HOME FEDERAL BANCORP INC
Form 10-K
December 14, 2007

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 30, 2007

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 000-50901

HOME FEDERAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

United States	**20-0945587**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. Number)
500 12th Avenue South, Nampa, Idaho	**83651**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	**(208) 466-4634**

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

Common Stock, par value $.01 per share	**The Nasdaq Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [ ]   Accelerated filer [X]
Non-accelerated filer [ ]

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

As of December 3, 2007, there were 15,252,282 shares of the registrant's common stock outstanding. The registrant's common stock is listed on the Nasdaq Global Market of The Nasdaq Stock Market LLC under the symbol "HOME." The aggregate market value of the voting stock held by nonaffiliates of the registrant based on the closing sales price of the registrant's common stock as quoted on The Nasdaq Stock Market LLC on March 31, 2007 was approximately $88,132,101 (5,674,958) shares at $15.53 per share). For purposes of this calculation, common stock held by executive officers and directors of the registrant and Home Federal MHC is considered to be held by affiliates.

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Forward-Looking Statements

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This Form 10-K contains forward-looking statements, which can be identified by the use of words such as "believes," "expects," "anticipates," "estimates" or similar expressions. Forward-looking statements include:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- general economic conditions, either nationally or in our market area, that are worse than expected;

- changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and savings habits;
- our ability to successfully manage our growth;
- legislative or regulatory changes that adversely affect our business;
- adverse changes in the securities markets; and
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board.

Any of the forward-looking statements that we make in this annual report and in other public statements we make may turn out to be wrong because of inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot foresee. Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements and you should not rely on such statements.

PART I

Item 1. Business

General

Home Federal Bancorp, Inc. ("we," "us," the "Company" or "Home Federal Bancorp") was organized as a federally chartered stock corporation at the direction of Home Federal Savings and Loan Association of Nampa ("Association") in connection with its mutual holding company reorganization ("Reorganization"). On December 6, 2004, the Association completed the reorganization and minority stock offering. In connection with the reorganization, the Association converted to a federally chartered stock savings bank and changed its name to Home Federal Bank ("Home Federal" or the "Bank"). The Company sold 40.06% of its outstanding shares of common stock (6,083,500 shares) to the public and issued 59.04% of its outstanding shares of common stock (8,979,246 shares) to Home Federal MHC, the mutual holding company parent of the Company. In connection with the Reorganization, the Company received $53.6 million in net proceeds after deducting expenses, and issued an

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additional 146,004 shares and $365,010 in cash to the Home Federal Foundation, Inc. (the "Foundation"), a charitable foundation established as part of the Reorganization. Regulations of the Office of Thrift Supervision ("OTS") provide that so long as Home Federal MHC exists, it will own at least a majority of the Company's common stock.

On May 11, 2007, the Boards of Directors of Home Federal MHC, Home Federal Bancorp, Inc. and Home Federal Bank adopted a Plan of Conversion and Reorganization pursuant to which Home Federal Bank will reorganize from the mutual holding company structure to the stock holding company structure. Pursuant to the terms of the Plan, Home Federal MHC will convert to a federal interim stock savings bank and simultaneously merge with and into Home Federal Bank, with Home Federal Bank as the survivor. Additionally, Home Federal Bancorp, Inc. will also convert to a federal interim stock savings bank and simultaneously merge with and into Home Federal Bank, with Home Federal Bank as the survivor. Home Federal Bank has formed a new Maryland corporation, Home Federal Bancorp, Inc., that will serve as the holding company for Home Federal Bank. Shares of Home Federal Bancorp, Inc.'s common stock, other than those held by Home Federal MHC, will be converted into shares of common stock of new Home Federal Bancorp, Inc. pursuant to an exchange ratio designed to preserve the aggregate percentage ownership interest of the minority shareholders. In connection with the conversion, shares of common stock of new Home Federal Bancorp are being offered for sale to certain depositors of Home Federal Bank, residents of Home Federal Bank's local community and shareholders of Home Federal Bancorp, Inc. and others in the manner and subject to the priorities set forth in the Plan. A minimum of 10,200,000 shares and a maximum of 13,800,000 shares (subject to adjustment up to 15,870,000 shares) of new Home Federal Bancorp, Inc. common stock are currently being offered based on the appraisal. New Home Federal Bancorp has filed with the Securities and Exchange Commission a registration statement under the Securities Act of 1933 with respect to the common stock it is offering. This registration statement, including the appraisal report which is an exhibit to the registration statement, can be examined without charge at the public reference facilities of the Securities and Exchange Commission located at 100 F Street, N.E., Washington, D.C. 20549, and copies of this material can be obtained from the Securities and Exchange Commission at prescribed rates. You may also obtain information on the operation of the public reference room by calling the Securities and Exchange Commission at 1-800-SEC-0330. In addition, the Securities and Exchange Commission maintains a web site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission industry new Home Federal Bancorp.

