IF Bancorp, Inc.
Form 10-K
September 19, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended 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: 001-35226

IF BANCORP, INC.

(Exact name of registrant as specified in its charter)

MARYLAND	**45-1834449**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**
201 East Cherry Street, Watseka, Illinois	**60970**
(Address of principal executive offices)	**(Zip Code)**

(815) 432-2476

(Registrant s telephone number, including area code)

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	**Nasdaq Capital Market**

Securities registered pursuant to Section 12(g) of the Act:

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by nonaffiliates as of December 31, 2011 was $46,923,386.

The number of shares outstanding of the registrant s common stock as of September 18, 2012 was 4,811,255.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the Registrant s Annual Meeting of Stockholders to be held on November 19, 2012 are incorporated by reference in Part III of this Form 10-K.

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This report contains certain forward-looking statements within the meaning of the federal securities laws. These statements are not historical facts; rather, they are statements based on IF Bancorp, Inc. s current expectations regarding its business strategies, intended results and future performance. Forward-looking statements are preceded by terms such as expects,   believes,   anticipates,   intends and similar expressions.

Management s ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include interest rate trends, the general economic climate in the market area in which IF Bancorp, Inc. operates, as well as nationwide, IF Bancorp, Inc. s ability to control costs and expenses, competitive products and pricing, loan delinquency rates and changes in federal and state legislation and regulation. For further discussion of factors that may affect the results, see Item 1A. Risk Factors in this Annual Report on Form 10-K (Form 10-K). These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements.

PART I

ITEM 1. BUSINESS

General

IF Bancorp, Inc. (IF Bancorp or the Company) is a Maryland corporation that owns 100% of the common stock of Iroquois Federal Savings and Loan Association (Iroquois Federal or the Association). IF Bancorp was incorporated in March, 2011 to become the holding company of Iroquois Federal in connection with Iroquois Federal s mutual to stock conversion. On July 7, 2011 we completed our initial public offering of common stock in connection with Iroquois Federal s mutual-to-stock conversion, selling 4,496,500 shares of common stock at $10.00 per share, including 384,900 shares sold to Iroquois Federal s employee stock ownership plan, and raising approximately $45.0 million of gross proceeds. In addition, we issued 314,755 shares of our common stock to the Iroquois Federal Foundation. At June 30, 2012 and 2011, we had consolidated assets of $511.3 million and $510.8 million, consolidated deposits of $344.5 million and $444.1 million and consolidated equity of $86.6 million and $39.4 million, respectively. Other than holding the common stock of Iroquois Federal, IF Bancorp has not engaged in any significant business to date.

Iroquois Federal is a federally chartered savings association headquartered in Watseka, Illinois. The Association s business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in one- to four-family residential mortgage loans, multi-family mortgage loans, commercial real estate loans, home equity lines of credit, commercial business loans, consumer loans (consisting primarily of automobile loans), and, to a much lesser extent, construction loans and land loans. We also invest in securities, which historically have consisted primarily of securities issued by the U.S. government, U.S. government agencies and U.S. government-sponsored enterprises, as well as mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises. To a lesser extent, we also invest in municipal obligations.

We offer a variety of deposit accounts, including statement savings accounts, certificates of deposit, money market accounts, commercial and regular checking accounts, individual retirement accounts and health savings accounts.

In addition to our traditional banking products and services, we offer a full line of property and casualty insurance products through Iroquois Federal s wholly-owned subsidiary, L.C.I. Service Corporation, an insurance agency with offices in Watseka and Danville, Illinois. We also offer annuities, mutual funds, individual and group retirement plans, life, disability and health insurance, individual securities, managed accounts and other financial services at all of our locations through Iroquois Financial, a division of Iroquois Federal. Raymond James Financial Services, Inc. serves as the broker-dealer for Iroquois Financial.

We are dedicated to offering alternative banking delivery systems, including ATMs, online banking, ACH payroll, remote capture and telephone banking delivery systems. We recently relocated our IT Department to a modernized, secure facility in Kankakee, Illinois which will allow us to improve efficiency, security, and our ability to expand our mobile banking platform in the near future.

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Available Information

IF Bancorp, Inc is a public company, and files interim, quarterly and annual reports with the Securities and Exchange Commission. These respective reports are on file and a matter of public record with the Securities and Exchange Commission and may be read and copied at the Securities and Exchange Commission s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (http://www.sec.gov).

IF Bancorp s executive offices are located at 201 East Cherry Street, Watseka, Illinois 60970. Our telephone number at this address is (815) 432-2476, and our website address is www.iroquoisfed.com. Information on our website should not be considered a part of this annual report.

Market Area

We conduct our operations from our four full-service banking offices located in the municipalities of Watseka, Danville, Clifton and Hoopeston, Illinois and our loan production and wealth management office in Osage Beach, Missouri. Our primary lending market includes the Illinois counties of Vermilion and Iroquois, as well as the adjacent counties in Illinois and Indiana. Our loan production and wealth management office in Osage Beach, Missouri, serves the Missouri counties of Camden, Miller and Morgan.

In recent years our primary market area has experienced negative growth, reflecting in part, the economic downturn. Future business and growth opportunities will be influenced by economic and demographic characteristics of our primary market area and of east central Illinois. According to data from the U.S. Census Bureau, Iroquois and Vermilion Counties had estimated populations of 29,000 and 82,000, respectively, in July 2011. According to data from SNL Financial, Iroquois and Vermilion Counties are projected to continue to experience population reductions during the next three years. According to U.S. Bureau of Labor Statistics, the May 2012 unemployment rates for Iroquois County and Vermilion County were 7.5% and 8.9%, respectively. According to data from SNL Financial, unemployment rates for Vermilion and Iroquois Counties are projected to decrease over the next five years.

The economy in our primary market is fairly diversified, with employment in services, wholesale/retail trade, and government serving as the basis of the Iroquois County and Vermilion County economies. Manufacturing jobs, which tend to be higher paying jobs, are also a large source of employment in Vermilion County, while Iroquois County is heavily influenced by agriculture and agriculture related businesses such as Incobrasa Industries Ltd., Bunge, ConAgra and Big R Stores. Hospitals and other health care providers, local schools and trucking/distribution businesses also serve as major sources of employment.

Our Osage Beach, Missouri loan production and wealth management office is located in the Lake of the Ozarks region and serves the Missouri counties of Camden, Miller and Morgan. Once known primarily as a resort area, this market is becoming an area of permanent residences and a growing retirement community, providing an excellent market for mortgage loans and our wealth management and financial services business.

Competition

We face intense competition in our market area both in making loans and attracting deposits. We also compete with commercial banks, credit unions, savings institutions, mortgage brokerage firms, finance companies, mutual funds, insurance companies and investment banking firms. Some of our competitors have greater name recognition and market presence that benefit them in attracting customers, and offer certain services that we do not or cannot provide.

