

IF Bancorp, Inc.  
Form 10-K  
September 28, 2011  
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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, 2011

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)

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**MARYLAND**  
(State or other jurisdiction of  
incorporation or organization)  
**201 East Cherry Street,**  
**Watseka, Illinois**  
(Address of principal executive offices)

**45-1834449**  
(I.R.S. Employer  
Identification No.)

**60970**  
(Zip Code)

**(815) 432-2476**  
(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
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

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

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  No

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

Indicate by check mark 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by nonaffiliates as of June 30, 2011 was \$0.

The number of shares outstanding of the registrant's common stock as of September 27, 2011 was 4,811,255.

### **DOCUMENTS INCORPORATED BY REFERENCE:**

None.

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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, 2011, we had consolidated assets of \$510.8 million, consolidated deposits of \$444.1 million and consolidated equity of \$39.4 million. 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, remote capture and telephone banking delivery systems. In addition, we are currently in the process of establishing ACH payroll capabilities.

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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>).

Iroquois 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](http://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 Hoopston, 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. In December 2006, we opened our loan production and wealth management office in Osage Beach, Missouri, which 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 populations of 30,000 and 82,000, respectively, in 2010. Iroquois County's population decreased at a 0.3% annual rate from 2000 to 2010, while Vermilion County's population decreased at a 0.5% annual rate over the same period. Comparatively, the populations of Illinois and the U.S. increased at annual rates of approximately 0.3% and 1.0%, respectively, over the past decade. According to data from SNL Financial, Iroquois and Vermilion Counties are projected to experience population reductions of approximately 1.7% and 2.2%, respectively, from 2010 to 2015. Similarly, Vermilion County and Iroquois County are projected to experience a 2.1% and a 1.5% reduction in households, respectively, from 2010 to 2015.

In comparison to Illinois and the U.S., Iroquois and Vermilion counties both showed slightly lower growth rates for household and per capita income over the past decade. However, over the next five years, growth rates for median household income and per capita income are projected to increase slightly in both counties, with Vermilion County's projected growth rate for median household income matching the comparable Illinois growth rate. According to U.S. Bureau of Labor Statistics, the May 2011 unemployment rates for Iroquois County and Vermilion County were 7.5% and 8.8%, 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.

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### **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.

Our deposit sources are primarily concentrated in the communities surrounding our banking offices located in Iroquois and Vermilion Counties, Illinois. As of June 30, 2010, the latest date for which FDIC data is available, we ranked first of eight bank and thrift institutions with offices in Iroquois County with a 22.3% deposit market share. As of the same date, we ranked third of 16 bank and thrift institutions with offices in Vermilion County with a 15.3% deposit market share.

### **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, 2011 and 2010, the amount of such loans equaled \$21.0 million and \$24.6 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, 2011 and 2010, the amount of such loans equaled \$10.5 million and \$10.2 million, respectively. See Loan Originations, Purchases, Sales, Participations and Servicing.

In 2000, we began originating 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 \$64.5 million and \$52.3 million for the years ended June 30, 2011 and 2010, 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 \$0, \$460,000, \$156,000, \$0 and \$0 at June 30, 2011, 2010, 2009, 2008 and 2007, respectively.

