

IF Bancorp, Inc.  
Form 10-Q  
May 10, 2012  
Table of Contents

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended March 31, 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 No. 001-35226

## **IF Bancorp, Inc.**

(Exact name of registrant as specified in its charter)

Edgar Filing: IF Bancorp, Inc. - Form 10-Q

<b>Maryland</b> (State or other jurisdiction of incorporation or organization)	<b>45-1834449</b> (I.R.S. Employer Identification Number)
<b>201 East Cherry Street, Watseka, Illinois</b> (Address of Principal Executive Offices)	<b>60970</b> Zip Code
<b>(815) 432-2476</b> (Registrant's telephone number)	
<b>N/A</b> (Former name or former address, if changed since last report)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such 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. (Check one)

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

The Registrant had 4,811,255 shares of common stock, par value \$0.01 per share, issued and outstanding as of May 10, 2012.

**Table of Contents**

**IF Bancorp, Inc.**

**Form 10-Q**

Index

	Page
<b><u>Part I. Financial Information</u></b>	
Item 1.	1
<u>Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2012 (unaudited) and June 30, 2011</u>	1
<u>Condensed Consolidated Statements of Income for the Three Months and Nine Months Ended March 31, 2012 and 2011 (unaudited)</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months and Nine Months Ended March 31, 2012 and 2011 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Stockholders' Equity for the Nine Months Ended March 31, 2012 and 2011 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2012 and 2011 (unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	6
Item 2.	33
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
Item 3.	48
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	
Item 4.	48
<u>Controls and Procedures</u>	
<b><u>Part II. Other Information</u></b>	
Item 1.	49
<u>Legal Proceedings</u>	
Item 1A.	49
<u>Risk Factors</u>	
Item 2.	49
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
Item 3.	49
<u>Defaults upon Senior Securities</u>	
Item 4.	49
Mine Safety Disclosures	
Item 5.	49
<u>Other Information</u>	
Item 6.	49
<u>Exhibits</u>	
<u>Signature Page</u>	50

**Table of Contents****Part I. Financial Information****Item 1. Financial Statements****IF Bancorp, Inc.****Condensed Consolidated Balance Sheets****(Dollars in thousands)**

	<b>March 31, 2012 (Unaudited)</b>	<b>June 30, 2011</b>
<b>Assets</b>		
Cash and due from banks	\$ 8,280	\$ 53,811
Interest-bearing demand deposits	1,477	6,695
Cash and cash equivalents	9,757	60,506
Interest-bearing time deposits in banks	250	250
Available-for-sale securities	209,992	190,273
Loans, net of allowance for loan losses of \$3,317 and \$3,149 at March 31, 2012 and June 30, 2011, respectively	250,005	240,020
Premises and equipment, net of accumulated depreciation of \$5,113 and \$4,749 at March 31, 2012 and June 30, 2011, respectively	4,441	4,124
Federal Home Loan Bank stock, at cost	3,650	3,121
Foreclosed assets held for sale	559	710
Accrued interest receivable	2,209	1,684
Deferred income taxes	293	337
Bank-owned life insurance	7,430	7,235
Mortgage servicing rights	319	408
Other	1,195	2,148
Total assets	\$ 490,100	\$ 510,816
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
<b>Deposits</b>		
Demand	\$ 10,045	\$ 8,400
Savings, NOW and money market	131,210	230,283
Certificates of deposit	190,158	199,381
Brokered certificates of deposit	11,500	6,001
Total deposits	342,913	444,065
Federal Home Loan Bank advances	57,000	22,500
Advances from borrowers for taxes and insurance	1,313	841
Accrued post-retirement benefit obligation	2,138	1,932
Accrued interest payable	53	158
Other	1,703	1,879
Total liabilities	405,120	471,375

**Commitments and Contingencies**

**Stockholders' Equity**

Common stock, \$.01 par value, 100,000,000 shares authorized, 4,811,255 shares issued and outstanding	48	0
Additional paid-in capital	46,359	0
Unearned ESOP shares, at cost, 370,467 shares at March 31, 2012	(3,705)	0
Retained earnings	37,825	37,328
Accumulated other comprehensive income, net of tax	4,453	2,113
Total stockholders' equity	84,980	39,441
Total liabilities and equity	\$ 490,100	\$ 510,816

See accompanying notes to the unaudited condensed consolidated financial statements.

**Table of Contents****IF Bancorp, Inc.****Condensed Consolidated Statements of Income (Unaudited)**

(Dollars in thousands except per share amount)

	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Interest and Dividend Income</b>				
Interest and fees on loans	\$ 3,047	\$ 3,102	\$ 9,149	\$ 9,559
Securities:				
Taxable	1,417	1,010	4,225	3,097
Tax-exempt	28	30	91	93
Federal Home Loan Bank dividends	1	2	2	2
Deposits with other financial institutions	2	2	17	6
<b>Total interest and dividend income</b>	<b>4,495</b>	<b>4,146</b>	<b>13,484</b>	<b>12,757</b>
<b>Interest Expense</b>				
Deposits	698	933	2,264	3,204
Federal Home Loan Bank advances	223	221	676	679
<b>Total interest expense</b>	<b>921</b>	<b>1,154</b>	<b>2,940</b>	<b>3,883</b>
<b>Net Interest Income</b>	<b>3,574</b>	<b>2,992</b>	<b>10,544</b>	<b>8,874</b>
<b>Provision for Loan Losses</b>	<b>393</b>	<b>225</b>	<b>727</b>	<b>850</b>
<b>Net Interest Income After Provision for Loan Losses</b>	<b>3,181</b>	<b>2,767</b>	<b>9,817</b>	<b>8,024</b>
<b>Noninterest Income</b>				
Customer service fees	134	129	466	453
Other service charges and fees	62	49	175	205
Insurance commissions	178	116	569	443
Brokerage commissions	151	139	380	440
Net realized gains (losses) on sales of available-for-sale securities	95	(26)	385	352
Mortgage banking income, net	125	134	206	554
Bank-owned life insurance income, net	64	63	195	193
Other	150	158	418	447
<b>Total noninterest income</b>	<b>959</b>	<b>762</b>	<b>2,794</b>	<b>3,087</b>
<b>Noninterest Expense</b>				
Compensation and benefits	1,813	1,631	5,320	4,807
Office occupancy	120	122	352	360
Equipment	181	169	511	477
Federal deposit insurance	76	114	219	331
Stationary, printing and office	40	32	120	104
Advertising	82	81	250	221
Professional services	58	27	254	153

Edgar Filing: IF Bancorp, Inc. - Form 10-Q

Supervisory examinations	30	53	129	106
Audit and accounting services	31	0	154	23
Organizational dues and subscriptions	13	12	45	52
Insurance bond premiums	30	18	80	71
Telephone and postage	55	50	173	150
Gain on foreclosed assets, net	(7)	(28)	(22)	(112)
Charitable contributions	3	10	3,604	25
Other	289	194	787	784
Total noninterest expense	2,814	2,485	11,976	7,552
<b>Income Before Income Tax</b>	<b>1,326</b>	<b>1,044</b>	<b>635</b>	<b>3,559</b>
<b>Provision for Income Tax</b>	<b>478</b>	<b>379</b>	<b>138</b>	<b>1,294</b>
<b>Net Income</b>	<b>\$ 848</b>	<b>\$ 665</b>	<b>\$ 497</b>	<b>\$ 2,265</b>
<b>Earnings Per Share:</b>				
Basic and diluted (Note 5)	\$ .19	N/A	\$ .11	N/A

See accompanying notes to the unaudited condensed consolidated financial statements.

**Table of Contents****IF Bancorp, Inc.****Consolidated Statements of Comprehensive Income**

(Dollars in thousands)

	(Unaudited) Three Months Ended March 31,	
	2012	2011
<b>Net Income</b>	\$ 848	\$ 665
<b>Other Comprehensive Income</b>		
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of \$(14) and \$46, for 2012 and 2011, respectively	(22)	76
Postretirement health plan amortization of transition obligation and prior service cost and change in net loss, net of taxes of \$(22) and \$0 for 2012 and 2011, respectively	(35)	(1)
Other comprehensive income (loss), net of tax	(57)	75
<b>Comprehensive Income</b>	\$ 791	\$ 740

	(Unaudited) Nine Months Ended March 31,	
	2012	2011
<b>Net Income</b>	\$ 497	\$ 2,265
<b>Other Comprehensive Income</b>		
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of \$1,493 and \$(1,283), for 2012 and 2011, respectively	2,436	(2,093)
Postretirement health plan amortization of transition obligation and prior service cost and change in net loss, net of taxes of \$(59) and \$0 for 2012 and 2011, respectively	(96)	0
Other comprehensive income (loss), net of tax	2,340	(2,093)
<b>Comprehensive Income</b>	\$ 2,837	\$ 172

See accompanying notes to the unaudited condensed consolidated financial statements.



**Table of Contents****IF Bancorp, Inc.****Condensed Consolidated Statement of Stockholders Equity (Unaudited)**

(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total
<b>For the nine months ended March 31, 2012</b>						
Balance, July 1, 2011	\$ 0	\$ 0	\$ 0	\$ 37,328	\$ 2,113	\$ 39,441
Net income				497		497
Other comprehensive income					2,340	2,340
Common stock issued in initial public offering, 4,811,255 shares, net of issuance costs of \$1,725	48	46,340				46,388
Acquisition of ESOP shares, 384,900 shares			(3,849)			(3,849)
ESOP shares earned, 14,433 shares		19	144			163
Balance, March 31, 2012	\$ 48	\$ 46,359	\$ (3,705)	\$ 37,825	\$ 4,453	\$ 84,980
<b>For the nine months ended March 31, 2011</b>						
Balance, July 1, 2010	\$ 0	\$ 0	\$ 0	\$ 34,498	\$ 2,790	\$ 37,288
Net income				2,265		2,265
Other comprehensive income	0	0	0	0	(2,093)	(2,093)
Balance, March 31, 2011	\$ 0	\$ 0	\$ 0	\$ 36,763	\$ 697	\$ 37,460

See accompanying notes to the unaudited condensed consolidated financial statements.

**Table of Contents****IF Bancorp, Inc.****Condensed Consolidated Statement of Cash Flows (Unaudited)****(Dollars in thousands)**

	<b>Nine Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating Activities</b>		
Net income	\$ 497	\$ 2,265
Items not requiring (providing) cash		
Depreciation	313	287
Provision for loan losses	727	850
Amortization of premiums and discounts on securities	920	483
Deferred income taxes	(1,399)	724
Net realized gains on loan sales	(206)	(554)
Net realized gains on sales of available-for-sale securities	(385)	(352)
Gain on foreclosed assets held for sale	(22)	(112)
Bank-owned life insurance income, net	(195)	(193)
Originations of loans held for sale	(11,974)	(26,391)
Proceeds from sales of loans held for sale	12,269	27,060
ESOP compensation expense	163	0
Contribution of stock to the Foundation	3,148	0
Changes in		
Accrued interest receivable	(525)	(375)
Other assets	953	(416)
Accrued interest payable	(105)	36
Post-retirement benefit obligation	60	0
Other liabilities	(176)	(326)
Net cash provided by operating activities	4,063	2,986
<b>Investing Activities</b>		
Net change in interest-bearing deposits	0	(250)
Purchases of available-for-sale securities	(140,349)	(96,104)
Proceeds from the sales of available-for-sale securities	88,051	58,423
Proceeds from maturities and pay-downs of available-for-sale securities	35,973	19,112
Net change in loans	(11,186)	(7,878)
Purchase of FHLB stock	(529)	0
Purchase of premises and equipment	(630)	(227)
Proceeds from sale of foreclosed assets	647	304
Net cash used in investing activities	(28,023)	(26,620)
<b>Financing Activities</b>		
Net increase (decrease) in demand deposits, money market, NOW and savings accounts	(97,428)	13,105
Net increase (decrease) in certificates of deposit, including brokered certificates	(3,724)	6,124
Net increase in advances from borrowers for taxes and insurance	472	415
Proceeds from Federal Home Loan Bank advances	404,000	15,500
Repayments of Federal Home Loan Bank advances	(369,500)	(10,000)
Proceeds from issuance of common stock, net of costs	43,240	0
Stock issuance from Employee Stock Ownership Plan purchase	(3,849)	0

Edgar Filing: IF Bancorp, Inc. - Form 10-Q

Net cash provided by (used in) financing activities	(26,789)	25,144
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(50,749)</b>	<b>1,510</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>60,506</b>	<b>6,836</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 9,757</b>	<b>\$ 8,346</b>

**Supplemental Cash Flows Information**

Interest paid	\$ 3,045	\$ 3,847
Income taxes paid, net of refunds	\$ 1,618	\$ 1,422
Foreclosed assets acquired in settlement of loans	\$ 474	\$ 153

**Supplemental disclosure of noncash financing activities**

With the initial public offering in July 2011, the Company loaned \$3,849 to the Employee Stock Ownership Plan, which was used to acquire 384,900 shares of the Company's common stock. The loan is secured by the shares purchased and is shown as unearned ESOP shares in the consolidated balance sheets. Payments on the loan in the nine months ended March 31, 2012, were \$197 which included \$109 in principal and \$88 in interest. In addition, the Company donated 314,755 shares valued at \$3,148 to a charitable foundation. See accompanying notes to the unaudited condensed consolidated financial statements.