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Our deposit sources are primarily concentrated in the communities surrounding our banking offices located in Iroquois and Vermilion Counties, Illinois. As of June 30, 2011, the latest date for which FDIC data is available, we ranked first of 13 bank and thrift institutions with offices in Iroquois County with a 31.6% deposit market share. As of the same date, we ranked second of 16 bank and thrift institutions with offices in Vermilion County with a 16.0% deposit market share. Our deposit balances were inflated on June 30, 2011, due to our mutual-to-stock conversion which closed on July 7, 2011, for which we held approximately $113 million in escrow deposit balances at June 30, 2011. This temporary inflation of our deposit balances at June 30, 2011 did impact our market share percentage in Iroquois County, but had little impact on our rankings in Iroquois or Vermillion Counties.

Lending Activities

Our principal lending activity is the origination of one- to four-family residential mortgage loans, multi-family loans, commercial real estate loans (including farm loans), home equity loans and lines of credit, commercial business loans, consumer loans (consisting primarily of automobile loans), and, to a much lesser extent, construction loans and land loans.

In addition to loans originated by Iroquois Federal, our loan portfolio includes loan purchases which are secured by single family homes located primarily in the Midwest. As of June 30, 2012 and 2011, the amount of such loans equaled $17.2 million and $21.0 million, respectively. See Loan Originations, Purchases, Sales, Participations and Servicing.

Our loan portfolio also includes commercial loan participations which are secured by both real estate and other business assets, primarily within 100 miles of our primary lending market. As of June 30, 2012 and 2011, the amount of such loans equaled $16.2 million and $10.5 million, respectively. See Loan Originations, Purchases, Sales, Participations and Servicing.

The Association s legal lending limit to any one borrower is 15% of unimpaired capital and surplus. On July 30, 2012 our bank received approval from the Comptroller of the Currency (OCC) to participate in the Supplemental Lending Limits Program (SLLP). This program allows eligible savings associations to make additional residential real estate loans or extensions of credit to one borrower, small business loans or extensions of credit to one borrower, or small farm loans or extensions of credit to one borrower, in the lesser of the following two amounts: (1) 10% of its capital and surplus; or (2) the percentage of capital and surplus, in excess of 15%, that a state bank is permitted to lend under the state lending limit that is available for loans secured by one-to four-family residential real estate, small business loans, small farm loans or unsecured loans in the state where the main office of the savings association is located. For our association this additional limit (or supplemental limit(s)) for one-to four-family residential real estate, small business, or small farm loans is 10% of our Association s capital and surplus. In addition, the total outstanding amount of the Association s loans or extensions of credit or parts of loans and extensions of credit made to all of its borrowers under the SLLP may not exceed 100% of the Association s capital and surplus. By Association policy, participation of any credit facilities in the SLLP is to be infrequent and all credit facilities are to be with prior Board approval.

We originate a substantial portion of our fixed-rate one- to four-family residential mortgage loans for sale to the Federal Home Loan Bank of Chicago with servicing retained. Total loans sold under this program equaled approximately $66.7 million and $64.5 million as of June 30, 2012 and 2011, respectively. See One- to Four-Family Residential Real Estate Lending below for more information regarding the origination of loans for sale to the Federal Home Loan Bank of Chicago.

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Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, including loans held for sale, by type of loan at the dates indicated. Amounts shown for one- to four-family loans include loans held for sale of approximately $179,000, $0, $460,000, $156,000 and $0 at June 30, 2012, 2011, 2010, 2009, and 2008, respectively.

	At June 30,									
	2012		2011		2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Real estate loans:										
One- to four-family (1)	$ 147,686	55.93%	$ 148,448	60.82%	$ 153,774	64.56%	$ 157,109	69.48%	$ 162,552	74.60%
Multi-family	38,547	14.60	26,299	10.77	19,232	8.07	14,818	6.55	10,710	4.92
Commercial	32,925	12.47	27,402	11.23	24,956	10.48	23,815	10.53	21,186	9.72
Home equity lines of credit	8,994	3.41	10,043	4.11	7,853	3.30	4,581	2.03	1,812	0.83
Construction	8,396	3.18	4,039	1.65	2,112	0.89	1,915	0.85	1,567	0.72
Commercial	13,917	5.27	12,068	4.94	13,410	5.63	9,252	4.09	6,390	2.93
Consumer	13,578	5.14	15,779	6.46	16,875	7.08	14,627	6.47	13,685	6.28
Total loans	264,043	100.00%	244,078	100.00%	238,212	100.00%	226,117	100.00%	217,902	100.00%
Other items:										
Unearned fees and discounts, net	63		19		(35)		(44)		(61)	
Loans in process	1,539		890		(1,197)		(896)		(1,614)	
Allowance for loan losses	3,531		3,149		(2,767)		(1,365)		(1,047)	
Total loans, net	$ 258,910		$ 240,020		$ 234,213		$ 223,812		$ 215,180	

(1) Includes home equity loans.

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Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at June 30, 2012. We had no demand loans or loans having no stated repayment schedule or maturity at June 30, 2012.

	One- to four-family residential real estate (1)		Multi-family real estate		Commercial real estate		Home equity lines of credit	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due During the Years Ending June 30,								
2013	$ 1,140	6.18%	$ 274	6.25%	$ 5,927	6.37%	$ 513	5.02%
2014	1,848	5.56	2,180	5.25	5,898	5.85	1,226	4.48
2015 to 2016	2,388	5.69	9,013	5.03	5,553	4.96	2,392	4.29
2017 to 2021	12,671	5.07	24,702	4.39	9,068	4.91	1,103	3.96
2022 to 2026	14,451	4.56	508	4.53	3,188	4.89	3,289	4.02
2027 and beyond	115,188	4.44	1,870	6.01	3,291	5.95	471	4.03
Total	$ 147,686	4.55%	$ 38,547	4.68%	$ 32,925	5.45%	$ 8,994	4.21%

	Construction		Commercial		Consumer		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due During the Years Ending June 30,								
2013	$	%	$ 5,579	5.33%	$ 3,795	3.40%	$ 17,228	5.32%
2014	1,040	3.75	1,093	5.20	1,720	8.02	15,005	5.67
2015 to 2016			2,246	5.86	4,989	8.05	26,581	5.65
2017 to 2021	5,299	4.75	2,665	5.57	2,756	5.89	58,264	4.77
2022 to 2026			1,410	4.89	62	7.08	22,908	4.55
2027 and beyond	2,057	3.23	924	3.26	256	3.50	124,057	4.47
Total	$ 8,396	4.25%	$ 13,917	5.27%	$ 13,578	6.22%	$ 264,043	4.79%

(1) Includes home equity loans.

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at June 30, 2012 that are contractually due after June 30, 2013.

	Due After June 30, 2013		
	Fixed	Adjustable	Total
	(In thousands)		
Real estate loans:			
One- to four-family (1)	$ 50,984	$ 95,562	$ 146,546
Multi-family	28,835	9,438	38,273
Commercial	21,560	5,437	26,997
Home equity lines of credit	4,861	3,620	8,481
Construction	140	8,256	8,396

Commercial	6,901	1,437	8,338
Consumer	9,783		9,783
Total loans	$ 123,064	$ 123,750	$ 246,814

(1) Includes home equity loans.