Home Federal Bancorp's business activity is the ownership of the outstanding capital stock of Home Federal Bank and management of the investment of offering proceeds retained from the reorganization. Home Federal Bancorp neither owns nor leases any property but instead uses the premises, equipment and other property of Home Federal Bank with the payment of appropriate management fees, as required by applicable law and regulations. In the future, Home Federal Bancorp may acquire or organize other operating subsidiaries; however, there are no current plans to do so. Home Federal Bancorp has no significant assets, other than mortgage-backed securities and all of the outstanding shares of Home Federal, and no significant liabilities.

Home Federal Bank was founded in 1920 as a building and loan association and reorganized as a federal mutual savings and loan association in 1936. Home Federal Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to applicable legal limits under the Deposit Insurance Fund. The Bank has been a member of the Federal Home Loan Bank ("FHLB") System since 1937. Home Federal Bank is regulated by the OTS and the FDIC.

We are a community-based financial institution primarily serving the Boise, Idaho and surrounding metropolitan area known as the Treasure Valley region of southwestern Idaho, including Ada, Canyon, Elmore and Gem counties. We conduct our operations through our 15 full-service banking offices, and two loan centers. Included in our 15 full-service banking offices are six Wal-Mart in-store branch locations. We are in the business of attracting deposits from the public and utilizing those deposits to originate loans. We offer a wide range of loan products to meet the demands of our customers. Historically, lending activities have been primarily directed toward the origination of residential and commercial real estate loans. Real estate lending activities have been primarily focused on first mortgages on owner occupied, one- to four-family residential properties. To an increasing extent in recent years, lending activities have also included the origination of residential and commercial construction and land development loans and home equity loans. While continuing our commitment to residential lending, management expects commercial lending, including commercial real estate, builder finance and commercial business lending, to become increasingly important activities for us. Consistent with this strategy, we appointed Mr. Len E. Williams as

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President of Home Federal Bank in September 2006 and to Home Federal Bancorp's board of directors in April 2007. Mr. Williams has extensive experience in business related lending. Before starting his tenure with us, Mr. Williams served as Senior Vice President and Head of Business Banking of Fifth Third Bank and held several management positions with Key Bank, including President of Business Banking from 2003 to 2005. We expect him to succeed Mr. Daniel L. Stevens, Home Federal Bancorp's Chairman, President and Chief Executive Officer, as President and Chief Executive Officer of new Home Federal Bancorp, and to become Chief Executive Officer of Home Federal Bank in October 2008. See "- Lending Activities."

At September 30, 2007, we had total assets of $710.0 million, deposit accounts of $404.6 million and equity of $112.6 million.

Operating Lines

The following reflects our management structure and responsibilities of each of our operating lines before and after the conversion:

Daniel L. Stevens

Chairman of the Board, President and Chief Executive Officer of Home Federal Bancorp
Chairman of the Board and Chief Executive Officer of Home Federal Bank

Len E. Williams

President and Director of Home Federal Bank
Director of Home Federal Bancorp

Steven D. Emerson
Executive Vice President/
Commercial Banking

- Commercial real estate loans
- Multi-family loans

- Construction and land development loans
- Credit administration

Lynn A. Sander
Executive Vice President/
Consumer Banking

- Residential real estate loans
- Branch administration
- Deposits
- Consumer loans

Market Area

We serve the Boise, Idaho and surrounding metropolitan area known as the Treasure Valley region of southwestern Idaho, which includes Ada, Canyon, Elmore and Gem counties, through our 15 full-service banking offices, two loan centers, 16 automated teller machines and Internet banking services. Included in our 15 full-service banking offices are six Wal-Mart in-store branch locations. For more information, see "Item 2. Properties."