---

**Table of Contents**

**IF Bancorp, Inc.**

**Form 10-Q (Unaudited)**

**(Table dollar amounts in thousands)**

**Notes to Condensed Consolidated Financial Statements**

**Note 1: Basis of Financial Statement Presentation**

IF Bancorp, Inc., a Maryland corporation (the Company), became the holding company for Iroquois Federal Savings and Loan Association (the Association) upon completion of the Association's conversion from the mutual form of organization to the stock holding company form of organization (the Conversion) on July 7, 2011. For more information regarding the Conversion, see Note 2 of these notes to condensed consolidated financial statements.

The unaudited condensed consolidated financial statements include the accounts of the Company, the Association, and the Association's wholly owned subsidiary, L.C.I. Service Corporation. All significant inter-company accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and with instructions for Form 10-Q and Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ from these estimates. In the opinion of management, the preceding unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial condition of the Company as of March 31, 2012 and June 30, 2011, and the results of its operations for the three and nine month periods ended March 31, 2012 and 2011. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2011. The results of operations for the nine-month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the entire year.

**Note 2: The Conversion**

On March 8, 2011, the Association's Board of Directors adopted a Plan of Conversion (Plan), as amended on March 8, 2011, to convert from the mutual form of organization to the capital stock form of organization (the Conversion). The Company was formed in March 2011 to become the savings and loan holding company of the Association upon consummation of the Conversion. In the Conversion, the Association became a wholly owned subsidiary of the Company, and the Company issued and sold shares of its common stock, par value \$0.01 per share, to eligible members of the Association. A total of 4,811,255 shares of common stock were issued in the offering. A total of 4,496,500 shares were sold on July 7, 2011 in the Conversion at \$10 per share, raising \$44,965,000 of gross proceeds. The Company also donated 7% of the shares sold in the offering, or a total of 314,755 shares, to a newly established charitable foundation (the Foundation). The Association also contributed \$450,000 in cash to the Foundation. The 314,755 donated shares were valued at \$3,147,550 (\$10.00 per share) at the time of the consummation of the Conversion. This \$3,147,550 and the \$450,000 cash donation were both expensed during the quarter ended September 30, 2011.

The subscription offering resulted in the receipt of \$113 million in subscriptions including transfers from deposit accounts, ESOP, and 401(k) accounts, which was in excess of the maximum amount of shares to be offered under the Plan. At June 30, 2011, \$113 million was held in escrow and reflected in deposits. During the quarter ended September 30, 2011, the Association refunded approximately \$68.9 million to subscribers. The Company established an employee stock ownership plan that purchased 8% of the total shares issued in the offering, or 384,900 shares, for a total of \$3,849,000. IF Bancorp, Inc.'s common stock began trading on the NASDAQ Capital Market under the symbol IROQ on July 8, 2011.

---

**Table of Contents**

The cost of the Conversion and issuing the capital stock were deferred and deducted from the proceeds of the offering on July 7, 2011. For the period January 1, 2011 through June 30, 2011, the Association had incurred approximately \$766,209 in conversion costs, which were included in other assets on the balance sheet at June 30, 2011. The total amount of the conversion costs was approximately \$1.73 million and was netted from the Conversion proceeds.

In accordance with applicable regulations, at the time of the Conversion, the Association substantially restricted its retained earnings by establishing a liquidation account. The liquidation account will be maintained for the benefit of eligible holders who continue to maintain their accounts at the Association after the Conversion. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation of the Association, and only in such event, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the adjusted qualifying account balances then held. The Association may not pay dividends if those dividends would reduce equity capital below the required liquidation account amount.

**Note 3: New Accounting Pronouncements  
Recent and Future Accounting Requirements**

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11 Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 requires an entity to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. ASU 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Retrospective disclosure is required for all comparative periods presented. The Company is assessing the impact of ASU 2011-11 on its disclosures.

In June 2011, the FASB issued ASU No. 2011-05 Comprehensive Income (Topic 220) - Presentation of Comprehensive Income. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In December 2011, FASB issued ASU No. 2011-12 which defers the effective date of the requirement in ASU 2011-05 to present items that are reclassified from accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. ASU 2011-05 was effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. The effect of applying this standard is reflected in the Consolidated Statements of Comprehensive Income and Consolidated Statements of Stockholders' Equity.

In May 2011, the FASB issued ASU No. 2011-04 Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU 2011-04 changed the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Consequently, the amendments in this update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs (International Financial Reporting Standards). ASU 2011-04 was effective prospectively during interim and annual periods beginning on or after December 15, 2011. Early application by public entities was not permitted. The effect of applying this standard is reflected in Note 11 - Fair Value Measurements.

**Table of Contents****Note 4: Employee Stock Ownership Plan (ESOP)**

In connection with the conversion to stock form, the Association established an ESOP for the exclusive benefit of eligible employees (all salaried employees who have completed at least 1,000 hours of service in a twelve-month period and have attained the age of 21). The ESOP borrowed funds from the Company in an amount sufficient to purchase 384,900 shares (approximately 8% of the Common Stock issued in the stock offering). The loan is secured by the shares purchased and will be repaid by the ESOP with funds from contributions made by the Association and dividends received by the ESOP, with funds from any contributions on ESOP assets. Contributions will be applied to repay interest on the loan first, then the remainder will be applied to principal. The loan is expected to be repaid over a period of up to 20 years. Shares purchased with the loan proceeds are held in a suspense account for allocation among participants as the loan is repaid. Contributions to the ESOP and shares released from the suspense account are allocated among participants in proportion to their compensation, relative to total compensation of all active participants. Participants will vest 100% in their accrued benefits under the employee stock ownership plan after six vesting years, with prorated vesting in years two through five. Vesting is accelerated upon retirement, death or disability of the participant or a change in control of the Association. Forfeitures will be reallocated to remaining plan participants. Benefits may be payable upon retirement, death, disability, separation from service, or termination of the ESOP. Since the Association's annual contributions are discretionary, benefits payable under the ESOP cannot be estimated. Participants receive the shares at the end of employment.

The Company is accounting for its ESOP in accordance with ASC Topic 718, *Employers Accounting for Employee Stock Ownership Plans*. Accordingly, the debt of the ESOP is eliminated in consolidation and the shares pledged as collateral are reported as unearned ESOP shares in the consolidated balance sheets. Contributions to the ESOP shall be sufficient to pay principal and interest currently due under the loan agreement. As shares are committed to be released from collateral, the Company reports compensation expense equal to the average market price of the shares for the respective period, and the shares become outstanding for earnings per shares computations. Dividends, if any, on unallocated ESOP shares are recorded as a reduction of debt and accrued interest.

A summary of ESOP shares at March 31, 2012 is as follows (dollars in thousands):

Shares committed for release	14,434
Unearned shares	370,466
<b>Total ESOP shares</b>	<b>384,900</b>
Fair value of unearned ESOP shares	\$ 4,583(1)

(1) Based on closing price of \$12.37 per share on March 31, 2012

**Note 5: Earnings Per Common Share (EPS)**

Basic and diluted earnings per common share are presented for the three and nine-month periods ended March 31, 2012. Earnings per share data is from the date of conversion on July 7, 2011, to March 31, 2012. Earnings per share data is not presented for the three or nine months ended March 31, 2011 since there were no outstanding shares of common stock until the conversion on July 7, 2011. The factors used in the earnings per common share computation follow:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>March 31, 2012</b>		<b>March 31, 2012</b>	
Net income	\$	848	\$	497
Basic weighted average shares outstanding		4,811,255		4,811,255
Less: Average unallocated ESOP shares		(372,873)		(375,278)
Basic average shares outstanding		4,438,382		4,435,977

Edgar Filing: IF Bancorp, Inc. - Form 10-Q

Basic and diluted earnings per common share	\$	.19	\$	.11
---	----	-----	----	-----

**Table of Contents**

There were no potential dilutive common shares for the periods presented. There were no common shares outstanding prior to July 7, 2011.

**Note 6: Securities**

The amortized cost and approximate fair value of securities, together with gross unrealized gains and losses, of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-sale securities:</b>				
<b>March 31, 2012:</b>				
U.S. government, federal agency, and government-sponsored enterprises (GSE)	\$ 155,663	\$ 5,270	\$ (38)	\$ 160,895
Mortgage-backed:				
GSE residential	44,451	1,755	0	46,206
State and political subdivisions	2,672	219	0	2,891
	\$ 202,786	\$ 7,244	\$ (38)	\$ 209,992
<b>June 30, 2011:</b>				
U.S. government, federal agency, and government-sponsored enterprises (GSE)	\$ 149,791	\$ 3,132	\$ (796)	\$ 152,127
Mortgage-backed:				
GSE residential	34,724	844	(32)	35,536
State and political subdivisions	2,481	129	0	2,610
	\$ 186,996	\$ 4,105	\$ (828)	\$ 190,273

With the exception of U.S. Government, federal agency and GSE securities and GSE residential mortgage-backed securities with a book value of approximately \$155,663,000 and \$44,451,000, respectively, and a market value of approximately \$160,895,000 and \$46,206,000, respectively, at March 31, 2012, the Company held no securities at March 31, 2012 with a book value that exceeded 10% of total equity.

All mortgage-backed securities at March 31, 2012, and June 30, 2011 were issued by GSEs.



**Table of Contents**

The amortized cost and fair value of available-for-sale securities at March 31, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale Securities	
	Amortized Cost	Fair Value
Within one year	\$ 1,241	\$ 1,258
One to five years	37,973	41,447
Five to ten years	119,057	121,013
After ten years	64	68
	158,335	163,786
Mortgage-backed securities	44,451	46,206
<b>Totals</b>	<b>\$ 202,786</b>	<b>\$ 209,992</b>

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was \$56,674,000 and \$56,140,000 as of March 31, 2012 and June 30, 2011, respectively.

Gross gains of \$394,000 and \$386,000, and gross losses of \$9,000 and \$34,000, resulting from sales of available-for-sale securities were realized for the nine month periods ended March 31, 2012 and 2011, respectively. The tax provision applicable to these net realized gains amounted to approximately \$146,000 and \$134,000, respectively.

Certain investments in debt and marketable equity securities are reported in the financial statements at amounts less than their historical cost. Total fair value of these investments at March 31, 2012 was \$16,308,000, which is approximately 7.8% of the Company's available-for-sale investment portfolio. These declines primarily resulted from recent increases in market interest rates and failure of certain investments to maintain consistent credit quality ratings. Management believes the declines in fair value for these securities are temporary.

The following table shows the Company's securities' gross unrealized losses and fair value of the Company's securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2012:

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Available-for-Sale Securities:</b>						
U.S. government, federal agency, and government-sponsored enterprises (GSE)	\$ 16,308	\$ (38)	\$ 0	\$ 0	\$ 16,308	\$ (38)
<b>Total temporarily impaired securities</b>	<b>\$ 16,308</b>	<b>\$ (38)</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 16,308</b>	<b>\$ (38)</b>

The unrealized losses on the Company's investments were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2012 (unaudited).



**Table of Contents****Note 7: Loans and Allowance for Loan Losses**

Classes of loans include:

	March 31, 2012	June 30, 2011
Real estate loans:		
One-to-four family, including home equity loans	\$ 147,051	\$ 148,448
Multi-family	32,311	26,299
Commercial	32,384	27,402
Home equity lines of credit	9,138	10,043
Construction	6,902	4,039
Commercial	12,709	12,068
Consumer	13,554	15,779
Total loans	254,049	244,078
Less:		
Unearned fees and discounts, net	61	19
Loans in process	666	890
Allowance for loan losses	3,317	3,149
Loans, net	\$ 250,005	\$ 240,020

The Company believes that sound loans are a necessary and desirable means of employing funds available for investment. Recognizing the Company's obligations to its depositors and to the communities it serves, authorized personnel are expected to seek to develop and make sound, profitable loans that resources permit and that opportunity affords. The Company maintains lending policies and procedures in place designed to focus our lending efforts on the types, locations, and duration of loans most appropriate for our business model and markets. The Company's principal lending activity is the origination of one-to four-family residential mortgage loans but also includes multi-family loans, commercial real estate loans, home equity lines of credits, commercial business loans, consumer (consisting primarily of automobile loans), and, to a much lesser extent, construction loans and land loans. The primary lending market includes the Illinois counties of Vermilion and Iroquois, as well as the adjacent counties in Illinois and Indiana. The Company also has a loan production and wealth management office in Osage Beach, Missouri, which serves the Missouri counties of Camden, Miller, and Morgan. Generally, loans are collateralized by assets, primarily real estate, of the borrowers and guaranteed by individuals. The loans are expected to be repaid from cash flows of the borrowers or from proceeds from the sale of selected assets of the borrowers.

Management reviews and approves the Company's lending policies and procedures on a routine basis. Management routinely (at least quarterly) reviews our allowance for loan losses and reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Our underwriting standards are designed to encourage relationship banking rather than transactional banking. Relationship banking implies a primary banking relationship with the borrower that includes, at minimum, an active deposit banking relationship in addition to the lending relationship. The integrity and character of the borrower are significant factors in our loan underwriting. As a part of underwriting, tangible positive or negative evidence of the borrower's integrity and character are sought out. Additional significant underwriting factors beyond location, duration, the sound and profitable cash flow basis underlying the loan and the borrower's character are the quality of the borrower's financial history, the liquidity of the underlying collateral and the reliability of the valuation of the underlying collateral.