One- to Four-Family Residential Mortgage Loans. At June 30, 2012, $147.7 million, or 55.9% of our total loan portfolio, consisted of one- to four-family residential mortgage loans. We offer residential mortgage loans that conform to Fannie Mae and Freddie Mac underwriting standards (conforming loans) as well as non-conforming loans. We generally underwrite our one- to four-family residential mortgage loans based on the applicant s employment and credit history and the appraised value of the subject property. We also offer loans through various agency programs, such as the Mortgage Partnership Finance Program of the Federal Home Loan Bank of Chicago, which are originated for sale.

We currently offer fixed-rate conventional mortgage loans with terms of up to 30 years that are fully amortizing with monthly loan payments. We also offer adjustable-rate mortgage loans that generally provide an initial fixed interest rate of one to seven years and annual interest rate adjustments thereafter, that amortize over a period up to 30 years. We offer one- to four-family residential mortgage loans with loan-to-value ratios up to 100%. Private mortgage insurance is required for all one- to four-family residential mortgage loans with loan-to-value ratios exceeding 90%. One- to four-family residential mortgage loans with loan-to-value ratios above 80%, but below 90%, require private mortgage insurance unless waived by management. At June 30, 2012, fixed-rate one- to four-family residential mortgage loans totaled $52.1 million, or 35.3% of our one- to four-family residential mortgage loans, and adjustable-rate one- to four-family residential mortgage loans totaled $95.6 million, or 64.7% of our one- to four-family residential mortgage loans.

Our one- to four-family residential mortgage loans are generally conforming loans. We generally originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency for Fannie Mae and Freddie Mac, which for our primary market area is currently $417,000 for single-family homes. At June 30, 2012, our average one- to four-family residential mortgage loan had a principal balance of $75,000. We also originate loans above the lending limit for conforming loans, which we refer to as jumbo loans. At June 30, 2012, $26.7 million, or 18.1%, of our total one-to four-family residential loans had principal balances in excess of $417,000. Most of our jumbo loans are originated with a seven-year fixed-rate term and a balloon payment, with up to a 30 year amortization schedule. Occasionally we will originate fixed-rate jumbo loans with terms of up to 15 years.

We actively monitor our interest rate risk position to determine the desirable level of investment in fixed-rate mortgage loans. In recent years there has been increased demand for long-term fixed-rate loans, as market rates have dropped and remained near historic lows. As a result, we have sold a substantial majority of our fixed-rate one- to four-family residential mortgage loans with terms of 15 years or greater. We sell fixed-rate residential mortgages to the Federal Home Loan Bank of Chicago, with servicing retained, under its Mortgage Partnership Finance Program. Since December 2008, we have sold loans to the Federal Home Loan Bank of Chicago under its Mortgage Partnership Finance Xtra Program. Total mortgages sold under this program were approximately $16.8 million and $23.8 million for the years ended June 30, 2012 and 2011, respectively. Generally, however, we retain in our portfolio fixed-rate one- to four-family residential mortgage loans with terms of less than 15 years, although this has represented a small percentage of the fixed-rate loans that we have originated in recent years due to the favorable long-term rates for borrowers.

We currently offer several types of adjustable-rate mortgage loans secured by residential properties with interest rates that are fixed for an initial period of one to seven years. We offer adjustable-rate mortgage loans that are fully amortizing. After the initial fixed period, the interest rate on adjustable-rate mortgage loans generally resets every year based upon the weekly average of a one-year U.S. Treasury Securities rate plus an applicable margin, subject to periodic and lifetime limitations on interest rate changes. Our adjustable rate mortgage loans with initial rate periods lasting five or seven years have a 2% maximum annual rate change up or down, and a 6% lifetime cap up from the initial rate. Our adjustable rate mortgage loans with initial rate periods lasting one or three years have a 1% maximum annual rate change up or down and a 5% lifetime cap up from the initial rate. The floor on all adjustable rate mortgage loans is equal to the initial rate.

Adjustable-rate mortgage loans generally present different credit risks than fixed-rate mortgage loans, primarily because the underlying debt service payments of the borrowers increase as interest rates increase, thereby increasing the potential for default and higher rates of delinquency. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Since changes in the interest rates on adjustable-rate mortgages may be limited by an initial fixed-rate period or by the contractual limits on periodic interest rate adjustments, adjustable-rate loans may not adjust as quickly to increases in interest rates as our interest-bearing liabilities.

In addition to traditional one- to four-family residential mortgage loans, we offer home equity loans that are secured by a second mortgage on the borrower s primary or secondary residence. Home equity loans are generally underwritten using the same criteria that we use to underwrite one- to four-family residential mortgage loans. Home equity loans may be underwritten with a loan-to-value ratio of up to 90% when combined with the principal balance of the existing first mortgage loan. Our home equity loans are primarily originated with fixed rates of interest with terms of up to 10 years, fully amortized. At June 30, 2012, approximately $1.6 million, or 1.1% of our one- to four-family mortgage loans were home equity loans secured by a second mortgage.

Home equity loans secured by second mortgages have greater risk than one- to four-family residential mortgage loans or home equity loans secured by first mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Particularly with respect to our home equity loans, decreases in real estate values could adversely affect the value of property used as collateral for our loans.

We do not offer or purchase loans that provide for negative amortization of principal, such as Option ARM loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan.

We require title insurance on all of our one- to four-family residential mortgage loans, and we also require that borrowers maintain fire and extended coverage casualty insurance in an amount at least equal to the lesser of the loan balance or the replacement cost of the improvements. We also require flood insurance, as applicable. We do not conduct environmental testing on residential mortgage loans unless specific concerns for hazards are identified by the appraiser used in connection with the origination of the loan.

Commercial Real Estate and Multi-family Real Estate Loans. At June 30, 2012, $32.9 million, or 12.5% of our loan portfolio consisted of commercial real estate loans, and $38.5 million, or 14.6% of our loan portfolio consisted of multi-family (which we consider to be five or more units) residential real estate loans. At June 30, 2012, substantially all of our commercial real estate and multi-family real estate loans were secured by properties located in Illinois and Indiana.

Our commercial real estate mortgage loans are primarily secured by office buildings, owner-occupied businesses, retail rentals, farm loans secured by real estate and churches. At June 30, 2012, loans secured by commercial real estate had an average loan balance of $240,000. We originate commercial real estate loans with balloon and adjustable rates of up to seven years with amortization up to 20 to 25 years. At June 30, 2012, $6.1 million or 18.6% of our commercial real estate loans had adjustable rates. The rates on our adjustable-rate commercial real estate loans are generally based on the prime rate of interest plus an applicable margin, and generally have a specified floor.

We originate multi-family loans with balloon and adjustable rates for terms of up to seven years with amortization up to 20 to 25 years. At June 30, 2012, $9.4 million or 24.5% of our multi-family loans had adjustable rates. The rates on our adjustable-rate multi-family loans are generally tied to the prime rate of interest plus or minus an applicable margin and generally have a specified floor.