	2011		2010		At June 30, 2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
<b>Real estate loans:</b>										
One- to										
four-family(1)	\$ 148,448	60.82%	\$ 153,774	64.56%	\$ 157,109	69.48%	\$ 162,552	74.60%	\$ 164,950	78.77%
Multi-family	26,299	10.77	19,232	8.07	14,818	6.55	10,710	4.92	1,109	0.53
Commercial	27,402	11.23	24,956	10.48	23,815	10.53	21,186	9.72	21,082	10.07
Home equity lines of credit	10,043	4.11	7,853	3.30	4,581	2.03	1,812	0.83	583	0.28
Construction loans	4,039	1.65	2,112	0.89	1,915	0.85	1,567	0.72	2,551	1.22
Commercial business loans	12,068	4.94	13,410	5.63	9,252	4.09	6,390	2.93	5,047	2.41
Consumer loans	15,779	6.46	16,875	7.08	14,627	6.47	13,685	6.28	14,093	6.73
<b>Total loans</b>	<b>244,078</b>	<b>100.00%</b>	<b>238,212</b>	<b>100.00%</b>	<b>226,117</b>	<b>100.00%</b>	<b>217,902</b>	<b>100.00%</b>	<b>209,415</b>	<b>100.00%</b>
<b>Other items:</b>										
Unearned fees and discounts, net	19		(35)		(44)		(61)		(39)	
Loans in process	890		(1,197)		(896)		(1,614)		(1,625)	
Allowance for loan losses	3,149		(2,767)		(1,365)		(1,047)		(1,021)	
<b>Total loans, net</b>	<b>\$ 240,020</b>		<b>\$ 234,213</b>		<b>\$ 223,812</b>		<b>\$ 215,180</b>		<b>\$ 206,730</b>	

(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, 2011. We have no demand loans or loans having no stated repayment schedule or maturity.

	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								
<u>Ending June 30,</u>								
2012	\$ 1,636	5.92%	\$ 316	6.00%	\$ 1,697	5.95%	\$ 229	5.30%
2013	675	6.33	515	6.59	5,092	6.66	565	4.83
2014 to 2015	4,050	5.92	8,053	5.16	7,649	5.87	2,927	4.45
2016 to 2020	11,632	5.45	15,424	5.21	4,859	5.81	2,175	4.20
2021 to 2025	15,920	4.85	1,582	4.97	2,819	5.36	2,888	4.01
2026 and beyond	114,535	4.84	409	5.11	5,286	5.97	1,259	3.96
Total	\$ 148,448	4.93%	\$ 26,299	5.21%	\$ 27,402	5.98%	\$ 10,043	4.25%

	Construction loans		Commercial business loans		Consumer loans		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
(Dollars in thousands)								
Due During the Years								
<u>Ending June 30,</u>								
2012	\$ 772	4.25%	\$ 2,190	5.72%	\$ 3,976	4.06%	\$ 10,816	5.07%
2013			2,013	6.40	1,348	8.32	10,208	6.70
2014 to 2015			3,646	5.24	6,365	8.57	32,690	6.03
2016 to 2020			3,032	6.04	3,636	6.68	40,758	5.49
2021 to 2025			229	4.25	185	4.77	23,623	4.81
2026 and beyond	3,267	4.51	958	6.09	269	5.50	125,983	4.88
Total	\$ 4,039	4.46%	\$ 12,068	5.77%	\$ 15,779	6.88%	\$ 244,078	5.21%

(1) Includes home equity loans.

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at June 30, 2011 that are contractually due after June 30, 2012.

	Due After June 30, 2012		Total
	Fixed	Adjustable	
(In thousands)			
Real estate loans:			
One- to four-family (1)	\$ 51,594	\$ 95,218	\$ 146,812

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Multi-family	13,668	12,315	25,983
Commercial	22,479	3,226	25,705
Home equity lines of credit	5,854	3,960	9,814
Construction loans		3,267	3,267
Commercial business loans	8,359	1,519	9,878
Consumer loans	11,803		11,803
Total loans	\$ 113,757	\$ 119,505	\$ 233,262

(1) Includes home equity loans.

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***One- to Four-Family Residential Mortgage Loans.*** At June 30, 2011, \$148.4 million, or 60.8% 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, 2011, fixed-rate one- to four-family residential mortgage loans totaled \$53.0 million, or 35.7% of our one- to four-family residential mortgage loans, and adjustable-rate one- to four-family residential mortgage loans totaled \$95.4 million, or 64.3% 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 is currently \$417,000 for single-family homes. At June 30, 2011, our average one- to four-family residential mortgage loan had a principal balance of \$73,000. We also originate loans above the lending limit for conforming loans, which we refer to as jumbo loans. At June 30, 2011, \$22.0 million, or 14.8%, 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. In June 2000, we began selling 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 sell loans to the Federal Home Loan Bank of Chicago under its Mortgage Partnership Finance Xtra Program. Total mortgages sold under this program were approximately \$23.8 million and \$11.1 million for the years ended June 30, 2011 and 2010, 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