The Company's policies and loan approval limits are established by the Board of Directors. The loan officers generally have authority to approve one-to-four family residential mortgage loans up to \$100,000, other secured loans up to

## **Table of Contents**

\$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 up to \$300,000, 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. At no time is a borrower's total borrowing relationship to exceed our regulatory lending limit. Loans to related parties, including executive officers and the Company's directors, are reviewed for compliance with regulatory guidelines and the board of directors at least annually.

The Company conducts internal loan reviews that validate the loans against the Company's loan policy quarterly for mortgage, consumer, and small commercial loans on a sample basis, and all larger commercial loans on an annual basis. Beginning January 1, 2011, the Association also began receiving independent loan reviews performed by a third party on larger commercial loans to be performed annually. In addition to compliance with our policy, the loan review process reviews the risk assessments made by our credit department, lenders and loan committees. Results of these reviews are presented to management and the board of directors.

The Company's lending can be summarized into six primary areas; one-to-four family residential mortgage loans, commercial real estate and multi-family real estate loans, home equity lines of credits, real estate construction, commercial business loans, and consumer loans.

### *One-to-four family Residential Mortgage Loans*

The Company offers one-to four-family residential mortgage loans that conform to Fannie Mae and Freddie Mac underwriting standards (conforming loans) as well as non-conforming loans. In recent years there has been an increased demand for long-term fixed-rate loans, as market rates have dropped and remained near historic lows. As a result, the Company has sold a substantial portion of the fixed-rate one-to-four family residential mortgage loans with terms of 15 years or greater. Generally, the Company retains 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 originated in recent years due to the favorable long-term rates for borrower.

In addition, the Company also offers 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 used to underwrite one-to-four family residential mortgage loans.

As one-to-four family residential mortgage and home equity loan underwriting are subject to specific regulations, the Company typically underwrites its one-to-four family residential mortgage and home equity loans to conform to widely accepted standards. Several factors are considered in underwriting including the value of the underlying real estate and the debt to income and credit history of the borrower.

### *Commercial Real Estate and Multi-Family Real Estate Loans*

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. In underwriting commercial real estate and multi-family real estate loans, the Company considers a number of factors, which include the projected net cash flow to the loan's debt service requirement, 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. 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. The repayment of these loans is primarily dependent on the cash flows of the underlying property. However, the commercial real estate loan generally must be supported by an adequate underlying collateral value. The performance and the value of the underlying property may be adversely affected by economic factors or geographical and/or industry specific factors. These loans are subject to other industry guidelines that are closely monitored by the Association.

## **Table of Contents**

### *Home Equity Lines of Credit*

In addition to traditional one-to-four family residential mortgage loans and home equity loans, the Company offers 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 used to underwrite one-to-four family residential mortgage loans. As home equity lines of credit underwriting are subject to specific regulations, the Company typically underwrites its home equity lines of credit to conform to widely accepted standards. Several factors are considered in underwriting including the value of the underlying real estate and the debt to income and credit history of the borrower.

### *Commercial Business Loans*

The Company originates commercial non-mortgage business (term) loans and adjustable lines of credit. These loans are generally originated to small- and medium-sized companies in the Company's primary market area. 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. The Company also offers agriculture loans that are not secured by real estate.

The commercial business loan portfolio consists primarily of secured loans. When making commercial business loans, the Company considers the financial statements, lending history and debt service capabilities of the borrower, the projected cash flows of the business and the value of the collateral, if any. The cash flows of the underlying borrower, however, may not perform consistent with historical or projected information. Further, the collateral securing loans may fluctuate in value due to individual economic or other factors. Loans are typically guaranteed by the principals of the borrower. The Company has established minimum standards and underwriting guidelines for all commercial loan types.

### *Real Estate Construction Loans*

The Company originates construction loans for one-to-four family residential properties and commercial real estate properties, including multi-family properties. The Company generally requires that a commitment for permanent financing to be in place prior to closing the construction loan. The repayment of these loans is typically through permanent financing following completion of the construction. Real estate construction loans are inherently more risky than loans on completed properties as the unimproved nature and the financial risks of construction significantly enhance the risks of commercial real estate loans. These loans are closely monitored and subject to other industry guidelines.

### *Consumer Loans*

Consumer loans consist of installment loans to individuals, primarily automotive loans. These loans are centrally underwritten utilizing the borrower's financial history, including the Fair Isaac Corporation ( FICO ) credit scoring and information as to the underlying collateral. Repayment is expected from the cash flow of the borrower. Consumer loans may be underwritten with terms up to seven years, fully amortized. Unsecured loans are limited to twelve months. Loan-to-value ratios vary based on the type of collateral. The Company has established minimum standards and underwriting guidelines for all consumer loan collateral types.

The loan portfolio includes a concentration of loans secured by commercial real estate properties amounting to \$64,695,000 and \$53,701,000 as of March 31, 2012 and June 30, 2011, respectively. Generally, these loans are collateralized by multi-family and nonresidential properties. The loans are expected to be repaid from cash flows or from proceeds from the sale of the properties of the borrower.

The Company's loans receivable included purchased loans of \$18,904,000 and \$20,966,000 at March 31, 2012 and June 30, 2011, respectively. All of these loans are out-of-area purchased loans which are secured by single family homes

**Table of Contents**

located primarily in the Midwest. The Company's loans receivable also include commercial loan participations of \$10,072,000 and \$10,484,000 at March 31, 2012 and June 30, 2011, respectively, of which \$6,561,000 and \$6,385,000, at March 31, 2012 and June 30, 2011 were outside our primary market area. These participation loans are secured by real estate and other business assets.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of the three and nine-month periods ended March 31, 2012 and the year ended June 30, 2011:

	Three Months Ended March 31, 2012			
	Real Estate Loans			
	One-to-Four Family	Multi-Family	Commercial	Home Equity Lines of Credit
<b>Allowance for loan losses:</b>				
Balance, beginning of period	\$ 1,827	\$ 320	\$ 234	\$ 95
Provision charged to expense	418	4	13	2
Losses charged off	(177)	0	0	0
Recoveries	44	0	0	0
Balance, end of period	\$ 2,112	\$ 324	\$ 247	\$ 97
Ending balance: individually evaluated for impairment	\$ 818	\$ 0	\$ 55	\$ 15
Ending balance: collectively evaluated for impairment	\$ 1,294	\$ 324	\$ 192	\$ 82
<b>Loans:</b>				
Ending balance	\$ 147,051	\$ 32,311	\$ 32,384	\$ 9,138
Ending balance: individually evaluated for impairment	\$ 4,809	\$ 1,498	\$ 96	\$ 52
Ending balance: collectively evaluated for impairment	\$ 142,242	\$ 30,813	\$ 32,288	\$ 9,086

	Three Months Ended March 31, 2012 (Continued)				
	Construction	Commercial	Consumer	Unallocated	Total
<b>Allowance for loan losses:</b>					
Balance, beginning of period	\$ 47	\$ 383	\$ 183	\$ 19	\$ 3,108
Provision charged to expense	18	(28)	(29)	(5)	393
Losses charged off	0	(29)	(26)	0	(232)
Recoveries	0	0	4	0	48
Balance, end of period	\$ 65	\$ 326	\$ 132	\$ 14	\$ 3,317
Ending balance: individually evaluated for impairment	\$ 0	\$ 0	\$ 31	\$ 0	\$ 919
Ending balance: collectively evaluated for impairment	\$ 65	\$ 326	\$ 101	\$ 14	\$ 2,398

**Loans:**

Edgar Filing: IF Bancorp, Inc. - Form 10-Q

Ending balance	\$ 6,902	\$ 12,709	\$ 13,554	\$ 0	\$ 254,049
Ending balance: individually evaluated for impairment	\$ 0	\$ 3	\$ 84	\$ 0	\$ 6,542
Ending balance: collectively evaluated for impairment	\$ 6,902	\$ 12,706	\$ 13,470	\$ 0	\$ 247,507

**Table of Contents**

	Nine Months Ended March 31, 2012				Home Equity Lines of Credit
	One-to-Four Family	Multi-Family	Commercial		
<b>Allowance for loan losses:</b>					
Balance, beginning of period	\$ 1,987	\$ 250	\$ 232	\$ 120	
Provision charged to expense	555	74	64	(23)	
Losses charged off	(501)	0	(49)	0	
Recoveries	71	0	0	0	
Balance, end of period	\$ 2,112	\$ 324	\$ 247	\$ 97	
Ending balance: individually evaluated for impairment	\$ 818	\$ 0	\$ 55	\$ 15	
Ending balance: collectively evaluated for impairment	\$ 1,294	\$ 324	\$ 192	\$ 82	
<b>Loans:</b>					
Ending balance	\$ 147,051	\$ 32,311	\$ 32,384	\$ 9,138	
Ending balance: individually evaluated for impairment	\$ 4,809	\$ 1,498	\$ 96	\$ 52	
Ending balance: collectively evaluated for impairment	\$ 142,242	\$ 30,813	\$ 32,288	\$ 9,086	

  

	Nine Months Ended March 31, 2012 (Continued)				
	Construction	Commercial	Consumer	Unallocated	Total
<b>Allowance for loan losses:</b>					
Balance, beginning of period	\$ 30	\$ 352	\$ 169	\$ 9	\$ 3,149
Provision charged to expense	35	3	14	5	727
Losses charged off	0	(29)	(86)	0	(665)
Recoveries	0	0	35	0	106
Balance, end of period	\$ 65	\$ 326	\$ 132	\$ 14	\$ 3,317
Ending balance: individually evaluated for impairment	\$ 0	\$ 0	\$ 31	\$ 0	\$ 919
Ending balance: collectively evaluated for impairment	\$ 65	\$ 326	\$ 101	\$ 14	\$ 2,398
<b>Loans:</b>					
Ending balance	\$ 6,902	\$ 12,709	\$ 13,554	\$ 0	\$ 254,049
Ending balance: individually evaluated for impairment	\$ 0	\$ 3	\$ 84	\$ 0	\$ 6,542
Ending balance: collectively evaluated for impairment	\$ 6,902	\$ 12,706	\$ 13,470	\$ 0	\$ 247,507

Year Ended June 30, 2011  
Real Estate Loans



Edgar Filing: IF Bancorp, Inc. - Form 10-Q

	One-to-Four Family	Multi-Family	Commercial	Home Equity Lines of Credit
<b>Allowance for loan losses:</b>				
Balance, beginning of year	\$ 1,785	\$ 202	\$ 175	\$ 71
Provision charged to expense	1,106	48	57	49
Losses charged off	(920)	0	0	0
Recoveries	16	0	0	0
Balance, end of year	\$ 1,987	\$ 250	\$ 232	\$ 120
Ending balance: individually evaluated for impairment	\$ 808	\$ 0	\$ 57	\$ 31
Ending balance: collectively evaluated for impairment	\$ 1,179	\$ 250	\$ 175	\$ 89
<b>Loans:</b>				
Ending balance	\$ 148,448	\$ 26,299	\$ 27,402	\$ 10,043
Ending balance: individually evaluated for impairment	\$ 5,335	\$ 0	\$ 206	\$ 73
Ending balance: collectively evaluated for impairment	\$ 143,113	\$ 26,299	\$ 27,196	\$ 9,970

**Table of Contents**

	Year Ended June 30, 2011 (Continued)				Total
	Construction	Commercial	Consumer	Unallocated	
<b>Allowance for loan losses:</b>					
Balance, beginning of year	\$ 0	\$ 400	\$ 127	\$ 7	\$ 2,767
Provision charged to expense	30	(18)	77	2	1,351
Losses charged off	0	(30)	(54)	0	(1,004)
Recoveries	0	0	19	0	35
Balance, end of year	\$ 30	\$ 352	\$ 169	\$ 9	\$ 3,149
Ending balance: individually evaluated for impairment	\$ 0	\$ 0	\$ 58	\$ 0	\$ 954
Ending balance: collectively evaluated for impairment	\$ 30	\$ 352	\$ 111	\$ 9	\$ 2,195
<b>Loans:</b>					
Ending balance	\$ 4,039	\$ 12,068	\$ 15,779	\$ 0	\$ 244,078
Ending balance: individually evaluated for impairment	\$ 0	\$ 4	\$ 130	\$ 0	\$ 5,748
Ending balance: collectively evaluated for impairment	\$ 4,039	\$ 12,064	\$ 15,649	\$ 0	\$ 238,330

Activity in the allowance for loan losses for the three and nine month periods ended March 31, 2011 was as follows:

	Three Months Ended March 31, 2011	Nine Months Ended March 31, 2011
Balance, beginning of period	\$ 2,711	\$ 2,767
Provision charged to expense	225	850
Losses charged off, net of recoveries of \$19,000 and \$24,000 for the three and nine months ended March 31, 2011	(136)	(817)
Balance, end of period	\$ 2,800	\$ 2,800

---

**Table of Contents**

Management's opinion as to the ultimate collectability of loans is subject to estimates regarding future cash flows from operations and the value of property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of borrowers.

*Allowance for Loan Losses*

The allowance for loan losses represents an estimate of the amount of losses believed inherent in our loan portfolio at the balance sheet date. The allowance calculation involves a high degree of estimation that management attempts to mitigate through the use of objective historical data where available. Loan losses are charged against the allowance for loan losses when management believes the uncollectability of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Overall, we believe the reserve to be consistent with prior periods and adequate to cover the estimated losses in our loan portfolio.

The Company's 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 the Company's review for identified problem loans; and (2) a general allowance based on estimated credit losses inherent in the remainder of the loan portfolio.