In underwriting commercial real estate and multi-family real estate loans, we consider a number of factors, which include the projected net cash flow to the loan s debt service requirement (generally requiring a minimum ratio of 120%), the age and condition of the collateral, the financial resources and income level of the borrower and the borrower s experience in owning or managing similar properties. Commercial real estate and multi-family real estate loans are originated in amounts up to 80% of the appraised value or the purchase price of the property securing the loan, whichever is lower. Personal guarantees are typically obtained from commercial real estate and multi-family real estate borrowers. In addition, the borrower s financial information on such loans is monitored on an ongoing basis by requiring periodic financial statement updates.

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Commercial real estate and multi-family real estate loans generally carry higher interest rates and have shorter terms than one- to four-family residential mortgage loans. Commercial real estate and multi-family real estate loans, however, entail greater credit risks compared to the one- to four-family residential mortgage loans we originate, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the property, as repayment of the loan generally is dependent, in large part, on sufficient income from the property to cover operating expenses and debt service. Changes in economic conditions that are not in the control of the borrower or lender could affect the value of the collateral for the loan or the future cash flow of the property. Additionally, any decline in real estate values may be more pronounced for commercial real estate and multi-family real estate than for one- to four-family residential properties.

At June 30, 2012, our largest commercial real estate loan had an outstanding balance of $1.8 million, was secured by farmland, and was performing in accordance with its terms. At that date, our largest multi-family real estate loan had a balance of $5.8 million, was secured by a large apartment complex, and was performing in accordance with its terms.

Home Equity Lines of Credit. In addition to traditional one- to four-family residential mortgage loans and home equity loans, we offer home equity lines of credit that are secured by the borrower s primary or secondary residence. Home equity lines of credit are generally underwritten using the same criteria that we use to underwrite one- to four-family residential mortgage loans. Our home equity lines of credit are originated with either fixed or adjustable rates and may be underwritten with a loan-to-value ratio of up to 90% when combined with the principal balance of an existing first mortgage loan. Fixed-rate lines of credit are generally based on the prime rate of interest plus an applicable margin and have monthly payments of 1.5% of the outstanding balance. Adjustable-rate home equity lines of credit are based on the prime rate of interest plus or minus an applicable margin and require interest paid monthly. Both fixed and adjustable rate home equity lines of credit have balloon terms of five years. At June 30, 2012 we had $9.0 million, or 3.4% of our total loan portfolio in home equity lines of credit. At that date we had $5.7 million of undisbursed funds related to home equity lines of credit.

Home equity lines of credit secured by second mortgages have greater risk than one- to four-family residential mortgage loans secured by first mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Particularly with respect to our home equity lines of credit, decreases in real estate values could adversely affect the value of property securing the loan.

Commercial Business Loans. We also originate commercial non-mortgage business (term) loans and adjustable lines of credit. At June 30, 2012, we had $13.9 million of commercial business loans outstanding, representing 5.3% of our total loan portfolio. At that date, we also had $5.0 million of unfunded commitments on such loans. These loans are generally originated to small- and medium-sized companies in our primary market area. Our commercial business loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture, and are primarily secured by business assets other than real estate, such as business equipment and inventory, accounts receivable or stock. We also offer agriculture loans that are not secured by real estate.

In underwriting commercial business loans, we generally lend up to 80% of the appraised value or purchase price of the collateral securing the loan, whichever is lower. The commercial business loans that we offer have fixed interest rates or adjustable-rate indexed to the prime rate of interest plus an applicable margin, and with terms ranging from one to seven years. Our commercial business loan portfolio consists primarily of secured loans. When making commercial business loans, we consider the financial statements, lending history and debt service capabilities of the borrower (generally requiring a minimum ratio of 120%), the projected cash flows of the business and the value of the collateral, if any. Virtually all of our loans are guaranteed by the principals of the borrower.

Commercial business loans generally have a greater credit risk than one- to four-family residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower s ability to make repayment from his or her employment and other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower s ability to make repayment from the cash flow of the borrower s business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. We seek to minimize these risks through our underwriting standards.

At June 30, 2012, our largest commercial business loan outstanding was for $1.5 million and was secured by all assets of a trucking business. At June 30, 2012, this loan was performing in accordance with its terms.

Construction Loans. We also originate construction loans for one- to four-family residential properties and commercial real estate properties, including multi-family properties. At June 30, 2012, $8.4 million, or 3.2%, of our total loan portfolio, consisted of construction loans, which were secured by one- to four-family residential real estate, multi-family real estate properties and commercial real estate properties. At June 30, 2012, the unadvanced portion of these construction loans totaled $1.8 million.

Construction loans for one- to four-family residential properties are originated with a maximum loan to value ratio of 85% and are generally interest-only loans during the construction period which typically does not exceed 12 months. After this time period, the loan converts to permanent, amortizing financing following the completion of construction. Construction loans for commercial real estate are made in accordance with a schedule reflecting the cost of construction, and are generally limited to an 80% loan-to-completed appraised value ratio. We generally require that a commitment for permanent financing be in place prior to closing the construction loan.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property.

Moreover, if the estimated value of the completed project is inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. Construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

At June 30, 2012, all of the construction loans that we originated were for one-to four- family residential properties, multi-family real estate properties and commercial real estate properties. The largest of such construction loans at June 30,2012 was for an apartment complex and had a principal balance of $5.3 million. This loan was performing in accordance with its terms at June 30, 2012.

Loan Originations, Purchases, Participations, Sales and Servicing. Lending activities are conducted primarily by our loan personnel operating in each office. All loans that we originate are underwritten pursuant to our standard policies and procedures. In addition, our one- to four-family residential mortgage loans generally incorporate Fannie Mae, Freddie Mac or Federal Home Loan Bank of Chicago underwriting guidelines, as applicable. We originate both adjustable-rate and fixed-rate loans. Our ability to originate fixed- or adjustable-rate loans is dependent upon the relative customer demand for such loans, which is affected by current market interest rates as well as anticipated future market interest rates. Our loan origination and sales activity may be adversely affected by a rising interest rate environment which typically results in decreased loan demand. Most of our commercial real estate and commercial business loans are generated by our internal business development efforts and referrals from professional contacts. Most of our originations of one- to four-family residential mortgage loans, consumer loans and home equity loans and lines of credit are generated by existing customers, referrals from realtors, residential home builders, walk-in business and from our website.

Consistent with our interest rate risk strategy, in the low interest rate environment that has existed in recent years, we have sold on a servicing-released basis a substantial majority of the conforming, fixed-rate one- to four-family residential mortgage loans with maturities of 15 years or greater that we have originated.

From time to time, we purchase loan participations in commercial loans in which we are not the lead lender secured by real estate and other business assets, primarily within 100 miles of our primary lending area. In these circumstances, we follow our customary loan underwriting and approval policies. We have sufficient capital to take advantage of these opportunities to purchase loan participations, as well as strong relationships with other community banks in our primary market area and throughout Illinois that may desire to sell participations, and we may increase our purchases of participations in the future as a growth strategy. At June 30, 2012 and 2011, the amount of commercial loan participations totaled $16.2 million and $10.5 million, respectively, of which $7.3 million and $6.4 million, at June 30, 2012 and 2011 were outside our primary market area.