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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, 2011, approximately \$1.8 million, or 1.2% 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, 2011, \$27.4 million, or 11.2% of our loan portfolio consisted of commercial real estate loans, and \$26.3 million, or 10.8% of our loan portfolio consisted of multi-family (which we consider to be five or more units) residential real estate loans. At June 30, 2011, 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, strip mall centers, farm loans secured by real estate and churches. At June 30, 2011, loans secured by commercial real estate had an average loan balance of \$232,000. 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, 2011, approximately 12.0% 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, 2011, approximately 46.8% 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

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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.

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, 2011, our largest commercial real estate loan had an outstanding balance of \$1.8 million, was secured by a wholesale distributor, and was performing in accordance with its terms. At that date, our largest multi-family real estate loan had a balance of \$5.7 million, was secured by apartment buildings, 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, 2011 we had \$10.0 million, or 4.1% of our total loan portfolio in home equity lines of credit. At that date we had \$5.1 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, 2011, we had \$12.1 million of commercial business loans outstanding, representing 4.9% of our total loan portfolio. At that date, we also had \$1.3 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.

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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, 2011, our largest commercial business loan outstanding was for \$1.5 million and was secured by inventory, equipment, accounts receivable and vehicles. At June 30, 2011, 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, 2011, \$4.0 million, or 1.7%, of our total loan portfolio, consisted of construction loans, which were secured by one- to four-family residential real estate, multi-family real estate loans and commercial real estate loans. At June 30, 2011, the unadvanced portion of these construction loans totaled \$3.7 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, 2011, all of the construction loans that we originated were for one-to four-family residential properties, multi-family real estate loans and commercial real estate loans and the largest of such construction loans had a principal balance of \$2.1 million. This loan was performing in accordance with its terms at June 30, 2011.

**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.

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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, 2011, our loan participations totaled \$10.5 million, or 4.3% of our loan portfolio, \$6.4 million of which 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, 2011 and 2010, we sold \$23.8 million and \$11.1 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 by a rotating list of independent, licensed, third-party appraisers of all real property securing loans. All appraisers are approved by the Board of Directors annually.

### **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, 2011, 2010, 2009, 2008 and 2007, we had troubled debt restructurings (loans for which a portion of interest or principal has been forgiven and loans modified at interest rates materially less than current market rates) of approximately \$1.8 million, \$782,000, \$951,000, \$128,000 and \$252,000, respectively. At the dates presented, we had no loans that were delinquent 120 days or greater and that were still accruing interest.

	2011	At June 30, (Dollars in thousands)			
	2010	2009	2008	2007	
<b>Non-accrual loans:</b>					
<b>Real estate loans:</b>					
One- to four-family (1)	\$ 4,881	\$ 3,056	\$ 3,490	\$ 1,096	\$ 344
Multi-family					
Commercial	206				
Home equity lines of credit	73				
<b>Construction loans</b>					
Commercial business loans	4				
Consumer loans	108		14		28
<b>Total non-accrual loans</b>	<b>5,272</b>	<b>3,056</b>	<b>3,504</b>	<b>1,096</b>	<b>372</b>
<b>Loans delinquent 90 days or greater and still accruing:</b>					
<b>Real estate loans:</b>					
One- to four-family (1)		733	372	138	77
Multi-family					
Commercial				48	
Home equity line of credit		36			
<b>Construction loans</b>					
Commercial business loans					7
Consumer loans		8	20	3	15
<b>Total loans delinquent 90 days or greater and still accruing</b>		<b>777</b>	<b>392</b>	<b>189</b>	<b>99</b>
<b>Total non-performing loans</b>	<b>5,272</b>	<b>3,833</b>	<b>3,896</b>	<b>1,285</b>	<b>471</b>
<b>Other real estate owned and foreclosed assets:</b>					
<b>Real estate loans:</b>					