The specific allowance is measured by determining the present value of expected cash flows, the loan's observable market value, or for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expense. 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 the 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, the Company also considers the extent of any past due and unpaid property taxes applicable to the property serving as collateral on the mortgage.

The Company establishes 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. The general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on the Company's historical loss experience and management's evaluation of the collectability of the loan portfolio. The allowance is then adjusted for qualitative factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These qualitative factors may include: (1) Management's assumptions regarding the minimal level of risk for a given loan category; (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, the volume of troubled debt restructured and other loan modifications, 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-dependent 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 the Company's policy allows for a general valuation allowance on certain smaller-balance, homogenous pools of loans classified as substandard, the Company has historically evaluated every loan classified as substandard, regardless of size, for impairment as part of the review for establishing specific allowances. The Company's policy also allows for 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 the general allowance calculated on the non-classified loans.

There have been no changes to the Company's accounting policies or methodology from the prior periods.

**Table of Contents**

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. All loans are graded at inception of the loan. Subsequently, analyses are performed on an annual basis and grade changes are made as necessary. Interim grade reviews may take place if circumstances of the borrower warrant a more timely review. The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company's risk rating system, the Company classifies problem and potential problem loans as Watch, Substandard, Doubtful, and Loss. The Company uses the following definitions for risk ratings:

**Pass** Loans classified as pass are well protected by the ability of the borrower to pay or by the value of the asset or underlying collateral.

**Watch** Loans classified as watch have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

**Substandard** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

**Loss** Loans classified as loss are the portion of the loan that is considered uncollectible so that its continuance as an asset is not warranted. The amount of the loss determined will be charged-off.

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity:

	Real Estate Loans							Total
	One-to-Four Family	Multi-Family	Commercial	Home Equity Lines of Credit	Construction	Commercial	Consumer	
<b>March 31, 2012 :</b>								
Pass	\$ 141,669	\$ 30,813	\$ 32,288	\$ 9,086	\$ 6,902	\$ 11,484	\$ 13,471	\$ 245,713
Watch	416	0	0	0	0	1,222	0	1,638
Substandard	4,966	1,498	96	52	0	3	83	6,698
Doubtful	0	0	0	0	0	0	0	0
Loss	0	0	0	0	0	0	0	0
<b>Total</b>	<b>\$ 147,051</b>	<b>\$ 32,311</b>	<b>\$ 32,384</b>	<b>\$ 9,138</b>	<b>\$ 6,902</b>	<b>\$ 12,709</b>	<b>\$ 13,554</b>	<b>\$ 254,049</b>

	Real Estate Loans							Total
	One-to-Four Family	Multi-Family	Commercial	Home Equity Lines of Credit	Construction	Commercial	Consumer	
<b>June 30, 2011:</b>								
Pass	\$ 142,931	\$ 24,787	\$ 27,196	\$ 9,970	\$ 4,039	\$ 10,739	\$ 15,646	\$ 235,308
Watch	71	0	0	0	0	1,325	3	1,399
Substandard	5,446	1,512	206	73	0	4	130	7,371
Doubtful	0	0	0	0	0	0	0	0
Loss	0	0	0	0	0	0	0	0

Edgar Filing: IF Bancorp, Inc. - Form 10-Q

Total	\$ 148,448	\$ 26,299	\$ 27,402	\$ 10,043	\$ 4,039	\$ 12,068	\$ 15,779	\$ 244,078
-------	------------	-----------	-----------	-----------	----------	-----------	-----------	------------

**Table of Contents**

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at the earlier date if collection of principal and interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off are 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. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following tables present the Company's loan portfolio aging analysis:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
<b>March 31, 2012:</b>							
Real estate loans:							
One-to-four family	\$ 3,278	\$ 525	\$ 2,745	\$ 6,548	\$ 140,503	\$ 147,051	\$ 0
Multi-family	0	0	0	0	32,311	32,311	0
Commercial	182	0	0	182	32,202	32,384	0
Home equity lines of credit	104	0	52	156	8,982	9,138	0
Construction	0	0	0	0	6,902	6,902	0
Commercial	62	13	0	75	12,634	12,709	0
Consumer	110	29	19	158	13,396	13,554	0
Total	\$ 3,736	\$ 567	\$ 2,816	\$ 7,119	\$ 246,930	\$ 254,049	\$ 0

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
<b>June 30, 2011:</b>							
Real estate loans:							
One-to-four family	\$ 2,619	\$ 631	\$ 3,458	\$ 6,708	\$ 141,740	\$ 148,448	\$ 0
Multi-family	0	0	0	0	26,299	26,299	0
Commercial	198	0	104	302	27,100	27,402	0
Home equity lines of credit	283	67	37	387	9,656	10,043	0
Construction	0	0	0	0	4,039	4,039	0
Commercial	19	0	0	19	12,049	12,068	0
Consumer	149	80	25	254	15,525	15,779	0
Total	\$ 3,268	\$ 778	\$ 3,624	\$ 7,670	\$ 236,408	\$ 244,078	\$ 0

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Association will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case

## Edgar Filing: IF Bancorp, Inc. - Form 10-Q

basis, taking into consideration all of the circumstances surrounding the loans and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis by either the present value of the expected future cash flows, the loan's observable market value, or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. Significant restructured loans are considered impaired in determining the adequacy of the allowance for loan losses.

**Table of Contents**

The Company actively seeks to reduce its investment in impaired loans. The primary tools to work through impaired loans are settlements with the borrowers or guarantors, foreclosure of the underlying collateral, or restructuring. Included in certain loan categories in the impaired loans are \$3.8 million in troubled debt restructurings that were classified as impaired.

The following tables present impaired loans:

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Three Months Ended March 31, 2012			Nine Months Ended March 31, 2012		
				Average Investment in Impaired Loans	Interest Recognized	Interest on Cash Basis	Average Investment in Impaired Loans	Interest Recognized	Interest on Cash Basis
<b>March 31, 2012:</b>									
Loans without a specific valuation allowance									
Real estate loans:									
One-to-four family	\$ 1,794	\$ 1,794	\$ 0	\$ 1,767	\$ 3	\$ 3	\$ 1,758	\$ 6	\$ 6
Multi-family	1,498	1,498	0	1,527	0	0	1,505	23	32
Commercial	0	0	0	0	0	0	0	0	0
Home equity line of credit	0	0	0	0	0	0	0	0	0
Construction	0	0	0	0	0	0	0	0	0
Commercial	3	3	0	3	0	0	3	0	0
Consumer	5	5	0	16	0	0	17	0	1
Loans with a specific allowance									
Real estate loans:									
One-to-four family	3,015	3,015	818	2,907	12	12	2,896	23	29
Multi-family	0	0	0	0	0	0	0	0	0
Commercial	97	97	55	99	0	0	99	0	0
Home equity line of credit	52	52	15	45	0	0	44	0	0
Construction	0	0	0	0	0	0	0	0	0
Commercial	0	0	0	2	0	0	2	0	0
Consumer	78	78	31	79	1	1	81	2	2
Total:									
Real estate loans:									
One-to-four family	4,809	4,809	818	4,674	15	15	4,654	29	35
Multi-family	1,498	1,498	0	1,527	0	0	1,505	23	32
Commercial	97	97	55	99	0	0	99	0	0
Home equity line of credit	52	52	15	45	0	0	44	0	0
Construction	0	0	0	0	0	0	0	0	0
Commercial	3	3	0	5	0	0	5	0	0
Consumer	83	83	31	95	1	1	98	2	70
	\$ 6,542	\$ 6,542	\$ 919	\$ 6,445	\$ 16	\$ 16	\$ 6,405	\$ 54	\$ 70



**Table of Contents**

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest on Cash Basis
<b>June 30, 2011:</b>						
Loans without a specific valuation allowance						
Real estate loans:						
One-to-four family	\$ 2,272	\$ 2,272	\$ 0	\$ 2,292	\$ 65	\$ 65
Multi-family	0	0	0	0	0	0
Commercial	104	104	0	105	2	2
Home equity line of credit	0	0	0	0	0	0
Construction	0	0	0	0	0	0
Commercial	0	0	0	0	0	0
Consumer	7	7	0	8	1	1
Loans with a specific allowance						
Real estate loans:						
One-to-four family	3,063	3,063	808	3,081	55	55
Multi-family	0	0	0	0	0	0
Commercial	102	102	57	116	7	7
Home equity line of credit	73	73	31	73	3	3
Construction	0	0	0	0	0	0
Commercial	4	4	0	19	1	1
Consumer	123	123	58	133	11	11
Total:						
Real estate loans:						
One-to-four family	5,335	5,335	808	5,373	120	120
Multi-family	0	0	0	0	0	0
Commercial	206	206	57	221	9	9
Home equity line of credit	73	73	31	73	3	3
Construction	0	0	0	0	0	0
Commercial	4	4	0	19	1	1
Consumer	130	130	58	141	12	12
	\$ 5,748	\$ 5,748	\$ 954	\$ 5,827	\$ 145	\$ 145

Interest income recognized on impaired loans includes interest accrued and collected on the outstanding balances of accruing impaired loans as well as interest cash collections on non-accruing impaired loans for which the ultimate collectability of principal is not uncertain.

**Table of Contents**

The following table presents the Company's nonaccrual loans at March 31, 2012 and June 30, 2011:

	March 31, 2012	June 30, 2011
Mortgages on real estate:		
One-to-four family	\$ 4,545	\$ 4,881
Multi-family	1,498	0
Commercial	96	206
Home equity lines of credit	52	73
Construction loans	0	0
Commercial business loans	3	4
Consumer loans	83	108
<b>Total</b>	<b>\$ 6,277</b>	<b>\$ 5,272</b>

Included in certain loan categories in the impaired loans are troubled debt restructurings ( TDR ), where economic concessions have been granted to borrowers who have experienced financial difficulties, which were classified as impaired. These concessions typically result from our loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. TDRs are considered impaired at the time of restructuring and may be returned to accrual status after considering the borrower's sustained repayment performance for a reasonable period of a least six months, and typically are returned to performing status after twelve months, unless impairment still exists.

When loans and leases are modified into a TDR, the Company evaluates any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan or lease agreement, and uses the current fair value of the collateral, less selling costs for collateral dependent loans. If the Company determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, the Company evaluates all TDRs, including those that have payment defaults, for possible impairment and recognizes impairment through the allowance.

Beginning with the quarter ended September 30, 2011, the Company adopted ASU 2011-02. The amendments in ASU 2011-02 require prospective application of the impairment measurement guidance in ASC 310-10-35 for those receivables newly identified as impaired. As a result of adopting ASU 2011-02, the Company reassessed all restructurings that occurred on or after July 1, 2011, the beginning of our current fiscal year, for identification as TDRs. The Company identified no loans as troubled debt restructurings for which the allowance for loan losses had previously been measured under a general allowance for credit losses methodology. Therefore, there was no additional impact to the allowance for loan losses as a result of the adoption.

**Table of Contents**

The following table presents the recorded balance, at original cost, of troubled debt restructurings, all of which were performing according to the terms of the restructuring, as of March 31, 2012 and June 30, 2011. As of March 31, 2012 all loans listed were on nonaccrual except for three, one- to four-family residential loans totaling \$264,000. All loans listed as of June 30, 2011 were on nonaccrual.

	March 31, 2012	June 30, 2011
Real estate loans		
One-to-four family	\$ 2,199	\$ 1,633
Home equity lines of credit	0	0
Multi-family	1,498	0
Commercial	96	102
 Total real estate loans	 3,793	 1,735
 Construction	 0	 0
Commercial and industrial	3	4
Consumer loans	27	71
 Total	 \$ 3,823	 \$ 1,810

The following table represents loans modified as troubled debt restructurings during the three and nine month periods ending March 31, 2012:

	Three Months Ended March 31, 2012		Nine Months Ended March 31, 2012	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
Real estate loans:				
One-to-four family	0	\$ 0	13	\$ 1,121
Home equity lines of credit	0	0	0	0
Multi-family	0	0	1	1,561
Commercial	0	0	0	0
 Total real estate loans	 0	 0	 14	 2,682
 Construction	 0	 0	 0	 0
Commercial	0	0	0	0
Consumer loans	0	0	0	0
 Total	 0	 \$ 0	 14	 \$ 2,682

During the three month period ended March 31, 2012, the Company had no modifications.

During the nine month period ended March 31, 2012, the Company modified 13 one- to four-family residential real estate loans, with a recorded investment of \$1.1 million, which were deemed TDRs. None of the modifications included the lowering of the interest rate. All 13 of the

## Edgar Filing: IF Bancorp, Inc. - Form 10-Q

modifications, totaling \$1.1 million involved payment adjustments or maturity concessions, and did not result in a reduction in the contractual interest rate or a write-off of the principal balance. Such loans are considered collateral dependent, and the modifications resulted in specific allowances of \$78,000, based upon the fair value of the collateral.

**Table of Contents**

In addition, the Company modified 1 multi-family residential real estate loan during the period, which had recorded investment of \$1,561,000 prior to modification and was deemed a TDR. The modification resulted in an extended maturity date without a change in interest rate, which resulted in a specific allowance of \$7,000 based upon the fair value of the collateral.

The company has two TDRs, both one-to-four family residential loans for \$368,000, that were in default as of March 31, 2012, and were restructured in prior periods. Both loans are currently in foreclosure. A third loan, consumer loan for \$21,000, defaulted in the second quarter and the property was repossessed and liquidated at no loss to the company. The company defines a default as any loan that becomes 90 days or more past due.