We sell a portion of our fixed-rate residential mortgage loans to the Federal Home Loan Bank of Chicago under its Mortgage Partnership Finance Xtra Program. We retain servicing on all loans sold under this program. During the years ended June 30, 2012 and 2011, we sold $16.8 million and $23.8 million of loans to the Federal Home Loan Bank of Chicago under the program. Prior to December 2008, we also retained some credit risk associated with loans sold to the Federal Home Loan Bank of Chicago. For additional information regarding retained risk associated with these loans, see Allowance for Loan Losses Other Credit Risk.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors. The loan approval process is intended to assess the borrower s ability to repay the loan and the value of the collateral that will secure the loan. To assess the borrower s ability to repay, we review the borrower s employment and credit history and information on the historical and projected income and expenses of the borrower. We will also evaluate a guarantor when a guarantee is provided as part of the loan.

Iroquois Federal s policies and loan approval limits are established by our Board of Directors. Our loan officers generally have authority to approve one- to four-family residential mortgage loans up to $100,000, other secured loans up to $50,000, and unsecured loans up to $10,000. Managing Officers (those with designated loan approval authority) generally have authority to approve one- to four-family residential mortgage loans and other secured loans up to $300,000, and unsecured loans up to $150,000. In addition, any two individual officers may combine their loan authority limits to approve a loan. Our Loan Committee may approve one- to four-family residential mortgage loans, commercial real estate loans, multi-family real estate loans and land loans up to $1,000,000 in aggregate loans or $750,000 for individual loans, and unsecured loans up to $500,000. All loans above these limits must be approved by the Operating Committee, consisting of the Chairman, the President, and up to four other Board members.

We generally require appraisals from certified or licensed third party appraisers of all real property securing loans. When appraisals are ordered, they are done so through an agency independent of the Association or by staff independent of the loan approval process, in order to maintain a process free of any influence or pressure from any party that has an interest in the transaction.

Non-performing and Problem Assets

For all of our loans, once a loan is 15 days delinquent, a past due notice is mailed. Past due notices continue to be mailed monthly in the event the account is not brought current. Prior to the time a loan is 30 days past due, we attempt to contact the borrower by telephone. Thereafter we continue with follow-up calls. Generally, once a loan becomes 90 days delinquent, if no work-out efforts have been pursued, we commence the foreclosure or repossession process. A summary report of all loans 60 days or more past due and all criticized and classified loans is provided monthly to our Board of Directors.

Loans are evaluated for non-accrual status when payment of principal and/or interest is 90 days or more past due. Loans are also placed on non-accrual status when it is determined collection of principal or interest is in doubt or if the collateral is in jeopardy. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received and only after the loan is returned to accrual status. The loans are typically returned to accrual status if unpaid principal and interest are repaid so that the loan is current.

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Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. At June 30, 2012, 2011, 2010, 2009 and 2008, we had troubled debt restructurings of approximately $3.8 million, $1.8 million, $782,000, $951,000 and $128,000, respectively. At the dates presented, we had no loans that were delinquent 120 days or greater and that were still accruing interest.

	At June 30,				
	2012	**2011**	**2010**	**2009**	**2008**
	(Dollars in thousands)				
Non-accrual loans:					
Real estate loans:					
One- to four-family (1)	$ 3,667	$ 4,881	$ 3,056	$ 3,490	$ 1,096
Multi-family	1,477				
Commercial	95	206			
Home equity lines of credit		73			
Construction					
Commercial	2	4			
Consumer	113	108		14	
Total non-accrual loans	5,354	5,272	3,056	3,504	1,096
Loans delinquent 90 days or greater and still accruing:					
Real estate loans:					
One- to four-family (1)			733	372	138
Multi-family					
Commercial					48
Home equity line of credit			36		
Construction					
Commercial					
Consumer			8	20	3
Total loans delinquent 90 days or greater and still accruing			777	392	189
Total non-performing loans	5,354	5,272	3,833	3,896	1,285
Performing troubled debt restructurings	310				
Total non-performing assets and performing troubled debt restructurings	$ 5,664	$ 5,272	$ 3,833	$ 3,896	$ 1,285
Other real estate owned and foreclosed assets:					
Real estate loans:					
One- to four-family (1)	1,246	690	497	113	56
Multi-family					
Commercial					
Home equity lines of credit	22				
Construction					
Commercial					
Consumer		20		13	16
Total other real estate owned and foreclosed assets	1,268	710	497	126	72
Total non-performing assets	$ 6,622	$ 5,982	$ 4,330	$ 4,022	$ 1,357
Ratios:					
Non-performing loans to total loans	2.03%	2.16%	1.61%	1.72%	0.59%

Non-performing assets to total assets	1.30%	1.17%	1.13%	1.07%	0.40%

(1) Includes home equity loans.

For the years ended June 30, 2012 and 2011, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $270,000 and $284,000, respectively. We recognized interest income of $0 and $114,000 on such loans for the years ended June 30, 2012 and 2011, respectively.

At June 30, 2012, our non-accrual loans totaled $5.4 million. These non-accrual loans consisted primarily of 27 one- to-four family residential loans with aggregate principal balances of $3.7 million and specific allowances of $684,000, 1 commercial real estate relationship with principal balances totaling $95,000 and specific allowances of $49,000, and 1 multi-family loan with principal balance of $1.5 million and specific allowance of $253,000.

Other than as disclosed in the above tables, there are no other loans at June 30, 2012 that management has serious doubts about the ability of the borrowers to comply with the present loan repayment terms.

Troubled Debt Restructurings. Troubled debt restructurings are defined under ASC 310-40 to include loans for which either a portion of interest or principal has been forgiven, or for loans modified at interest rates or on terms materially less favorable than current market rates. We periodically modify loans to extend the term or make other concessions to help borrowers stay current on their loans and to avoid foreclosure. At June 30, 2012 and 2011, we had $3.8 million and 1.8 million, respectively, of troubled debt restructurings. At June 30, 2012 we had troubled debt restructurings of approximately $2.1 million of residential one- to-four family mortgages, $2,000 of commercial loans, $1.5 million of multi-family real estate loans, $95,000 of commercial real estate and $32,000 of consumer loans that were all impaired.

For the years ended June 30, 2012 and 2011, gross interest income that would have been recorded had our troubled debt restructurings been performing in accordance with their original terms was $217,000 and $104,000, respectively. We recognized interest income of $9,000 and $82,000 on such modified loans for the years ended June 30, 2012 and 2011, respectively.

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Delinquent Loans. The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated.