Home Federal Bank maintains its largest branch presence in Ada County with eight locations, followed by Canyon County with five offices, including Home Federals Bank's corporate headquarters in Nampa. As of June 30, 2007,

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we had a 5.26% market share of the FDIC-insured deposits in these two counties, ranking us sixth among all insured depository institutions in these counties. The two remaining branches are located in Elmore and Gem counties.

The local economy is primarily urban with the City of Boise, the state capital of Idaho, being the most populous of the markets that we serve, followed by Nampa, the state's second largest city. Nearly 40% of the state's population lives and works in the four counties of Ada, Canyon, Elmore and Gem that are served by Home Federal Bank. Of the four counties, Ada County has the largest population with approximately 371,000 residents, a median household income of $62,235 and per capita income of $30,892, followed by Canyon County, which has a population of approximately 180,000 residents, a median household income of $46,117 and per capita income of $19,849. Population growth in Ada and Canyon counties in recent years has been stronger with increases of 3.0% and 4.6%, respectively, compared to state and national growth rates of 2.3% and 1.2%, respectively. Household incomes in Ada and Canyon counties have experienced increases of 4.4% and 3.7%, respectively, in recent years that are equal to, or better than, the increases of 3.7% and 3.4%, respectively, at the state and national levels.

The counties of Elmore and Gem, are more rural and less populated than Ada and Canyon counties. Elmore county has a population of approximately 30,270 residents, a median household income of $43,808 and per capita income of $18,823. Gem County has a population of approximately 17,190 residents, a median household income of $42,707and per capita income of $19,069. The population growth in Elmore County in recent years remained below the population growth rate for Idaho as well as the national growth rate. Gem County, however, has experienced a modest increase in population during this same period, although remaining below the growth rates at the state and national levels.

The regional economy is well diversified with government, healthcare, manufacturing, high technology, call centers and construction providing sources of employment. In addition, agriculture and related industries continue to be key components of the economy in southwestern Idaho. Generally, sources of employment are concentrated in Ada and Canyon counties and include the headquarters of Micron Technology, J.R. Simplot Company and Boise Cascade, LLC. Other major employers include Hewlett-Packard, Supervalu, two regional medical centers and Idaho state government agencies. The City of Boise is also home to Boise State University, the state's largest and fastest growing university. The unemployment rate for the month of September 2007 in the State of Idaho was 2.3%, compared to the U.S. unemployment rate of 4.7%, and the unemployment rates for Ada, Canyon, Elmore and Gem Counties were 2.2%, 2.5%, 3.3% and 2.3%, respectively. The higher unemployment rate in Elmore County reflects an area that has a small employment base and experiences only modest rates of job growth. In addition, Elmore County employment is generally influenced by Mountain Home Air Force Base and the services needed to support this facility.

Lending Activities

General. Historically, our principal lending activity has consisted of the origination of loans secured by first mortgages on owner-occupied, one- to four-family residences and loans for the construction of one- to four-family residences. We also originate consumer loans, with an emphasis on home equity loans and lines of credit. Since 1997, we have been offering commercial real estate loans and to a lesser extent, multi-family loans, primarily in the Treasure Valley. In addition, we intend to aggressively offer commercial and industrial loans. A substantial portion of our loan portfolio is secured by real estate, either as primary or secondary collateral, located in our primary market area. As of September 30, 2007, the net loan portfolio totaled $480.1 million and represented 67.6% of our total assets. As of September 30, 2007, our total loan portfolio was comprised of 55.8% single-family home loans, 8.9% home equity loans and lines of credit, 32.2% commercial real estate loans, 1.8% multi-family real estate loans, 0.6% commercial business loans, 0.4% secured consumer loans and 0.3% unsecured consumer loans.

At September 30, 2007, the maximum amount that we could have loaned to any one borrower and the borrower's related entities under applicable regulations was $14.5 million. Our internal policy limits loans to one borrower and the borrower's related entities to 80% of the regulatory limit, or $11.6 million. At September 30, 2007, the Company had no borrowing relationship with outstanding balances in excess of this amount.