Specific loss allowances are included in the calculation of estimated future loss ratios, which are applied to the various loan portfolios for purposes of estimating future losses.

Management considers the level of defaults within the various portfolios, as well as the current adverse economic environment and negative outlook in the real estate and collateral markets when evaluating qualitative adjustments used to determine the adequacy of the allowance for loan losses. We believe the qualitative adjustments more accurately reflect collateral values in light of the sales and economic conditions that we have recently observed.

**Note 8: Federal Home Loan Bank Stock**

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula. The Company owned \$3,650,000 and \$3,121,000 of Federal Home Loan Bank stock as of March 31, 2012 and June 30, 2011 respectively. The increase in Federal Home Loan Bank stock allowed the Company to increase borrowing capacity of Federal Home Loan Bank advances. The Federal Home Loan Bank of Chicago (FHLB) was operating under a Consent Cease and Desist Order ( Consent Order ) from its regulator, the Federal Housing Finance Board. However, on April 18, 2012, they announced that the Federal Housing Finance Agency had agreed to terminate the Consent Order effective immediately. During the nine months ended March 31, 2012, FHLB's new capital structure and repurchase plan were approved by the FHFA. This new capital structure established two subclasses of stock effective January 1, 2012, and the repurchase plan allows members to request that the FHLB repurchase all or a portion of their excess FHLB stock. The first repurchase date was February 15, 2012 and a second repurchase date is scheduled for May 15, 2012. The FHLB continues to provide liquidity and funding through advances. With regard to dividends, the FHLB will continue to assess its dividend capacity each quarter and make appropriate request for approval. The FHLB did not pay a dividend in calendar year 2010; however, in calendar year 2011 the FHLB declared and paid four quarterly dividends at an annualized rate of 10 basis points per share. Management performed an analysis as of March 31, 2012 and June 30, 2011 and deemed the cost method investment in FHLB stock was ultimately recoverable.

**Table of Contents****Note 9: Comprehensive Income (Loss)**

Other comprehensive income (loss) components and related taxes were as follows:

	Nine Months Ended	
	March 31, 2012	March 31, 2011
Net unrealized gains (losses) on securities available-for-sale	\$ 4,314	\$ (3,023)
Less reclassification adjustment for realized gains included in income	385	352
	3,929	(3,375)
Postretirement health plan		
Amortization of transition obligation	25	25
Amortization of prior service cost	(36)	(36)
Change in net gain (loss)	(144)	11
	(155)	0
Other comprehensive income (loss), before tax effect	3,774	(3,375)
Less tax expense (benefit)	1,434	(1,282)
Other comprehensive income (loss)	\$ 2,340	\$ (2,093)

The components of accumulated other comprehensive income, included in stockholders' equity, are as follows:

	March 31, 2012	June 30, 2011
Net unrealized gains on securities available-for-sale	\$ 7,206	\$ 3,277
Net unrealized postretirement health benefit plan obligations	(26)	129
	7,180	3,406
Tax effect	(2,727)	(1,293)
Total	\$ 4,453	\$ 2,113

**Table of Contents****Note 10: Income Taxes**

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	2011	2012	2011
Computed at the statutory rate (34%)	\$ 451	\$ 355	\$ 216	\$ 1,210
Decrease resulting from				
Tax exempt interest	(10)	(7)	(31)	(15)
Cash surrender value of life insurance	(22)	(22)	(66)	(66)
State income taxes	42	(11)	20	70
Other	17	64	(1)	95
<b>Actual expense</b>	<b>\$ 478</b>	<b>\$ 379</b>	<b>\$ 138</b>	<b>\$ 1,294</b>

The Company established a charitable foundation at the time of its mutual-to-stock conversion and donated to it shares of common stock equal to 7% of the shares sold in the offering, or 314,755 shares. The donated shares were valued at \$3,147,550 (\$10.00 per share) at the time of conversion. The Association also contributed \$450,000 in cash to the Foundation. The \$3,147,550 and the \$450,000 cash donation, or a total of \$3,597,550 was expensed during the quarter ended September 30, 2011. The Company established a deferred tax asset associated with this charitable contribution. No valuation allowance was deemed necessary as it appears the Company will be able to deduct the contribution, which is subject to limitations each year, during the current year and five year carry forward period.

**Note 11: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

**Table of Contents****Recurring Measurements**

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2012 and June 30, 2011:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>March 31, 2012:</b>				
Available-for-sale securities:				
US Government and federal agency	\$ 160,895	\$ 0	\$ 160,895	\$ 0
Mortgage-backed securities GSE residential	46,206	0	46,206	0
State and political subdivisions	2,891	0	2,891	0
Mortgage servicing rights	319	0	0	319

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2011:</b>				
Available-for-sale securities:				
US Government and federal agency	\$ 152,127	\$ 0	\$ 152,127	\$ 0
Mortgage-backed securities GSE residential	35,536	0	35,536	0
State and political subdivisions	2,610	0	2,610	0
Mortgage servicing rights	408	0	0	408

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended March 31, 2012. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.



**Table of Contents****Available-for-sale Securities**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. There were no Level 1 securities as of March 31, 2012 or June 30, 2011. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bid, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. Government and federal agency, mortgage-backed securities (GSE - residential) and state and political subdivision. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 securities as of March 31, 2012 or June 30, 2011.

**Mortgage Servicing Rights**

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

**Level 3 Reconciliation**

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs:

	<b>Mortgage Servicing Rights</b>
Balance, July 1, 2011	\$ 408
Total realized and unrealized gains and losses included in net income	(124)
Servicing rights that result from asset transfers	74
Payments received and loans refinanced	(39)
 Balance, March 31, 2012	 \$ 319
 Total gains or losses for the period included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	 \$ 0

Realized and unrealized gains and losses for items reflected in the table above are included in net income in the consolidated statements of income as noninterest income.

**Table of Contents****Nonrecurring Measurements**

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2012 and June 30, 2011:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>March 31, 2012:</b>				
Impaired loans (collateral dependent)	\$ 2,305	\$ 0	\$ 0	\$ 2,305
Foreclosed assets	559	0	0	559
<b>June 30, 2011:</b>				
Impaired loans (collateral dependent)	\$ 2,370	\$ 0	\$ 0	\$ 2,370
Foreclosed assets	710	0	0	710

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

**Collateral-dependent Impaired Loans, Net of ALLL**

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the senior lending officer. Appraisals are reviewed for accuracy and consistency by the senior lending officer. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the senior lending officer by comparison to historical results.

**Foreclosed Assets**

Foreclosed assets consist primarily of real estate owned. Real estate owned (OREO) is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy.

Appraisals of OREO are obtained when the real estate is acquired and subsequently as deemed necessary by the senior lending officer. Appraisals are reviewed for accuracy and consistency by the senior lending officer. Appraisers are selected from the list of approved appraisers maintained by management.

**Table of Contents****Unobservable (Level 3) Inputs**

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

	Fair Value at March 31, 2012	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights		Discounted cash flow	Discount rate	9% - 11% (10%)
	\$ 319		PSA standard prepayment model rate	208 - 258 (234)
Collateral-dependent impaired loans	2,305	Market comparable properties	Marketability discount	16% -24% (22%)
Foreclosed assets	559	Market comparable properties	Comparability adjustments (%)	16% - 24% (19%)

**Fair Value of Financial Instruments**

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2012 and June 30, 2011.

	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2012:				
Financial assets				
Cash and cash equivalents	\$ 9,757	\$ 9,757	\$ 0	\$ 0
Interest-bearing time deposits in banks	250	250	0	0
Loans, net of allowance for loan losses	250,005	0	0	254,859
Federal Home Loan Bank stock	3,650	0	3,650	0
Accrued interest receivable	2,209	0	2,209	0
Financial liabilities				
Deposits	342,913	0	141,255	202,533
Federal Home Loan Bank advances	57,000	0	59,491	0
Advances from borrowers for taxes and insurance	1,313	0	1,313	0
Accrued interest payable	53	0	53	0
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans	0	0	0	0
Lines of credit	0	0	0	0

**Table of Contents**

	Fair Value at March 31, 2012	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Loans, net of allowance for loan losses	\$ 254,859	Discounted cash flow	Current rate sheets	2.5% - 9.9% (4.1%)
Deposits	202,533	Discounted cash flow	Current rate sheets	0.3% - 1.3% (0.8%)

	June 30, 2011	
	Carrying Amount	Fair Value
<b>Financial assets</b>		
Cash and cash equivalents	\$ 60,506	\$ 60,506
Interest-bearing time deposits in banks	250	250
Available-for-sale securities	190,273	190,273
Loans, net of allowance for loan losses	240,020	246,867
Federal Home Loan Bank stock	3,121	3,121
Mortgage servicing rights	408	408
Accrued interest receivable	1,684	1,684
<b>Financial liabilities</b>		
Deposits	444,065	444,749
Federal Home Loan Bank advances	22,500	24,862
Advances from borrowers for taxes and insurance	841	841
Accrued interest payable	158	158
Unrecognized financial instruments (net of contract amount)		
Commitments to originate loans	0	0
Lines of credit	0	0

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

**Cash and Cash Equivalents, Interest-Bearing Time Deposits in Banks, Federal Home Loan Bank Stock, Accrued Interest Receivable, Accrued Interest Payable and Advances from Borrowers for Taxes and Insurance**

The carrying amount approximates fair value.

**Loans**

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations.

## **Table of Contents**

### **Deposits**

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount of these types of deposits approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

### **Federal Home Loan Bank Advances**

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

### **Commitments to Originate Loans and Lines of Credit**

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of lines of credit are based on fees currently charged for similar agreements, or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

### **Note 12: Commitments Commitments to Originate Loans**

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

### **Lines of Credit**

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

---

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Cautionary Note Regarding Forward-Looking Statements**

This Quarterly Report may contain forward-looking statements within the meaning of the federal securities laws. These statements are not historical facts, but rather are statements based on management's current expectations regarding its business strategies and their intended results and IF Bancorp, Inc.'s (the Company) 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 that could have a material adverse effect on our actual results include, but are not limited to, general economic conditions, changes in the interest rate environment, legislative or regulatory changes that may adversely affect our business, changes in accounting policies and practices, changes in competition and demand for financial services, adverse changes in the securities markets and changes in the quality or composition of the Association's loan or investment portfolios. Additional factors that may affect our results are discussed under Item 1A. - Risk Factors, in the Company's Annual Report on Form 10-K for the year ended June 30, 2011, and the Company's other filings with the SEC. These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. IF Bancorp, Inc. assumes no obligation to update any forward-looking statement, except as may be required by law.

**Overview**

On July 7, 2011 we completed our initial public offering of common stock in connection with Iroquois Federal Savings and Loan Association's (the Association) 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 bringing our total shares to 4,811,255. The 314,755 shares donated to the foundation were valued at \$3,147,550 (\$10.00 per share) at the time of the conversion. This \$3,147,550 and a \$450,000 cash donation to the foundation were both expensed during the quarter ended September 30, 2011.

The Company is a savings and loan holding company and is subject to regulation by the Board of Governors of the Federal Reserve System. The Company's business activities are limited to oversight of its investment in the Association.

The Association is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers within a 100-mile radius of its locations in Watseka, Danville, Clifton and Hoopeston, Illinois and Osage Beach, Missouri. The principal activity of the Association's wholly-owned subsidiary, L.C.I. Service Corporation (L.C.I.), is the sale of property and casualty insurance. The Association is subject to regulation by the Office of the Controller of the Currency and the Federal Deposit Insurance Corporation.

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities and other interest-earning assets, and the interest paid on our interest-bearing liabilities, consisting primarily of savings and transaction accounts, certificates of deposit, and Federal Home Loan Bank of Chicago advances. Our results of operations also are affected by our provision for loan losses, noninterest income and noninterest expense. Noninterest income consists primarily of customer service fees, brokerage commission income, insurance commission income, net realized gains on loan sales, mortgage banking income, and income on bank-owned life insurance. Noninterest expense consists primarily of compensation and benefits, occupancy and equipment, data processing, professional fees, marketing, office supplies, federal deposit insurance premiums, and foreclosed assets. Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

---

## **Table of Contents**

Our net interest rate spread (the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities) decreased to 2.89% for the nine months ended March 31, 2012 from 3.00% for the nine months ended March 31, 2011. An increase in interest-earning assets contributed to an increase in net interest income to \$14.1 million on an annualized basis for the nine months ended March 31, 2012 from \$11.8 million for the nine months ended March 31, 2011.

Our emphasis on conservative loan underwriting has resulted in relatively low levels of non-performing assets at a time when many financial institutions are experiencing significant asset quality issues. Our non-performing assets totaled \$6.8 million or 1.4% of total assets at March 31, 2012, and \$6.0 million, or 1.2% of total assets at June 30, 2011.

At March 31, 2012, the Association was categorized as well capitalized under regulatory capital requirements.

Our net income for the nine months ended March 31, 2012 was \$497,000, compared to net income of \$2.3 million for the nine months ended March 31, 2011. The decrease in net income was due to an increase in noninterest expense, which included a \$3.6 million contribution to our newly established charitable foundation, and a decrease in noninterest income, partially offset by an increase in interest income, and decreases in interest expense and the provision for loan losses.

Management's discussion and analysis of the financial condition and results of operations at and for three and nine months ended March 31, 2012 and 2011 is intended to assist in understanding the financial condition and results of operations of the Association. The information contained in this section should be read in conjunction with the unaudited financial statements and the notes thereto, appearing in Part I, Item 1 of this quarterly report on Form 10-Q.