	Loans Delinquent For					
	60 to 89 Days		90 Days or Greater		Total	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
At June 30, 2012						
Real estate loans:						
One- to four-family (1)	13	$ 1,057	11	$ 1,949	24	$ 3,006
Multi-family						
Commercial						
Home equity lines of credit	2	57	1	7	3	64
Construction						
Commercial	1	11			1	11
Consumer	4	23	3	40	7	63
Total loans	20	$ 1,148	15	$ 1,996	35	$ 3,144
At June 30, 2011						
Real estate loans:						
One- to four-family (1)	10	$ 631	19	$ 3,458	29	$ 4,089
Multi-family						
Commercial			2	104	2	104
Home equity lines of credit	2	67	1	37	3	104
Construction						
Commercial						
Consumer	8	80	4	25	12	105
Total loans	20	$ 778	26	$ 3,624	46	$ 4,402
At June 30, 2010						
Real estate loans:						
One- to four-family (1)	6	$ 325	21	$ 3,789	27	$ 4,114
Multi-family						
Commercial						
Home equity lines of credit			1	36	1	36
Construction						
Commercial business						
Consumer	4	41	1	8	5	49
Total loans	10	$ 366	23	$ 3,833	33	$ 4,199
At June 30, 2009						
Real estate loans:						
One- to four-family (1)	13	$ 938	27	$ 3,862	40	$ 4,800
Multi-family						
Commercial						
Home equity lines of credit	1	14			1	14
Construction						
Commercial						
Consumer	4	23	4	34	8	57
Total loans	18	$ 975	31	$ 3,896	49	$ 4,871

At June 30, 2008								
Real estate loans:								
One- to four-family (1)	17	$	678	15	$	1,234	32	$ 1,912
Multi-family								
Commercial	1		46	1		48	2	94
Home equity lines of credit								
Construction								
Commercial	1		9				1	9
Consumer	1		17	2		3	3	20
Total loans	20	$	750	18	$	1,285	38	$ 2,035

(1) Includes home equity loans.

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Total delinquent loans decreased by $1.3 million to $3.1 million at June 30, 2012 from $4.4 million at June 30, 2011. The decrease in delinquent loans was due primarily to a decrease of $1.5 million in one-to four-family loans delinquent 90 days or more and a decrease of $104,000 in commercial real estate loans delinquent 90 days or more, offset by an increase of $426,000 in one-to four-family loans delinquent 60 days or more.

Real Estate Owned and Foreclosed Assets. Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned. When property is acquired it is recorded at the lower of cost or estimated fair market value at the date of foreclosure, establishing a new cost basis. Estimated fair value generally represents the sale price a buyer would be willing to pay on the basis of current market conditions, including normal terms from other financial institutions, less the estimated costs to sell the property. Holding costs and declines in estimated fair market value result in charges to expense after acquisition. In addition, we could repossess certain collateral, including automobiles and other titled vehicles, called other repossessed assets. At June 30, 2012, we had $1.3 million in foreclosed assets, which included 11 one-to four-family properties.

Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. 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 assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent 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 (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the afore-mentioned categories, but which possess potential weaknesses that deserve our close attention, are required to be designated as watch.

When we classify assets as either substandard or doubtful, we undertake an impairment analysis which may result in allocating a portion of our general loss allowances to a specific allowance for such assets as we deem prudent. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. When we classify a problem asset as loss, we charge the asset off. For other classified assets, we provide a specific allowance for that portion of the asset that is considered uncollectible. Our determination as to the classification of our assets and the amount of our loss allowances are subject to review by our principal federal regulator, the Office of the Comptroller of the Currency, which can require that we establish additional loss allowances. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations.

The following table sets forth our amounts of classified assets, assets designated as watch and total criticized assets (classified assets and loans designated as watch) as of the date indicated. Amounts shown at June 30, 2012 and 2011, include approximately $5.4 million and $5.3 million of nonperforming loans, respectfully. The related specific valuation allowance in the allowance for loan losses for such nonperforming loans was $1.0 million and $903,000 at June 30, 2012 and 2011, respectively. Substandard assets shown include foreclosed assets.

	At June 30,	
	2012	**2011**
	(In thousands)	
Classified assets:		
Substandard	$ 6,858	$ 8,081
Doubtful		
Loss		
Total classified assets	6,858	8,081
Watch	1,788	1,399
Total criticized assets	$ 8,646	$ 9,480

At June 30, 2012, substandard assets consisted of $3.9 million of one- to four-family residential mortgage loans, $1.5 million in multi-family loans, $95,000 of commercial real estate loans, $8,000 of home equity lines of credit, $2,000 of commercial business loans, $113,000 of consumer loans, and $1.3 million of real estate owned. At June 30, 2012, watch assets consisted of $1.2 million of commercial business loans, and $612,000 of one- to four-family residential mortgage loans. At June 30, 2012, no assets were classified as doubtful or loss.

Allowance for Loan Losses

The allowance for loan losses represents one of the most significant estimates within our financial statements and regulatory reporting. Because of this, we have developed, maintained, and documented a comprehensive, systematic, and consistently applied process for determining the allowance for loan losses, in accordance with GAAP, our stated policies and procedures, management s best judgment and relevant supervisory guidance.

Our allowance for loan losses is the amount considered necessary to reflect probable incurred losses in our loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis, and more frequently if warranted. We analyze the collectability of loans held for investment and maintain an allowance that is appropriate and determined in accordance with GAAP. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of two key elements: (1) specific allowances for estimated credit losses on individual loans that are determined to be impaired through our review for identified problem loans; and (2) a general allowance based on estimated credit losses inherent in the remainder of the loan portfolio.

In performing the allowance for loan loss review, we have divided our credit portfolio into several separate homogeneous and non-homogeneous categories within the following groups:

Mortgage Loans: one- to four-family residential first lien loans originated by Iroquois Federal; one- to four-family residential first lien loans purchased from a separate origination company; one- to four-family residential junior lien loans; home equity lines of credit; multi-family residential loans on properties with five or more units; non-residential real estate loans; and loans on land under current development or for future development.

Consumer Loans (unsecured or secured by other than real estate): loans secured by deposit accounts; loans for home improvement; educational loans; automobile loans; mobile home loans; loans on other security; and unsecured loans.

Commercial Loans (unsecured or secured by other than real estate): secured loans and unsecured loans.

Determination of Specific Allowances for Identified Problem Loans. We establish a specific allowance when loans are determined to be impaired. Loss is measured by determining the present value of expected future cash flows, the loan s observable market value, or, for collateral-dependant loans, the fair value of the collateral adjusted for market conditions and selling expenses. Factors used in identifying a specific problem loan include: (1) the strength of the customer s personal or business cash flows; (2) the availability of other sources of repayment; (3) the amount due or past due; (4) the type and value of collateral; (5) the strength of our collateral position; (6) the estimated cost to sell the collateral; and (7) the borrower s effort to cure the delinquency. In addition, for loans secured by real estate, we consider the extent of any past due and unpaid property taxes applicable to the property serving as collateral on the mortgage.