Our largest single borrower relationship at September 30, 2007 was six commercial real estate loans for $5.4 million in the aggregate made to a family partnership and secured by buildings housing a restaurant, office and retail space, a childcare facility and RV storage. The second largest lending relationship was five commercial real estate loans and one single-family residential loan totaling $5.1 million. One of the loans was made to a limited liability

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corporation secured by a retail center with multiple tenants. Four of the loans were made to the family partnership for office buildings. The residential loan was made to an individual. Our third largest single borrower relationship was a commercial real estate loan for $4.2 million made to a corporation. The fourth largest lending relationship was four commercial real estate loans for $4.0 million made to a limited liability corporation. One of the loans is for a gas station and convenience store and three loans are for a retail centers with multiple tenants. The fifth largest lending relationship was three commercial real estate loans secured by office buildings and a home equity line of credit totaling $3.9 million made to a limited liability company. All of these loans, including those made to corporations, have personal guarantees in place as an additional source of repayment. All of the properties securing these loans are in our primary market area. These loans were performing according to their terms at September 30, 2007.

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Loan Portfolio Analysis. The following table sets forth the composition of the Company's loan portfolio by type of loan at the dates indicated.

	At September 30,									
	2007		2006		2005		2004		2003	
	Amount	Percent								
	(dollars in thousands)									
Real estate:										
One- to four-family residential (1)	$249,545	51.55%	$293,640	57.88%	$252,126	58.00%	$242,818	61.27%	$247,309	65.81%
Multi-family residential	6,864	1.42	7,049	1.39	5,454	1.25	6,265	1.58	7,750	2.06
Commercial	133,823	27.64	125,401	24.72	116,432	26.78	93,575	23.61	79,020	21.02
Total real estate	390,232	80.61	426,090	83.99	374,012	86.03	342,658	86.46	334,079	88.89
Real estate construction:										
One- to four-family residential	20,545	4.24	23,678	4.67	14,421	3.32	7,207	1.82	5,225	1.39
Multi-family residential	1,770	0.37	--	--	1,427	0.33	834	0.21	352	0.09
Commercial and land development	21,899	4.52	16,344	3.22	7,470	1.72	11,151	2.81	9,128	2.43
Total real estate construction	44,214	9.13	40,022	7.89	23,318	5.37	19,192	4.84	14,705	3.91
Consumer:										
Home equity	42,990	8.88	34,143	6.73	28,558	6.57	27,351	6.90	20,640	5.49
Automobile	2,173	0.45	3,245	0.64	4,576	1.05	3,838	0.97	1,939	0.52
Other consumer	1,405	0.29	1,300	0.26	1,530	0.35	1,949	0.49	2,827	0.75
Total consumer	46,568	9.62	38,688	7.63	34,664	7.97	33,138	8.36	25,406	6.76
Commercial business	3,122	0.64	2,480	0.49	2,759	0.63	1,363	0.34	1,662	0.44
	484,136	100.00%	507,280	100.00%	434,753	100.00%	396,351	100.00%	375,852	100.00%
Less:										
Deferred loan fees	1,030		1,241		927		1,080		1,370	
Allowance for loan losses	2,988		2,974		2,882		2,637		1,853	
Loans receivable, net	$480,118		$503,065		$430,944		$392,634		$372,629	

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(1) Does not include loans held for sale of $4.9 million, $4.1 million, $5.5 million, $3.6 million, and $5.1 million at September 30, 2007, 2006, 2005, 2004 and 2003,
respectively.

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The following table shows the composition of the Company's loan portfolio by fixed and adjustable rate loans at the dates indicated.

