the Association's mutual holding company reorganization. Securities available for sale increased $7.9 million or 12.4% due to purchases of securities during the quarter ended March 31, 2005. Loans receivable, net decreased $259,631 or 1.1% primarily due to loan repayments. Home Federal Savings and Loan has continued to invest funds from operations primarily in marketable securities rather than long-term, fixed rate loans as part of its interest-rate risk strategy during this period of historically low interest rates. Securities held-to-maturity decreased $825,599, or 32.8% for the nine months ended March 31, 2005 compared to securities held-to-maturity at June 30, 2004 primarily due to maturities and principal payments.

The Company's total liabilities amounted to $77.0 million at March 31, 2005, a decrease of $1.4 million, or 1.8%, compared to total liabilities at June 30, 2004. The primary reason for the decrease in liabilities was due to the decrease of $1,885,430, or 19.3%, in Advances in Federal Home Loan Bank of Dallas. This decrease was a result of principal repayments of maturing FHLB advances. This decrease was offset by an increase in deposits of $532,821, or 0.8%. Total deposits increased from $68.1 million at June 30, 2004 to $68.7 million at March 31, 2005, due to normal deposits inflow.

Total stockholders' equity increased $13.8 million, or 79.6% to $31.1 million at March 31, 2005 compared to $17.3 million at June 30, 2004. This increase was primarily the result of the net proceeds received from the sale of 1,423,583 shares of common stock. Total stockholders' equity also increased due to a change in accumulated other comprehensive loss from a loss of $1.7 million at June 30, 2004 to a loss of $591,606 at March 31, 2005, as a result of an increase in the market value of securities available for sale at March 31, 2005 compared to June 30, 2004. The increase in equity was also due to continued profitable operations during the nine months ended March 31, 2005 of $423,103.

The Association is required to meet minimum capital standards promulgated by the Office of Thrift Supervision ("OTS"). At March 31, 2005, Home Federal Savings and Loan's regulatory capital was well in excess of the minimum capital requirements.

Comparison of Operating Results for the Three and Nine Month Periods Ended March 31, 2005 and 2004

General

Net income amounted to $155,808 for the three months ended March 31, 2005 compared to $205,551 for the same period in 2004, a decrease of $49,743, or 24.2%. For the nine months ended March 31, 2005, the Company's net income was $423,103, a $249,534, or 37.1% decrease from $672,637 for the nine months ended March 31, 2004. The decreases during the respective periods were primarily due to decreases in net interest income and non-interest income, partially offset by decreases in non-interest expense and income taxes.

Net Interest Income

Net interest income increased $83,632 for the three months ended March 31, 2005 over the prior year period. This increase was due primarily to the increase in investment securities and interest earning deposits maintained at the Federal Home Loan Bank of Dallas as a result of the investment of the net proceeds associated with the Company's sale of common stock.

Net interest income decreased $123,968 for the nine months ended March 31, 2005 from the prior year period primarily due to continued margin compression. Home Federal Savings and Loan's average interest rate spread was 2.29% and 2.36% for the three and nine months ended March 31, 2005, respectively, compared to 2.38% and 2.63%, respectively, for the same periods in 2004. The Association's net interest margin was 2.91% and 2.90%, respectively, for the three and nine months ended March 31, 2005, compared to 2.88% and 3.14%, respectively for the 2004 periods. This margin compression was due in large part to Home Federal Savings and Loan's interest rate risk strategy of investing in marketable securities rather than long-term, fixed rate loans. While management believes that purchasing available for sale securities rather than investing in long-term, fixed rate loans is a better interest rate risk strategy during this period of historically low interest rates, these investment securities generally yield less than loans, resulting in lower net interest income.

Provision for Losses on Loans

As a result of an analysis of historical experience, the volume and type of lending conducted by Home Federal Savings and Loan, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to Home Federal Savings and Loan's market area, the decrease in the loan portfolio and other factors related to the collectibility of Home Federal Savings and Loan's loan portfolio, no provisions were made during the three and nine months ended March 31, 2005 or 2004. The Association's allowance for loan losses was $235,000, or 1% of total loans, at March 31, 2005 and at March 31, 2004. The Association did not have any non-performing loans at March 31, 2005 or 2004. There can be no assurance that the loan loss allowance will be sufficient to cover losses on nonperforming assets in the future.