Determination of General Allowance for Remainder of the Loan Portfolio. We establish a general allowance for loans that are not deemed impaired to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience, delinquency trends and management s evaluation of the collectability of the loan portfolio. The allowance is then adjusted for significant factors that, in management s judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors may include: (1) Management s assumptions regarding the minimal level of risk for a given loan category and includes amounts for anticipated losses which may not be reflected in our current loss history experience; (2) changes in lending policies and procedures, including changes in underwriting standards, and charge-off and recovery practices not considered elsewhere in estimating credit losses; (3) changes in international, national, regional and local economics and business conditions and developments that affect the collectability of the portfolio, including the conditions of various market segments; (4) changes in the nature and volume of the portfolio and in the terms of loans; (5) changes in the experience, ability, and depth of the lending officers and other relevant staff; (6) changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified loans; (7) changes in the quality of the loan review system; (8) changes in the value of the underlying collateral for collateral-dependant loans; (9) the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and (10) the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio. The applied loss factors are re-evaluated quarterly to ensure their relevance in the current environment.

Although our policy allows for a general valuation allowance on certain smaller-balance, homogenous pools of loans classified as substandard, we have historically evaluated every loan classified as substandard, regardless of size, for impairment as part of our review for establishing specific allowances. Our policy also allows for a general valuation allowance on certain smaller-balance, homogenous pools of loans which are loans criticized as special mention or watch. A separate general allowance calculation is made on these loans based on historical measured weakness, and which is no less than twice the amount of general allowances calculated on our non-classified loans.

In addition, as an integral part of their examination process, the Office of the Comptroller of the Currency will periodically review our allowance for loan losses. Such agency may require that we recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

We periodically evaluate the carrying value of loans and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans, including troubled debt restructurings, that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Generally, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Other Credit Risk. We also have some credit risk associated with fixed-rate residential loans that we sold to the Federal Home Loan Bank of Chicago prior to December 2008 under its Mortgage Partnership Finance Program (MPFP). However, while we retain the servicing of these loans and receive both service fees and credit enhancement fees, they are not our assets. We continue to service approximately $66.7 million of these loans, for which our maximum potential credit risk is approximately $787,000. From June 2000 to June 30, 2012, we experienced only $8,000 in actual losses under the MPFP. Loans that we have sold to the Federal Home Loan Bank of Chicago since December 2008 are sold under its Mortgage Partnership Finance Xtra Program, rather than the MPFP. Unlike loans sold under the MPFP, we do not retain any credit risk with respect to loans sold under the Mortgage Partnership Finance Xtra Program.

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The following table sets forth activity in our allowance for loan losses at and for the periods indicated.

	At or For the Fiscal Years Ended June 30,				
	2012	**2011**	**2010**	**2009**	**2008**
	(Dollars in thousands)				
Balance at beginning of period	$ 3,149	$ 2,767	$ 1,365	$ 1,052	$ 1,021
Charge-offs:					
Real estate loans:					
One- to four-family (1)	(651)	(920)	(474)	(21)	(23)
Multi-family					
Commercial	(48)			(10)	
Home equity lines of credit	(35)				
Construction					
Commercial	(29)	(30)		(6)	
Consumer	(88)	(54)	(35)	(69)	(44)
Total charge-offs	(851)	(1,004)	(509)	(106)	(67)
Recoveries:					
Real estate loans:					
One- to four-family (1)	71	16	18	1	35
Multi-family					
Commercial				1	
Home equity lines of credit					
Construction					
Commercial			1		
Consumer	37	19	17	12	10
Total recoveries	108	35	36	14	45
Net charge-offs	(743)	(969)	(473)	(92)	(22)
Provision for loan losses	1,125	1,351	1,875	405	53
Balance at end of period	$ 3,531	$ 3,149	$ 2,767	$ 1,365	$ 1,052
Ratios:					
Net charge-offs to average loans outstanding	0.30%	0.40%	0.20%	0.04%	0.01%
Allowance for loan losses to non-performing loans at end of period	65.95%	59.73%	72.19%	35.04%	81.48%
Allowance for loan losses to total loans at end of period	1.34%	1.29%	1.16%	0.60%	0.48%

(1) Includes home equity loans.

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Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At June 30,					
	2012		2011		2010	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)					
Real estate loans:						
One- to four-family (1)	$ 1,940	55.9%	$ 1,987	60.8%	$ 1,785	64.5%
Multi-family	679	14.6	250	10.8	202	8.1
Commercial	245	12.5	232	11.2	175	10.5
Home equity lines of credit	81	3.4	120	4.1	71	3.3
Construction	78	3.2	30	1.7		.9
Commercial	347	5.3	352	4.9	400	5.6
Consumer	139	5.1	169	6.5	127	7.1
Total allocated allowance	3,509		3,140		2,760	
Unallocated	22		9		7	
Total	$ 3,531	100.00%	$ 3,149	100.00%	$ 2,767	100.00%

(1) Includes home equity loans.

	At June 30,			
	2009		2008	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Real estate loans:				
One- to four-family (1)	$ 938	69.5%	$ 733	74.6%
Multi-family	67	6.6	48	4.9
Commercial	127	10.5	97	9.7
Home equity lines of credit	32	2.0	12	.8
Construction		.8		.7
Commercial	85	4.1	54	2.9
Consumer	113	6.5	84	6.3
Total allocated allowance	1,362		1,028	
Unallocated	3		19	
Total	$ 1,365	100.00%	$ 1,047	100.00%

(1) Includes home equity loans.

Net charge-offs decreased from $969,000 for the year ended June 30, 2011 to $743,000 for the year ended June 30, 2012, with most of the charge-offs during both periods involving one- to four-family residential real estate loans. In addition, non-performing loans increased by $82,000 during the year ended June 30, 2012.

The allowance for loan losses increased $382,000, or 12.1%, to $3.5 million at June 30, 2012 from $3.1 million at June 30, 2011. The increase was based on the amount in charge-offs, non-performing loans, an increase in the loan portfolio and the change in loan portfolio composition. At June 30, 2012, the allowance for loan losses represented 1.34% of total loans compared to 1.29% of total loans at June 30, 2011.

Investments

We conduct investment transactions in accordance with our Board-approved investment policy. The investment policy is reviewed at least annually by the Budget and Investment Committee of the Board, and any changes to the policy are subject to ratification by the full Board of Directors. This policy dictates that investment decisions give consideration to the safety of the investment, liquidity requirements, potential returns, the ability to provide collateral for pledging requirements, minimizing exposure to credit risk, potential returns and consistency with our interest rate risk management strategy. Authority to make investments under approved guidelines is delegated to our Investment Committee, comprised of our President and Chief Executive Officer, our Vice President and Chief Financial Officer, our Vice President and Chief Operating Officer, and our Vice President and Chief Retail Banking Officer. All investments are reported to the Board of Directors for ratification at the next regular Board meeting.

Our current investment policy permits us to invest only in investment quality securities permitted by Office of the Comptroller of the Currency regulations, including U.S. Treasury or Government guaranteed securities, U.S. Government agency securities, securities issued or guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae, bank-qualified municipal securities, bank-qualified money market instruments, and bank-qualified corporate bonds. We do not engage in speculative trading. As of June 30, 2012, we held no asset-backed securities other than mortgage-backed securities. As a federal savings and loan association, Iroquois Federal is generally not permitted to invest in equity securities, although this general restriction will not apply to IF Bancorp, Inc., which may acquire up to 5% of voting securities of any company without regulatory approval.