### **Critical Accounting Policies**

We consider accounting policies that require management to exercise significant judgment or discretion or make significant assumptions that have, or could have, a material impact on the carrying value of certain assets or on income, to be critical accounting policies. We consider the following to be our critical accounting policies.

**Allowance for Loan Losses.** We believe that the allowance for loan losses and related provision for loan losses are particularly susceptible to change in the near term, due to changes in credit quality which are evidenced by trends in charge-offs and in the volume and severity of past due loans. In addition, our portfolio is comprised of a substantial amount of commercial real estate loans which generally have greater credit risk than one-to-four family residential mortgage and consumer loans because these loans generally have larger principal balances and are non-homogenous.

The allowance for loan losses is maintained at a level to cover probable credit losses inherent in the loan portfolio at the balance sheet date. Based on our estimate of the level of allowance for loan losses required, we record a provision for loan losses as a charge to earnings to maintain the allowance for loan losses at an appropriate level. The estimate of our credit losses is applied to two general categories of loans:

loans that we evaluate individually for impairment under ASC 310-10, Receivables; and

groups of loans with similar risk characteristics that we evaluate collectively for impairment under ASC 450-20, Loss Contingencies.

The allowance for loan losses is evaluated on a regular basis by management and reflects consideration of all significant factors that affect the collectability of the loan portfolio. The factors used to evaluate the collectability of the loan portfolio include, but are not limited to, current economic conditions, our historical loss experience, the nature and volume of the loan portfolio, the financial strength of the borrower, and estimated value of any underlying collateral. This evaluation is inherently subjective as it requires estimates that are subject to significant revision as more information becomes available. Actual loan losses may be significantly more than the allowance for loan losses we have established which could have a material negative effect on our financial results.

---

**Table of Contents**

**Income Tax Accounting.** The provision for income taxes is based upon income in our consolidated financial statements, rather than amounts reported on our income tax return. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on our deferred tax assets and liabilities is recognized as income or expense in the period that includes the enactment date. Under U.S. GAAP, a valuation allowance is required to be recognized if it is more likely than not that a deferred tax asset will not be realized. The determination as to whether we will be able to realize the deferred tax assets is highly subjective and dependent upon judgment concerning our evaluation of both positive and negative evidence, our forecasts of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions. Positive evidence includes the existence of taxes paid in available carryback years as well as the probability that taxable income will be generated in future periods, while negative evidence includes any cumulative losses in the current year and prior two years and general business and economic trends. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. Any required valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings. Positions taken in our tax returns may be subject to challenge by the taxing authorities upon examination. The benefit of an uncertain tax position is initially recognized in the financial statements only when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. Differences between our position and the position of tax authorities could result in a reduction of a tax benefit or an increase to a tax liability, which could adversely affect our future income tax expense.

There are no material changes to the critical accounting policies disclosed in IF Bancorp, Inc.'s prospectus dated May 13, 2011, as filed with the Securities and Exchange Commission pursuant to Securities Act Rule 424(b)(3) on May 20, 2011.

**Comparison of Financial Condition at March 31, 2012 and June 30, 2011**

Total assets decreased \$20.7 million, or 4.1%, to \$490.1 million at March 31, 2012 from \$510.8 million at June 30, 2011. The decrease was primarily due to a \$50.7 million decrease in cash and cash equivalents partially offset by an increase of \$19.7 million in investment securities and an increase of \$10.0 million in net loans. This large change was a result of our mutual-to-stock conversion that closed on July 7, 2011. The stock offering in connection with the conversion was oversubscribed which resulted in \$68.9 million in over subscriptions being refunded to subscribers shortly after the closing of the conversion. This was somewhat offset by an increase of \$34.5 million in FHLB advances during the period.

Net loans receivable, including loans held for sale, increased by \$10.0 million, or 4.2%, to \$250.0 million at March 31, 2012 from \$240.0 million at June 30, 2011. The increase in net loans receivable during this period was due primarily to a \$6.0 million, or 22.9%, increase in multi-family loans, a \$5.0 million, or 18.2% increase in commercial real estate loans, a \$641,000, or 5.3%, increase in commercial business loans, and a \$2.9 million, or 70.9% increase in construction loans. These increases were partially offset by a \$2.2 million, or 14.1%, decrease in consumer loans, a \$905,000, or 9.0% decrease in in home equity lines of credit, and a \$1.4 million, or 0.94% decrease in one-to-four family residential loans (due primarily to increased sales of loans originated).

Investment securities, consisting entirely of securities available for sale, increased \$19.7 million, or 10.4%, to \$210.0 million at March 31, 2012 from \$190.3 million at June 30, 2011. Purchased investment securities, consisted primarily of agency debt obligations with terms of four to seven years and fixed-rate mortgage backed securities with terms of 15 years, all of which are held as available for sale. We had no securities held to maturity at March 31, 2012 or June 30, 2011.

As of March 31, 2012, other assets decreased \$953,000 to \$1.2 million, Federal Home Loan Bank stock increased \$529,000 to \$3.7 million, and mortgage servicing rights decreased \$89,000 to \$319,000 from the respective balances as of June 30, 2011. The decrease in other assets was attributable to prepaid conversion costs which were \$766,000 at June 30, 2011 and reduced to zero at March 31, 2012. Federal Home Loan Bank stock increased as a result of stock purchases to support an increase in Federal Home Loan Bank advances. Mortgage servicing rights decreased due to a reduction in the fair value of mortgage servicing rights as a result of decreased market interest rates at March 31, 2012.



**Table of Contents**

At March 31, 2012, our investment in bank-owned life insurance was \$7.4 million, an increase of \$195,000 from \$7.2 million at June 30, 2011. 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, which totaled \$15.2 million at March 31, 2012.

Deposits decreased \$101.2 million, or 22.8%, to \$342.9 million at March 31, 2012 from \$444.1 million at June 30, 2011. Certificates of deposit decreased \$9.2 million, or 4.6%, to \$190.2 million, savings, NOW, and money market accounts decreased \$99.1 million, or 43.0%, to \$131.2 million, brokered certificates of deposit increased \$5.5 million, or 91.6%, to \$11.5 million, and noninterest bearing demand accounts increased \$1.6 million, or 19.6%, to \$10.0 million. The primary reason for the large decrease in deposits was 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.

Borrowings, which consisted solely of advances from the Federal Home Loan Bank of Chicago, increased \$34.5 million, or 153.3%, to \$57.0 million at March 31, 2012 from \$22.5 million at June 30, 2011. We increased our borrowings to fund loans, replace deposit outflow, and purchase investment securities as we reposition our portfolio in anticipation of securities being called over the next several months. Current interest rates on borrowings are more favorable than rates paid on deposits.

Other liabilities decreased \$176,000, or 9.4%, to \$1.7 million at March 31, 2012 from \$1.9 million on June 30, 2011. The decrease was attributable to a general decrease in accounts payable and accrued expenses payable due to timing of payments.

Total equity increased \$45.5 million, or 115.5%, to \$85.0 million at March 31, 2012 from \$39.4 million at June 30, 2011. The increase was primarily the result of our mutual-to-stock conversion which increased capital \$46.4 million net of conversion costs of \$1.7 million. Equity was also increased due to an increase in unrealized gains on securities available for sale of \$2.3 million and a net income of \$497,000. These increases to equity were partially offset by the purchase of ESOP shares of \$3.8 million. The increase in unrealized gains on securities available-for-sale was due to higher market values of available-for-sale securities. The employee stock ownership plan was established at the time of conversion. The net income was impacted by a contribution to our newly established charitable foundation, Iroquois Federal Foundation, Inc., of 314,755 shares of IF Bancorp, Inc. stock (valued at \$3,147,550 at time of conversion) as well as a cash donation of \$450,000.

**Comparison of Operating Results for the Nine Months Ended March 31, 2012 and 2011**

**General.** Net income decreased \$1.8 million, or 78.1%, to \$497,000 net income for the nine months ended March 31, 2012 from \$2.3 million net income for the nine months ended March 31, 2011. The decrease was primarily due to a \$4.4 million increase in noninterest expense and a \$293,000 decrease in noninterest income, partially offset by a \$1.7 million increase in net interest income, a \$123,000 decrease in provision for loan losses, and a \$1.2 million reduction in income tax expense. The increase in noninterest expense was primarily due to contributions to the charitable foundation that was established at the time of our mutual-to-stock conversion. IF Bancorp, Inc. donated 314,755 shares of its stock (valued at \$3,147,550 at the time of conversion) and the Association made a cash donation of \$450,000.

**Net Interest Income.** Net interest income increased by \$1.7 million, or 18.8%, to \$10.5 million for the nine months ended March 31, 2012 from \$8.9 million for the nine months ended March 31, 2011. The increase was due to a decrease of \$943,000 in interest expense and an increase in \$727,000 in interest income. The increase in net interest income was primarily the result of a \$79.2 million, or 20.8% increase in the average balance of interest earning assets, partially offset by a \$33.7 million, or 9.5% increase in average balance of interest bearing liabilities. Our net interest margin decreased 5 basis points to 3.05% for the nine months ended March 31, 2012 compared to 3.10% for the nine months ended March 31, 2011, and our net interest rate spread decreased 11 basis points to 2.89% for the nine months ended March 31, 2012 compared to 3.00% for the nine months ended March 31, 2011.

---

**Table of Contents**

**Interest Income.** Interest income increased \$727,000, or 5.7%, to \$13.5 million for the nine months ended March 31, 2012 from \$12.8 million for the nine months ended March 31, 2011. The increase in interest income was primarily due to a \$1.1 million increase in interest income on securities, which resulted from an increase in the average balance of securities of \$67.4 million, or 50.0%, to \$203.4 million for the nine months ended March 31, 2012 from \$136.0 million for the nine months ended March 31, 2011. The average balance of securities increased due to the investment of the proceeds received in the mutual-to-stock conversion. This growth was partially offset by a 30 basis point, or 9.6% decrease in the average yield on securities from 3.13% to 2.83%. The decrease in the average yield was primarily due to lower market interest rates during the period.

Interest income on loans decreased \$410,000 as a \$9.2 million increase in the average balance of loans to \$248.1 million at March 31, 2012 was more than offset by a 42 basis point decrease in the average yield on loans from 5.34% to 4.92%. The decrease in the average yield on loans reflected both a reduction in the current interest rates charged on loans originated during the period versus the average rates on existing loans in the portfolio, and the adjustment of a portion of our adjustable rate one-to-four family residential loans to a lower rate at the contractual adjustment term.

**Interest Expense.** Interest expense decreased \$943,000, or 24.3%, to \$2.9 million for the nine months ended March 31, 2012 from \$3.9 million for the nine months ended March 31, 2011. The decrease occurred due to lower market interest rates.

Interest expense on interest-bearing deposits decreased by \$940,000, or 29.3%, to \$2.3 million for the nine months ended March 31, 2012 from \$3.2 million for the nine months ended March 31, 2011. This decrease was primarily due to a decrease of 38 basis points in the average cost of interest-bearing deposits to 0.93% for the nine months ended March 31, 2012 from 1.31% for the nine months ended March 31, 2011. We experienced decreases in the average cost across all categories of interest-bearing deposits for the nine months ended March 31, 2012, reflecting lower market interest rates as compared to the prior period. The decrease in average cost was also partially due to a \$286,000, or 0.1%, decrease in the average balance of interest-bearing deposits to \$325.7 million for the nine months ended March 31, 2012 from \$326.0 million for the nine months ended March 31, 2011.

Interest expense on borrowings decreased \$3,000, or 0.4%, to \$676,000 for the nine months ended March 31, 2012 from \$679,000 for the nine months ended March 31, 2011. This decrease was due to a 174 basis point decrease in the average cost of such borrowings to 1.44% for the nine months ended March 31, 2012 from 3.18% for the nine months ended March 31, 2011. This was offset by an increase in the average balance of borrowings to \$62.4 million for the nine months ended March 31, 2012 from \$28.4 million for the nine months ended March 31, 2011.

**Provision for Loan Losses.** We establish provisions for loan losses, which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb probable credit losses inherent in our loan portfolio. We recorded a provision for loan losses of \$727,000 for the nine months ended March 31, 2012, compared to a provision for loan losses of \$850,000 for the nine months ended March 31, 2011. The allowance for loan losses was \$3.3 million, or 1.31% of total loans, at March 31, 2012, compared to \$2.8 million, or 1.14% of total loans, at March 31, 2011 and \$3.1 million, or 1.29% of total loans, at June 30, 2011. Non-performing loans increased during the nine month period ended March 31, 2012 due to the addition of one loan relationship totaling \$2.1 million due to a troubled debt restructuring. The loans were substantially collateralized, thus the impact to the allowance for loan losses was minimal. During the nine months ended March 31, 2012 and 2011, \$559,000 and \$817,000 in net charge-offs were recorded.