Non-interest Income

Total non-interest income amounted to $17,933 for the three months ended March 31, 2005 compared to $153,057 for the same period in 2004. The decrease was primarily due to a $133,316 decrease in gain on sale of investment securities due to a decrease in sales activity during the three-month period ended March 31, 2005. Total non-interest income decreased $261,484 for the nine months ended March 31, 2005 compared to the prior year period. The decrease was primarily due to a decrease in gain on sale of securities, as well as a decrease in gain on sale of loans as a result of a decrease in the volume of loans sold.

Non-interest Expense

Total non-interest expense increased $28,076, or 5.2%, for the three months ended March 31, 2005 compared to the prior year period. The increase was primarily due to an increase of $36,942 in other expense, consisting primarily of advertising expenses and audit fees, which was partially offset by a $10,466 decrease in data processing expense. Total non-interest expense decreased $10,138, or 0.6%, for the nine months ended March 31, 2005 compared to the prior year period. The decrease was primarily related to a $75,007 decrease in compensation and benefits expense and a $37,459 decrease in data processing expense, which were partially offset by a $98,398 increase in other expense, consisting primarily of advertising expenses and audit fees.

Income Taxes

Income taxes amounted to $74,092 and $103,917 for the three months ended March 31, 2005 and 2004, respectively, resulting in effective tax rates of 32.2% and 33.6%, respectively. Income taxes amounted to $211,148 and $336,928 for the nine months ended March 31, 2005 and 2004, respectively, resulting in effective tax rates of 33.3% and 33.4%, respectively. The decrease in income taxes for the three and nine months ended December 31, 2005 was due to decreased income before income taxes.

Liquidity and Capital Resources

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

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

Home Federal Savings and Loan's primary sources of funds are deposits, amortization and prepayment of loans and mortgage-backed securities, maturities of investment securities and other short-term investments, loan sales and earnings and funds provided from operations. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Association sets the interest rates on its deposits to maintain a desired level of total deposits. In addition, Home Federal Savings and Loan invests excess funds in short-term interest-earning accounts and other assets, which provide liquidity to meet lending requirements. Home Federal Savings and Loan's deposit accounts with the Federal Home Loan Bank of Dallas amounted to $675,346 at March 31, 2005.

A significant portion of Home Federal Savings and Loan's liquidity consists of securities classified as available for sale and cash and cash equivalents. Home Federal Savings and Loan's primary sources of cash are net income, principal repayments on loans and mortgage-backed securities and increases in deposit accounts. If Home Federal Savings and Loan requires funds beyond its ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Dallas which provide an additional source of funds. At March 31, 2005, Home Federal Savings and Loan had $7.9 million in advances from the Federal Home Loan Bank of Dallas.

At March 31, 2005, Home Federal Savings and Loan had outstanding loan commitments of $2.6 million to originate loans. At March 31, 2005, certificates of deposit scheduled to mature in less than one year, totaled $27.5 million.

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

Home Federal Savings and Loan is required to maintain regulatory capital sufficient to meet tangible, core and risk-based capital ratios of at least 1.5%, 3.0% and 8.0%, respectively. At March 31, 2005, Home Federal Savings and Loan exceeded each of its capital requirements with ratios of 24.25%, 24.25% and 91.87%, respectively.

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

Off-Balance Sheet Arrangements

At March 31, 2005, the Association did not have any off-balance sheet arrangements, as defined by Securities and Exchange Commission rules.

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

Impact of Inflation and Changing Prices

The financial statements and related financial data presented herein have been prepared in accordance with instructions to Form 10-QSB, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in relative purchasing power over time due to inflation.

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

Forward-Looking Statements

This Form 10-QSB contains certain forward-looking statements and information relating to the Association that are based on the beliefs of management as well as assumptions made by and information currently available to management. In addition, in those and other portions of this document, the words "anticipate," "believe," "estimate," "except," "intend," "should" and similar expressions, or the negative thereof, as they relate to the Association or the Association's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Association with respect to future looking events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary from those described herein as anticipated, believed, estimated, expected or intended. The Association does not intend to update these forward-looking statements.

ITEM 3. CONTROLS AND PROCEDURES

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

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following Exhibits are filed as part of this report:

No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.0	Section 1350 Certification.

SIGNATURES

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

Date: May 16, 2005	By: /s/ Daniel R. Herndon
	Daniel R. Herndon President and Chief Executive Officer
Date: May 16, 2005	By: /s/ Clyde D. Patterson
	Clyde D. Patterson Executive Vice President (principal financial officer)