ASC 320-10, Investment Debt and Equity Securities requires that, at the time of purchase, we designate a security as held to maturity, available-for-sale, or trading, depending on our ability and intent. Securities available for sale are reported at fair value, while securities held to maturity are reported at amortized cost. All of our securities are available for sale. We do not maintain a trading portfolio.

U.S. Government and Agency Debt Securities. While U.S. Government and federal agency securities generally provide lower yields than other investments, including mortgage-backed securities and interest-earning certificates of deposit, we maintain these investments, to the extent appropriate, for liquidity purposes and as collateral for borrowings.

Mortgage-Backed Securities. We invest in mortgage-backed securities insured or guaranteed by the U.S. Government or government sponsored enterprises. Mortgage-backed securities are created by pooling mortgages and issuing a security with an interest rate that is less than the interest rate on the underlying mortgages. Some securities pools are guaranteed as to payment of principal and interest to investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are more liquid than individual mortgage loans since there is an active trading market for such securities. In addition, mortgage-backed securities may be used to collateralize our specific liabilities and obligations. Finally, mortgage-backed securities are assigned lower risk weightings for purposes of calculating our risk-based capital level. Investments in mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or acceleration of any discount relating to such interests, thereby affecting the net yield on our securities. We periodically review current prepayment speeds to determine whether prepayment estimates require modification that could cause amortization or accretion adjustments.

Municipal Obligations. Iroquois Federal s investment policy allows it to purchase municipal securities of credit-worthy issuers, and does not permit it to invest more than 10% of Iroquois Federal s capital in the bonds of any single issuer. At June 30, 2012, we held $3.2 million of municipal securities primarily issued by local governments and school districts within our market area.

Federal Home Loan Bank Stock. At June 30, 2012, we held $4.2 million of Federal Home Loan Bank of Chicago common stock in connection with our borrowing activities totaling $75.0 million. The common stock of the Federal Home Loan Bank is carried at cost and classified as a restricted equity security.

Bank-Owned Life Insurance. We invest in bank-owned life insurance to provide us with a funding source for our benefit plan obligations. Bank-owned life insurance also generally provides us noninterest income that is non-taxable. Federal regulations generally limit our investment in bank-owned life insurance to 25% of our Tier 1 capital plus our allowance for loan losses. At June 30, 2012, we had invested $7.5 million in bank-owned life insurance, which was 12.1% of our Tier 1 capital plus our allowance for loan losses.

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Investment Securities Portfolio. The following table sets forth the composition of our investment securities portfolio at the dates indicated, excluding Federal Home Loan Bank of Chicago stock, federally insured interest-earning time deposits and bank-owned life insurance. As of June 30, 2012, 2011, and 2010 all of such securities were classified as available for sale.

	At June 30,					
	2012		2011		2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Securities available for sale:						
U.S. government, federal agency and government-sponsored enterprises	$ 155,124	$ 160,958	$ 149,791	$ 152,127	$ 103,807	$ 106,817
U.S. government sponsored mortgage-backed securities	56,601	58,867	34,724	35,536	15,122	16,206
State and political subdivisions	3,221	3,481	2,481	2,610	2,576	2,725
Total	$ 214,946	$ 223,306	$ 186,996	$ 190,273	$ 121,505	$ 125,748

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Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at June 30, 2012 are summarized in the following table. At such date, all of our securities were available for sale. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. The yields on municipal securities have not been adjusted to a tax-equivalent basis.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
U.S. government, federal agency and government-sponsored enterprises	$	%	$ 50,424	3.19%	$ 104,700	2.07%	$	%	$ 155,124	$ 160,958	2.43%
U.S. government sponsored mortgage-backed securities			435	5.28	3,551	4.94	52,615	2.97	56,601	58,867	4.01
State and political subdivisions	507	1.23	1,180	3.00	1,470	5.49	64	4.83	3,221	3,481	4.47
Total	$ 507	1.23%	$ 52,039	3.67%	$ 109,721	2.21%	$ 52,679	2.97%	$ 214,946	$ 223,306	2.88%

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Sources of Funds

General. Deposits traditionally have been our primary source of funds for our lending and investment activities. We also borrow from the Federal Home Loan Bank of Chicago, to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management purposes and to manage our cost of funds. Our additional sources of funds are the proceeds from the sale of loans originated for sale, scheduled loan payments, maturing investments, loan prepayments, retained earnings and income on other earning assets.

Deposits. We generate deposits primarily from the areas in which our branch offices are located. We rely on our competitive pricing, convenient locations and customer service to attract and retain both retail and commercial deposits.

We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of statement savings accounts, certificates of deposit, money market accounts, commercial and regular checking accounts, individual retirement accounts and health savings accounts. From time to time we utilize brokered certificates of deposit or internet funding. At June 30, 2012, we had $11.5 million in brokered certificates of deposit and $868,000 in internet funding.

Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies, including the cost of alternate sources of funds, and market interest rates, liquidity requirements, interest rates paid by competitors and our deposit growth goals.

The following tables set forth the distribution of our average total deposit accounts, by account type, for the periods indicated.

	For the Fiscal Year Ended June 30, 2012			For the Fiscal Year Ended June 30, 2011		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
			(Dollars in thousands)			
Deposit type:						
Noninterest bearing demand	$ 9,956	2.95%	%	$ 8,476	2.53%	%
Interest-bearing checking or NOW	28,649	8.50	0.20	25,156	7.51	0.22
Savings accounts	27,560	8.17	0.34	23,679	7.06	0.49
Money market accounts	68,619	20.35	0.29	70,682	21.09	0.51
Certificates of deposit	202,466	60.03	1.25	207,167	61.81	1.72
Total deposits	$ 337,250	100.00%	0.85%	$ 335,160	100.00%	1.22%

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	For the Fiscal Year Ended June 30, 2010		
	Average Balance	Percent (Dollars in thousands)	Weighted Average Rate
Deposit type:			
Noninterest bearing demand	$ 7,866	2.45%	%
Interest-bearing checking or NOW	23,234	7.24	0.47
Savings accounts	20,363	6.35	0.87
Money market accounts	68,321	21.29	0.90
Certificates of deposit	201,074	62.67	2.37
Total deposits	$ 320,858	100.00%	1.77%

As of June 30, 2012, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100,000 was approximately $73.2 million. The following table sets forth the maturity of those certificates as of June 30, 2012.

	At June 30, 2012 (In thousands)
Three months or less	$ 16,708
Over three months through six months	15,407
Over six months through one year	24,166
Over one year to three years	14,211
Over three years	2,756
Total	$ 73,248

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The following table sets forth the amount of our certificates of deposit classified by interest rate as of the dates indicated.

	At June 30,	
2012	2011	2010
	(In thousands)	