**Table of Contents**

The following table sets forth information regarding the allowance for loan losses and nonperforming assets at the dates indicated:

	Nine Months Ended March 31, 2012	Year Ended June 30, 2011
Allowance to non-performing loans	52.85%	59.73%
Allowance to total loans outstanding at the end of the period	1.31%	1.29%
Net charge-offs to average total loans outstanding during the period, annualized	.30%	.40%
Total non-performing loans to total loans	2.47%	2.16%
Total non-performing assets to total assets	1.39%	1.17%

**Noninterest Income.** Noninterest income decreased \$293,000, or 9.5%, to \$2.8 million for the nine months ended March 31, 2012 compared to \$3.1 million for the nine months ended March 31, 2011. The decrease was primarily due to decreases in mortgage banking income, brokerage commissions and other service charges and fees. For the nine months ended March 31, 2012, mortgage banking income decreased \$348,000 to \$206,000, brokerage commissions decreased \$60,000 to \$380,000 and other service charges and fees decreased \$30,000 to \$175,000. The decrease in mortgage banking income was due primarily to a reduction in the fair value of mortgage servicing rights as a result of decreased market interest rates and a slow down of mortgage refinancing. The decrease in brokerage commissions was a result of less activity due to decreased market interest rates and the decrease in other service charges and fees reflects fewer service charges and fees collected. These decreases were partially offset by an increase of \$126,000 in insurance commissions due to an increase in insurance sales and an increase of \$33,000 in net realized gains on the sale of available-for-sale securities which was due to the interest rate environment in the nine months ended March 31, 2012, that allowed for profits to be gained when repositioning the investment portfolio that were not available in the nine months ended March 31, 2011.

**Noninterest Expense.** Noninterest expense increased \$4.4 million, or 58.6%, to \$12.0 million for the nine months ended March 31, 2012 from \$7.6 million for the nine months ended March 31, 2011. The largest components of this increase were charitable contributions, which increased \$3.6 million, compensation and benefits, which increased \$513,000, or 10.6%, professional services expense, which increased \$101,000, or 66.0%, and audit and accounting, which increased \$131,000, or 569.6%. The increase in charitable contributions was primarily due to a contribution to our newly established charitable foundation, Iroquois Federal Foundation, Inc., of 314,755 shares of IF Bancorp, Inc. stock (valued at \$3,147,550 at time of conversion) as well as a cash donation of \$450,000. Increased staffing, normal salary increases and increases in payroll taxes primarily accounted for the increase in compensation and benefits expense. Increases in professional services and audit and accounting expense were a result of increased costs associated with transitioning to a public company. These increases were partially offset by a decrease of \$112,000 in deposit insurance premium resulting from the new FDIC formula used to calculate this premium and a decrease of \$90,000 in loss on sale of foreclosed assets.

**Income Tax Expense.** We recorded a provision for income tax of \$138,000 for the nine months ended March 31, 2012, compared to a provision for income tax of \$1.3 million for the nine months ended March 31, 2011, reflecting effective tax rates of 21.7% and 36.4%, respectively. The decreased tax rate for the nine months ended March 31, 2012 was due to lower taxable income due to a contribution to our newly established charitable foundation, Iroquois Federal Foundation, Inc., of 314,755 shares of IF Bancorp, Inc. stock (valued at \$3,147,550 at time of conversion) as well as a cash donation of \$450,000.

**Table of Contents**

**Comparison of Operating Results for the Three Months Ended March 31, 2012 and 2011**

**General.** Net income increased \$183,000, or 27.5%, to \$848,000 net income for the three months ended March 31, 2012 from \$665,000 net income for the three months ended March 31, 2011. The increase was primarily due to a \$349,000 increase in interest income, a \$233,000 decrease in interest expense, and a \$197,000 increase in noninterest income, partially offset by a \$168,000 increase in provision for loan losses, a \$329,000 increase in noninterest expense, and a \$99,000 increase in income tax expense.

**Net Interest Income.** Net interest income increased by \$582,000, or 19.5%, to \$3.6 million for the three months ended March 31, 2012 from \$3.0 million for the three months ended March 31, 2011. The increase was due to an increase of \$349,000 in interest income and a decrease of \$233,000 in interest expense. The increase in net interest income was primarily the result of a \$78.4 million, or 20.1% increase in the average balance of interest earning assets, partially offset by a \$32.3 million, or 9.0% increase in average balance of interest bearing liabilities. Our net interest margin decreased 2 basis points to 3.05% for the three months ended March 31, 2012 compared to 3.07% for the three months ended March 31, 2011, and our net interest rate spread decreased 7 basis points to 2.90% for the three months ended March 31, 2012 compared to 2.97% for the three months ended March 31, 2011.

**Interest Income.** Interest income increased \$349,000, or 8.4%, to \$4.5 million for the three months ended March 31, 2012 from \$4.1 million for the three months ended March 31, 2011. The increase in interest income was primarily due to a \$407,000 increase in interest income on securities, which resulted from an increase in the average balance of securities of \$64.7 million, or 45.7%, to \$206.4 million for the three months ended March 31, 2012 from \$141.6 million for the three months ended March 31, 2011. The average balance of securities increased due to the investment of the proceeds received in the mutual-to-stock conversion. This growth was partially offset by a 13 basis point, or 4.4% decrease in the average yield on securities from 2.93% to 2.80%. The decrease in the average yield was primarily due to lower market interest rates during the period.

Interest income on loans decreased \$55,000, or 1.8%, as a \$12.3 million increase in the average balance of loans to \$255.0 million at March 31, 2012 was more than offset by a 33 basis point decrease in the average yield on loans from 5.11% to 4.78%. The decrease in the average yield on loans reflected a reduction in the current interest rates charged on loans originated during the period versus the average rates on existing loans in the portfolio.

**Interest Expense.** Interest expense decreased \$233,000, or 20.2%, to \$921,000 for the three months ended March 31, 2012 from \$1.2 million for the three months ended March 31, 2011. The decrease was primarily due to lower market interest rates during the period.

Interest expense on interest-bearing deposits decreased by \$235,000, or 25.2%, to \$698,000 for the three months ended March 31, 2012 from \$933,000 for the three months ended March 31, 2011. This decrease was primarily due to a decrease of 28 basis points in the average cost of interest-bearing deposits to .85% for the three months ended March 31, 2012 from 1.13% for the three months ended March 31, 2011. We experienced decreases in the average cost across all categories of interest-bearing deposits with the exception of the interest-bearing checking or NOW accounts which remained constant for the three months ended March 31, 2012, reflecting lower market interest rates as compared to the prior period. The decrease in average cost was also partially due to a \$2.4 million, or 0.71%, decrease in the average balance of interest-bearing deposits to \$328.0 million for the three months ended March 31, 2012 from \$330.3 million for the three months ended March 31, 2011.

Interest expense on borrowings increased \$2,000, or 0.9%, to \$223,000 for the three months ended March 31, 2012 from \$221,000 for the three months ended March 31, 2011. This increase was due to an increase in the average balance of borrowings to \$65.0 million for the three months ended March 31, 2012 from \$30.3 million for the three months ended March 31, 2011. This was offset by a 154 basis point decrease in the average cost of such borrowings to 1.37% for the three months ended March 31, 2012 from 2.91% for the three months ended March 31, 2011.

## Table of Contents

**Provision for Loan Losses.** We recorded a provision for loan losses of \$393,000 for the three months ended March 31, 2012, compared to a provision for loan losses of \$225,000 for the three months ended March 31, 2011. During the three months ended March 31, 2012 and 2011, \$184,000 and \$136,000 in net charge-offs were recorded.

**Noninterest Income.** Noninterest income increased \$197,000, or 25.9%, to \$959,000 for the three months ended March 31, 2012 compared to \$762,000 for the three months ended March 31, 2011. The increase was primarily due to increases in net realized gains on the sale of securities available for sale and insurance commissions, partially offset by a decrease in mortgage banking income. For the three months ended March 31, 2012, net realized gains on the sale of securities available for sale increased \$121,000 to \$95,000 and insurance commissions increased \$62,000 to \$178,000 while mortgage banking income decreased \$9,000 to \$125,000. The increase in insurance commissions was due to an increase in insurance sales while the increase in net realized gains on the sale of available-for-sale securities was due to the interest rate environment in the three months ended March 31, 2012, that allowed for profits to be gained when repositioning the investment portfolio that were not available in the three months ended March 31, 2011. The decrease in mortgage banking income was due primarily to a reduction in the fair value of mortgage servicing rights as a result of decreased market interest rates.

**Noninterest Expense.** Noninterest expense increased \$329,000, or 13.2%, to \$2.8 million for the three months ended March 31, 2012 from \$2.5 million for the three months ended March 31, 2011. The largest components of this increase were compensation and benefits, which increased \$182,000, or 11.2%, professional services expense, which increased \$31,000, or 114.8%, and audit and accounting, which increased \$31,000, or 100.0%. Increased staffing, normal salary increases and increases in payroll taxes primarily accounted for the increase in compensation and benefits expense. Increases in professional services and audit and accounting expense were a result of increased costs associated with transitioning to a public company. These increases were partially offset by a decrease of \$23,000 in supervisory exam expense resulting from the transition from the Office of Thrift Supervision to the Office of the Controller of the Currency payment schedule and a decrease of \$38,000 in deposit insurance premium resulting from the new FDIC formula used to calculate this premium.

**Income Tax Expense.** We recorded a provision for income tax of \$478,000 for the three months ended March 31, 2012, compared to a provision for income tax of \$379,000 for the three months ended March 31, 2011, reflecting effective tax rates of 36.0% and 36.3%, respectively.

### **Asset Quality**

At March 31, 2012, our non-accrual loans totaled \$6.3 million, including \$4.5 million in one-to-four family loans, \$1.5 million in multi-family loans, \$96,000 in commercial real estate loans, \$52,000 in home equity lines of credit, \$3,000 in commercial business loans and \$83,000 in consumer loans. The commercial real estate loans are secured by commercial rental properties. At March 31, 2012, we had no loans delinquent 90 days or greater and still accruing interest.

At March 31, 2012, loans classified as substandard equaled \$6.7 million. Loans classified as substandard consisted of \$5.0 million in one- to four-family loans, \$1.5 million in multi-family loans, \$96,000 in commercial real estate loans, \$52,000 in home equity lines of credit, \$3,000 in commercial business loans and \$83,000 in consumer loans. At March 31, 2012, no loans were classified as doubtful or loss.

At March 31, 2012, one-to-four family residential mortgage loans classified as substandard equal \$5.0 million compared to \$5.4 million at June 30, 2011. At March 31, 2012, special mention assets consisted of \$1.2 million in commercial business loans and \$416,000 in one-to four-family loans.

**Troubled Debt Restructuring.** Troubled debt restructurings include loans for which economic concessions have been granted to borrowers with financial difficulties. 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 March 31, 2012 and June 30, 2011, we had \$3.8 million and \$1.8 million, respectively, of troubled debt restructurings. At March 31, 2012 our troubled debt restructurings consisted of \$2.2 million in one-to four-family loans, \$1.5 million in multi-family loans, \$96,000 in commercial real estate loans, \$3,000 in commercial business loans and \$27,000 in consumer loans.

**Table of Contents**

Of the increase in troubled debt restructurings, an increase of \$654,000 in one-to-four family and \$1.6 million in multi-family real estate loans were the result of the Company modifying loans by advancing funds for real estate taxes, in exchange for the taxes being capitalized into the loan and all future loan payments to include real estate tax escrow in addition to principal and interest payments. Prior to this troubled debt restructuring, only principal and interest payments were being made by the customers.

At March 31, 2012, we had \$559,000 in foreclosed assets compared to \$710,000 as of June 30, 2011. Foreclosed assets at March 31, 2012, consisted of \$524,000 in residential real estate properties and \$35,000 in commercial real estate properties while foreclosed assets at June 30, 2011, consisted of \$690,000 in residential real estate and \$20,000 in other repossessed assets.

**Allowance for Loan Loss Activity**

The Company regularly reviews its allowance for loan losses and makes adjustments to its balance based on management's analysis of the loan portfolio, the amount of non-performing and classified loans, as well as general economic conditions. Although the Company maintains its allowance for loan losses at a level that it considers sufficient to provide for losses, there can be no assurance that future losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies, which can order the establishment of additional loss provisions. The following table summarizes changes in the allowance for loan losses over the nine-month periods ended March 31, 2012 and 2011:

	Nine months ended March 31,	
	2012	2011
Balance, beginning of period	\$ 3,149	\$ 2,767
Loans charged off		
Real estate loans		
One-to-four family	(501)	(772)
Multi-family	0	0
Commercial	(49)	0
HELOC	0	0
Construction	0	0
Commercial business	(29)	(30)
Consumer	(86)	(39)
Gross charged off loans	(665)	(841)
Recoveries of loans previously charged off		
Real estate loans		
One-to-four family	71	12
Multi-family	0	0
Commercial	0	0
HELOC	0	0
Construction	0	0
Commercial business	0	0
Consumer	35	12
Gross recoveries of charged off loans	106	24
Net charge offs	(559)	(817)
Provision charged to expense	727	850
Balance, end of period	\$ 3,317	\$ 2,800

## Edgar Filing: IF Bancorp, Inc. - Form 10-Q

The allowance for loan losses has been calculated based upon an evaluation of pertinent factors underlying the various types and quality of the Company's loans. Management considers such factors as the repayment status of a loan, the

**Table of Contents**

estimated net fair value of the underlying collateral, the borrower's intent and ability to repay the loan, local economic conditions, and the Company's historical loss ratios. We maintain the allowance for loan losses through the provisions for loan losses that we charge to income. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. The allowance for loan losses increased \$168,000 to \$3.3 million at March 31, 2012, from \$3.1 million at June 30, 2011. The increase was a result of an increase in outstanding loans and was necessary in order to bring the allowance for loan losses to a level that reflects management's estimate of the probable loss in the Company's loan portfolio at March 31, 2012.