	At September 30,									
	2007		2006		2005		2004		2003	
	Amount	Percent								
	(dollars in thousands)									
FIXED RATE LOANS										
Real estate:										
One- to four-family residential	$159,099	32.87%	$188,102	37.08%	$199,352	45.86%	$193,241	48.76%	$198,882	52.91%
Multi-family residential	1,993	0.41	2,055	0.41	2,119	0.48	2,136	0.54	2,137	0.57
Commercial	21,345	4.41	19,236	3.79	16,303	3.74	12,428	3.13	8,461	2.25
Total real estate	182,437	37.69	209,393	41.28	217,774	50.08	207,805	52.43	209,480	55.73
Real estate construction:										
One- to four-family residential	1,488	0.31	16,797	3.31	3,391	0.78	2,778	0.70	4,909	1.31

Multi-family residential	--	--	--	--	--	--	--	--	--	--
Commercial and land development	5,102	1.05	5,967	1.18	1,838	0.42	312	0.08	2,478	0.66
Total real estate construction	6,590	1.36	22,764	4.49	5,229	1.20	3,090	0.78	7,387	1.97
Consumer:										
Home equity	14,860	3.07	9,723	1.92	4,903	1.13	4,393	1.11	2,906	0.77
Automobile	2,173	0.45	3,245	0.64	4,576	1.05	3,838	0.97	1,939	0.52
Other consumer	1,405	0.29	1,300	0.26	1,530	0.35	1,949	0.49	2,827	0.75
Total consumer	18,438	3.81	14,268	2.82	11,009	2.53	10,180	2.57	7,672	2.04
Commercial business	1,073	0.22	622	0.12	1,091	0.25	642	0.16	775	0.21
Total fixed rate loans	208,538	43.08	247,047	48.71	235,103	54.06	221,717	55.94	225,314	59.95

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	At September 30,									
	2007		2006		2005		2004		2003	
	Amount	Percent								
ADJUSTABLE RATE LOANS	(dollars in thousands)									
Real estate										
One- to four-family residential	90,446	18.68	105,538	20.80	52,774	12.14	49,577	12.51	48,427	12.89
Multi-family residential	4,871	1.01	4,994	0.98	3,335	0.77	4,129	1.04	5,613	1.49
Commercial	112,478	23.23	106,165	20.93	100,129	23.04	81,147	20.48	70,559	18.77
Total real estate	207,795	42.92	216,697	42.71	156,238	35.95	134,853	34.03	124,599	33.15
Real estate construction:										
One- to four-family residential	19,057	3.93	6,881	1.36	11,030	2.54	4,429	1.12	316	0.08
Multi-family residential	1,770	0.37	--	--	1,427	0.33	834	0.21	352	0.09
Commercial and land development	16,797	3.47	10,377	2.04	5,632	1.30	10,839	2.73	6,650	1.77
Total real estate construction	37,624	7.77	17,258	3.40	18,089	4.17	16,102	4.06	7,318	1.94
Consumer:										
Home equity	28,130	5.81	24,420	4.81	23,655	5.44	22,958	5.79	17,734	4.72
Automobile	--	--	--	--	--	--	--	--	--	--
Other consumer	--	--	--	--	--	--	--	--	--	--
Total consumer	28,130	5.81	24,420	4.81	23,655	5.44	22,958	5.79	17,734	4.72
Commercial business	2,049	0.42	1,858	0.37	1,668	0.38	721	0.18	887	0.24
Total adjustable rate loans	275,598	56.92	260,233	51.29	199,650	45.94	174,634	44.06	150,538	40.05
Total loans	484,136	100.00%	507,280	100.00%	434,753	100.00%	396,351	100.00%	375,852	100.00%
Less:										
Deferred loan fees	1,030		1,241		927		1,080		1,370	
Allowance for loan losses	2,988		2,974		2,882		2,637		1,853	
Loans receivable, net	$480,118		$503,065		$430,944		$392,634		$372,629	

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One- to Four-Family Residential Real Estate Lending. As of September 30, 2007, $249.5 million, or 51.6%, of our total loan portfolio consisted of permanent loans secured by one- to four-family residences. We originate both fixed rate loans and adjustable rate loans in our residential lending program. Generally, 30 year fixed rate loans are originated to meet the requirements of Fannie Mae and Freddie Mac for sale in the secondary market. We do from time to time, however, retain a portion of the fixed rate loans that we originate, particularly loans with maturities of 20 years or less, in our loan portfolio to meet asset and liability management objectives. At September 30, 2007, $159.1 million, or 63.8%, of our permanent one- to four-family loan portfolio consisted of fixed rate loans.

