

HMN FINANCIAL INC  
Form 10-Q  
August 07, 2014  
**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended June 30, 2014

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 0-24100

**HMN FINANCIAL, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

41-1777397  
(I.R.S. Employer Identification No.)

1016 Civic Center Drive N.W., Rochester, MN 55901

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(Address of principal executive offices)

(ZIP Code)

Registrant's telephone number, including area code:

(507) 535-1200

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated

Non-accelerated filer  
reporting company

(Do not check if a smaller reporting company)

Smaller

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Outstanding at July 17, 2014
Common stock, \$0.01 par value	4,470,339



**HMN FINANCIAL, INC.**

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**Part I – FINANCIAL INFORMATION****Item 1: Financial Statements****HMN FINANCIAL, INC. AND SUBSIDIARIES****Consolidated Balance Sheets**

<i>(Dollars in thousands)</i>	June 30, 2014 (unaudited)	December 31, 2013
<b>Assets</b>		
Cash and cash equivalents	\$ 81,202	120,686
Securities available for sale:		
Mortgage-backed and related securities (amortized cost \$3,649 and \$4,899)	3,878	5,213
Other marketable securities (amortized cost \$123,779 and \$103,788).....	123,369 127,247	102,743 107,956
Loans held for sale	3,861	1,502
Loans receivable, net	367,667	384,615
Accrued interest receivable	1,742	1,953
Real estate, net	3,476	6,898
Federal Home Loan Bank stock, at cost	777	784
Mortgage servicing rights, net	1,571	1,708
Premises and equipment, net	6,854	6,711
Prepaid expenses and other assets	593	698
Deferred tax asset, net	14,892	15,111
Total assets	\$ 609,882	648,622
<b>Liabilities and Stockholders' Equity</b>		
Deposits	\$ 522,853	553,930
Accrued interest payable	103	146
Customer escrows	879	614
Accrued expenses and other liabilities	6,671	8,257
Total liabilities	530,506	562,947

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Commitments and contingencies

Stockholders' equity:

Serial preferred stock (\$.01 par value):

authorized 500,000 shares; issued and outstanding shares 16,000 and 26,000	16,000	26,000
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Common stock (\$.01 par value):

authorized 16,000,000; issued shares 9,128,662	91	91
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Additional paid-in capital	50,046	51,175
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Retained earnings, subject to certain restrictions	75,309	72,211
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Accumulated other comprehensive loss, net of tax	(302 )	(674 )
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Unearned employee stock ownership plan shares	(2,707 )	(2,804 )
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Treasury stock, at cost 4,658,323 and 4,704,313 shares	(59,061 )	(60,324 )
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Total stockholders' equity	79,376	85,675
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Total liabilities and stockholders' equity	\$ 609,882	648,622
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See accompanying notes to consolidated financial statements.

**HMN FINANCIAL, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income (Loss)**

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
<i>(Dollars in thousands, except per share data)</i>				
Interest income:				
Loans receivable	\$4,659	5,503	9,729	11,531
Securities available for sale:				
Mortgage-backed and related	43	82	93	176
Other marketable	257	148	511	287
Cash equivalents	60	35	112	68
Other	1	19	2	48
Total interest income	5,020	5,787	10,447	12,110
Interest expense:				
Deposits	306	465	640	1,022
Federal Home Loan Bank advances	0	650	0	1,485
Total interest expense	306	1,115	640	2,507
Net interest income	4,714	4,672	9,807	9,603
Provision for loan losses	(2,178)	(520 )	(3,788 )	(520 )
Net interest income after provision for loan losses	6,892	5,192	13,595	10,123
Non-interest income:				
Fees and service charges	901	883	1,724	1,672
Mortgage servicing fees	263	257	524	505
Gain on sales of loans	330	702	676	1,380
Other	228	145	486	304
Total non-interest income	1,722	1,987	3,410	3,861
Non-interest expense:				
Compensation and benefits	3,273	2,980	6,751	6,179
Gain on real estate owned	(1,120)	(306 )	(1,052 )	(325 )
Occupancy	876	826	1,758	1,676
Deposit insurance	97	190	254	508
Data processing	249	352	495	707
Other	1,089	1,283	1,955	2,619
Total non-interest expense	4,464	5,325	10,161	11,364
Income before income tax expense	4,150	1,854	6,844	2,620

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Income tax expense	1,620	55	2,682	80
Net income	2,530	1,799	4,162	2,540
Preferred stock dividends and discount	(524 )	(547 )	(1,057 )	(1,023 )
Net income available to common shareholders	\$2,006	1,252	3,105	1,517
Other comprehensive income (loss), net of tax	\$192	(1,373)	372	(1,518 )
Comprehensive income (loss) attributable to common Shareholders	\$2,198	(121 )	3,477	(1 )
Basic earnings per common share	\$0.50	0.32	0.77	0.38
Diluted earnings per common share	\$0.44	0.30	0.68	0.36

See accompanying notes to consolidated financial statements.

**HMN FINANCIAL, INC. AND SUBSIDIARIES****Consolidated Statement of Stockholders' Equity****For the Six-Month Period Ended June 30, 2014**

(unaudited)

<i>(Dollars in thousands)</i>	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Unearned Accumulated Employee Stock Ownership Plan Shares	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2013	\$ 26,000	91	51,175	72,211	(674 )	(2,804 )	(60,324 )	85,675
Net income				4,162				4,162
Other comprehensive income					372			372
Redemption of preferred stock	(10,000 )							(10,000 )
Restricted stock awards			(1,263 )				1,263	0
Amortization of restricted stock awards			112					112
Dividends on preferred stock				(1,064 )				(1,064 )
Earned employee stock ownership plan shares			22			97		119
Balance, June 30, 2014	\$ 16,000	91	50,046	75,309	(302 )	(2,707 )	(59,061 )	79,376

See accompanying notes to consolidated financial statements.

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**HMN FINANCIAL, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows**

(unaudited)

	Six Months Ended	
	June 30, 2014	2013
<i>(Dollars in thousands)</i>		
Cash flows from operating activities:		
Net income	\$4,162	2,540
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	(3,788 )	(520 )
Depreciation	271	518
Amortization of premiums, net	8	51
Amortization of deferred loan fees	(119 )	(117 )
Amortization of mortgage servicing rights	249	331
Capitalized mortgage servicing rights	(112 )	(394 )
Gain on sales of real estate owned	(1,052 )	(325 )
Gain on sales of loans	(676 )	(1,380 )
Proceeds from sale of loans held for sale	23,098	56,136
Disbursements on loans held for sale	(17,436)	(47,341)
Amortization of restricted stock awards	112	72
Amortization of unearned ESOP shares	97	97
Cancellation of vested restricted stock awards	0	(120 )
Earned employee stock ownership shares priced above (below) original cost	22	(23 )
Stock option compensation	0	2
Decrease in accrued interest receivable	211	14
Decrease in accrued interest payable	(43 )	(69 )
Decrease in other assets	132	462
Increase (decrease) in other liabilities	2,534	(90 )
Other, net	305	145
	7,975	9,989
Net cash provided by operating activities		
Cash flows from investing activities:		
Principal collected on securities available for sale	1,253	3,135
Proceeds collected on maturities of securities available for sale	30,000	6,000