In its quarterly evaluation of the adequacy of its allowance for loan losses, the Company employs historical data including past due percentages, charge offs, and recoveries. The Company's allowance methodology weights the most recent twelve-quarter period's net charge offs and uses this information as one of the primary factors for evaluation of allowance adequacy. The most recent four-quarter net charge offs are given a higher weight of 50%, while quarters 5-8 are given a 30% weight and quarters 9-12 are given only a 20% weight. The average net charge offs in each period are calculated as net charge offs by portfolio type for the period as a percentage of the quarter end balance of respective portfolio type over the same period. As the Company and the industry have seen increases in loan defaults in the past several years, the Company believes that it is prudent to emphasize more recent historical factors in the allowance evaluation. The following table sets forth the Company's weighted average historical net charge offs as of March 31, 2012, and June 30, 2011:

<b>Portfolio segment</b>	<b>March 31, 2012 Net charge offs 12 quarter weighted historical</b>	<b>June 30, 2011 Net charge offs 12 quarter weighted historical</b>
Real Estate		
One-to-four family	.55%	.52%
Multi-family	.01%	.00%
Commercial	.14%	.12%
HELOC	.07%	.14%
Construction	.00%	.00%
Commercial business	.17%	.09%
Consumer	.17%	.35%
<b>Entire portfolio total</b>	<b>.39%</b>	<b>.38%</b>

Additionally, in its quarterly evaluation of the adequacy of the allowance for loan losses, the Company evaluates changes in financial conditions of individual borrowers; changes in local, regional, and national economic conditions; the Company's historical loss experience; and changes in market conditions for property pledged to the Company as collateral. The Company has identified specific qualitative factors that address these issues and subjectively assigns a percentage to each factor. At March 31, 2012, these qualitative factors included: (1) management's assumptions regarding the minimal level of risk for a given loan category; (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, the volume of troubled debt restructured and other loan modifications, 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-dependent 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.



**Table of Contents**

The qualitative factors are applied to the allowance for loan losses based upon the following percentages by loan type:

Portfolio segment	Qualitative factor applied at March 31, 2012	Qualitative factor applied at June 30, 2011
Real Estate		
One-to-four family	.36%	.31%
Multi-family	1.04%	.95%
Commercial	.46%	.53%
HELOC	.83%	.76%
Construction	.94%	.75%
Commercial business	2.41%	2.83%
Consumer	.55%	.32%
Entire portfolio total	.57%	.54%

At March 31, 2012, the amount of our allowance for loan losses attributable to these qualitative factors was approximately \$1.4 million, as compared to \$1.3 million at June 30, 2011. The general increase in qualitative factors was attributable primarily to the increase in non-accrual loans as a result of higher troubled debt restructurings.

While management believes that our asset quality remains strong, it recognizes that, due to the continued growth in the loan portfolio, the increase in troubled debt restructurings and the potential changes in market conditions, our level of nonperforming assets and resulting charges offs may fluctuate. Higher levels of net charge offs requiring additional provisions for loan losses could result. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change.

**Liquidity and Capital Resources**

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan sales and repayments, advances from the Federal Home Loan Bank of Chicago, and maturities of securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. Our Asset/Liability Management Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. For the nine months ended March 31, 2012 and the year ended June 30, 2011, our liquidity ratio averaged 42.5% and 35.3% of our total assets, respectively. We believe that we had enough sources of liquidity to satisfy our short- and long-term liquidity needs as of March 31, 2012.

We regularly monitor and adjust our investments in liquid assets based upon our assessment of: (i) expected loan demand; (ii) expected deposit flows; (iii) yields available on interest-earning deposits and securities; and (iv) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short- and medium-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are affected by our operating, financing, lending and investing activities during any given period. At March 31, 2012, cash and cash equivalents totaled \$9.8 million. Interest-earning time deposits which can offer additional sources of liquidity, totaled \$250,000 at March 31, 2012.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Condensed Consolidated Statement of Cash Flows included in our financial statements. Net cash provided by operating

**Table of Contents**

activities were \$4.1 million and \$3.0 million for the nine months ended March 31, 2012 and 2011, respectively. Net cash provided by (used in) investing activities consisted primarily of disbursements for loan originations and the purchase of securities, offset by net cash provided by principal collections on loans, and proceeds from maturing securities and pay downs on mortgage-backed securities. Net cash used in investing activities were \$28.0 million and \$26.6 million for the nine months ended March 31, 2012 and 2011, respectively. Net cash provided by (used in) financing activities consisted primarily of the activity in deposit accounts and Federal Home Loan Bank borrowings. The net cash provided by (used in) financing activities was \$(26.8) million and \$25.1 million for the nine months ended March 31, 2012 and 2011, respectively.

The Company must also maintain adequate levels of liquidity to ensure the availability of funds to satisfy loan commitments. The Company anticipates that it will have sufficient funds available to meet its current commitments principally through the use of current liquid assets and through its borrowing capacity discussed above. The following table summarizes these commitments at March 31, 2012 and June 30, 2011.

	<b>March 31, 2012</b>	<b>June 30, 2011</b>
	<b>(Dollars in thousands)</b>	
Commitments to fund loans	\$ 8,007	\$ 6,251
Lines of credit	12,958	12,512

At March 31, 2012, certificates of deposit due within one year of March 31, 2012 totaled \$151.0 million, or 44.0% of total deposits. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before March 31, 2013. Moreover, it is our intention as we continue to grow our commercial real estate portfolio, to emphasize lower cost deposit relationships with these commercial loan customers and thereby replace the higher cost certificates with lower cost deposits. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Chicago, which provides an additional source of funds. Federal Home Loan Bank advances were \$57.0 million at March 31, 2012. At March 31, 2012, we had the ability to borrow up to an additional \$47.8 million from the Federal Home Loan Bank of Chicago and had the ability to borrow \$33.3 million from the Federal Reserve.

The Association is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At March 31, 2012, the Association exceeded all regulatory capital requirements. The Association is considered well capitalized under regulatory guidelines.

	<b>March 31, 2012 Actual</b>	<b>June 30, 2011 Actual</b>	<b>Minimum to Be Well Capitalized</b>
Tier 1 capital to total assets			
Association	11.9%	7.3%	5.0%
Company	16.6%	7.3%	N/A
Tier 1 capital to risk-weighted assets			
Association	24.0%	15.7%	6.0%
Company	33.6%	15.7%	N/A
Total capital to risk-weighted assets			
Association	25.3%	16.6%	10.0%
Company	35.0%	16.6%	N/A

**Table of Contents**

The net proceeds from the Company's stock offering in connection with its conversion have significantly increased our liquidity and capital resources. Over time, the initial level of liquidity will be reduced as net proceeds from the stock offering are used for general corporate purposes, including the funding of new loans. Our financial condition and results of operations will be enhanced by the net proceeds from the stock offering, resulting in increased net interest-earning assets and net interest income. However, due to the increase in equity resulting from the net proceeds raised in the stock offering, our return on equity will be adversely affected until we can deploy the proceeds effectively.

**Average Balances and Yields**

The following tables set forth average balance sheets, average yields and costs, and certain other information at and for the periods indicated. Tax-equivalent yield adjustments have not been made for tax-exempt securities. All average balances are based on month-end balances, which management deems to be representative of the operations of the Company. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

	For the Three Months Ended March 31,					
	Average Balance	2012 Interest Income/Expense	Yield /Cost (Dollars in thousands)	Average Balance	2011 Interest Income/Expense	Yield/ Cost
<b>Assets</b>						
Loans	\$ 254,982	3,047	4.78%	\$ 242,704	3,102	5.11%
<b>Securities:</b>						
U.S. government, federal agency and government-sponsored enterprises	159,113	1,042	2.62%	127,691	880	2.76%
U.S. government-sponsored enterprise MBS	44,573	388	3.48%	11,448	146	5.10%
State and political subdivisions	2,673	15	1.95%	2,487	14	2.09%
Total securities	206,359	1,445	2.80%	141,627	1,040	2.93%
Other	7,297	3	0.27%	5,901	4	0.34%
Total interest-earning assets	468,638	4,495	3.84%	390,232	4,146	4.25%
Non-interest earning assets	26,003			20,954		
Total assets	\$ 494,641			\$ 411,186		

**Liabilities and Stockholders' Equity**

<b>Interest-bearing liabilities:</b>						
Interest-bearing checking or NOW	\$ 29,769	15	0.20%	\$ 26,246	13	0.20%
Savings accounts	28,892	24	0.33%	24,410	23	0.38%
Money market accounts	67,322	50	0.30%	70,117	59	0.34%
Certificates of deposit	201,997	609	1.21%	209,567	838	1.60%
Total interest-bearing deposits	327,980	698	0.85%	330,339	933	1.13%
Federal Home Loan Bank Advances	64,988	223	1.37%	30,333	221	2.91%

**Table of Contents**

	For the Three Months Ended March 31,					
	Average Balance	2012 Interest Income/ Expense	Yield /Cost (Dollars in thousands)	Average Balance	2011 Interest Income/ Expense	Yield/ Cost
Total interest-bearing liabilities	392,968	921	0.94%	360,672	1,154	1.28%
Noninterest-bearing liabilities	16,757			13,416		
<b>Total liabilities</b>	<b>409,725</b>			<b>374,088</b>		
Stockholders' equity	84,916			37,098		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 494,641</b>			<b>\$ 411,186</b>		
Net interest income		\$ 3,574			\$ 2,992	
Interest rate spread (1)			2.90%			2.97%
Net interest margin (2)			3.05%			3.07%
Net interest-earning assets (3)	\$ 75,670			\$ 29,560		
Average interest-earning assets to interest-bearing liabilities		119%			108%	

- (1) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
- (2) Net interest margin represents net interest income divided by average total interest-earning assets.
- (3) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
- (4) Tax exempt income is not recorded on a tax equivalent basis.

**Table of Contents**

	For the Nine Months Ended March 31,					
	Average Balance	2012 Interest Income/ Expense	Yield/ Cost (Dollars in thousands)	Average Balance	2011 Interest Income/ Expense	Yield/ Cost
<b>Assets</b>						
Loans	\$ 248,074	9,149	4.92%	\$ 238,887	9,559	5.34%
<b>Securities:</b>						
U.S. government, federal agency and government-sponsored enterprises	157,353	3,091	2.62%	120,719	2,656	2.93%
U.S. government-sponsored enterprise MBS	43,333	1,179	3.63%	12,704	492	5.16%
State and political subdivisions	2,688	46	2.03%	2,563	42	2.08%
Total securities	203,374	4,316	2.83%	135,986	3,190	3.13%
Other	9,294	19	0.34%	6,633	8	0.20%
Total interest-earning assets	460,742	13,484	3.90%	381,505	12,757	4.46%
Non-interest earning assets	26,439			23,424		
Total assets	\$ 487,181			\$ 404,930		
<b>Liabilities and Stockholders Equity</b>						
<b>Interest-bearing liabilities:</b>						
Interest-bearing checking or NOW	\$ 27,904	43	0.21%	24,726	42	0.23%
Savings accounts	27,002	72	0.36%	22,934	92	0.53%
Money market accounts	67,826	155	0.30%	70,813	274	0.52%
Certificates of deposit	202,990	1,994	1.31%	207,535	2,796	1.80%
Total interest-bearing deposits	325,722	2,264	0.93%	326,008	3,204	1.31%
Federal Home Loan Bank Advances	62,441	676	1.44%	28,444	679	3.18%
Total interest-bearing liabilities	388,163	2,940	1.01%	354,452	3,883	1.46%
Noninterest-bearing liabilities	15,360			12,729		
Total liabilities	403,523			367,181		
Stockholders equity	83,658			37,749		
Total liabilities and stockholders equity	\$ 487,181			\$ 404,930		
Net interest income		\$ 10,544			\$ 8,874	
Interest rate spread (1)			2.89%			3.00%
Net interest margin (2)			3.05%			3.10%
Net interest-earning assets (3)	\$ 72,579			\$ 27,054		
Average interest-earning assets to interest-bearing liabilities	119%			108%		

(1) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

## Edgar Filing: IF Bancorp, Inc. - Form 10-Q

- (2) Net interest margin represents net interest income divided by average total interest-earning assets.
- (3) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
- (4) Tax exempt income is not recorded on a tax equivalent basis.

**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable, as the Company is a smaller reporting company.

**Item 4. Controls and Procedures**

An evaluation was performed under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2012. Based upon such evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended March 31, 2012, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents**

**Part II Other Information**

**Item 1. Legal Proceedings**

The Association and Company are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Association's or the Company's financial condition or results of operations.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A. - Risk Factors in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011, which could materially affect our business, financial condition or future results of operations. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of March 31, 2012 and June 30, 2011, (ii) the Condensed Consolidated Statements of Income for the nine months ended March 31, 2012 and 2011, (iii) The Condensed Consolidated Statements of Stockholders' Equity for the nine months ended March 31, 2012 and 2011, (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2012 and 2011, and (v) the notes to the Condensed Consolidated Financial Statements.\*

\* This information is furnished and not filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.





**Table of Contents**

**SIGNATURES**

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

**IF BANCORP, INC.**

Date: May 10, 2012

/s/ Alan D. Martin  
Alan D. Martin  
President and Chief Executive Officer

Date: May 10, 2012

/s/ Pamela J. Verkler  
Pamela J. Verkler  
Vice President and Chief Financial Officer