We also offer adjustable rate mortgage loans at rates and terms competitive with market conditions. Presently, most of the adjustable rate mortgage loans are originated for the purpose of selling them in the secondary market. We offer several adjustable rate mortgage products that adjust annually after an initial period ranging from one to ten years. Contractual annual adjustments are generally limited to increases or decreases of no more than two percent, subject to a maximum increase of no more than six percent from the rate offered at the time of origination. The adjustable rate mortgage loans held in our portfolio do not permit negative amortization of principal and generally carry no prepayment restrictions. Borrower demand for adjustable rate mortgage loans versus fixed rate mortgage loans is a function of the level of interest rates, the expectations of changes in the level of interest rates and the difference between the initial interest rates and fees charged for each type of loan. The relative amount of fixed rate mortgage loans and adjustable rate mortgage loans that can be originated at any time is largely determined by the demand for each in a competitive environment. At September 30, 2007, we had $90.4 million, or 36.2%, of our permanent one- to four-family mortgage loans in adjustable rate loans.

Adjustable rate mortgage loans in our loan portfolio helps us reduce our exposure to changes in interest rates. There are, however, credit risks resulting from the potential of increased interest to be paid by the borrower as a result of increases in interest rates. It is possible that, during periods of rising interest rates, the risk of default on adjustable rate mortgage loans may increase as a result of repricing and the increased costs to the borrower. Furthermore, because adjustable rate mortgage loans may be offered at initial rates of interest below the rates that would apply were the adjustment index used for pricing initially, these loans may be subject to increased risks of default or delinquency. Another consideration is that although adjustable rate mortgage loans allow us to decrease the sensitivity of our asset base as a result of changes in the interest rates, the extent of this interest sensitivity is limited by the periodic and lifetime interest rate adjustment limits. Because of these considerations, there is no assurance that yields on adjustable rate mortgage loans will be sufficient to offset increases in our cost of funds, particularly in today's interest rate environment.

We generally underwrite our one- to four-family loans based on the applicant's employment and credit history and the appraised value of the subject property. Generally, we lend up to 80% of the lesser of the appraised value or purchase price for one- to four-family residential loans. In situations where we grant a loan with a loan-to-value ratio in excess of 80%, we generally require private mortgage insurance in order to reduce our exposure to 80% or less. We also offer combination first and second mortgage loans which do not require private mortgage insurance, however these loans are generally sold to the secondary market. Properties securing our one- to four-family loans are generally appraised by independent fee appraisers that have been approved by us. We require our borrowers to obtain title and hazard insurance, and flood insurance, if necessary, in an amount not less than the value of the property improvements.

Our fixed rate, single family residential mortgage loans are normally originated with 15 to 30 year terms, although these loans typically remain outstanding for substantially shorter periods. In addition, substantially all residential mortgage loans in our loan portfolio contain due-on-sale clauses, which allow us to declare the unpaid amount of the loan due and payable upon the sale of the property securing the loan. Typically, we enforce these due-on-sale clauses to the extent permitted by law and as a standard course of business. The average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans.

At September 30, 2007, $33.8 million, or 13.5%, of our one- to four-family residential mortgages consisted of loans for non-owner occupied properties. This consisted of $5.7 million of loans on second homes and $28.1 million of loans for investment. Loans secured by one to two units are generally made with loan-to-value ratios of up to 90% and loans secured by three units or more are generally made with loan-to-value ratios of up to 75%.

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In an effort to provide financing for moderate income and first-time buyers, we participate in the Idaho Housing and Finance Association's Single Family Mortgage Program. The Idaho Housing and Finance Association is a non-profit organization that provides housing resources to low to moderate-income families through various below market housing programs. The program is designed to meet the needs of qualified borrowers in the low-to moderate-income brackets. The program has established income limits based on family size and sales price limits for both existing and new construction. We offer residential mortgage loans through this program to qualified individuals and originate the loans using modified underwriting guidelines. All of these loans have private mortgage insurance on the portion of the principal amount that exceeds 80% of the appraised value of the property. We sold loans of $11.5 million to the Idaho Housing and Finance Association in the year ended September 30, 2007.

The Idaho Housing and Finance Association has designed two programs to provide down payment and/or closing cost assistance to qualified low-to-moderate income borrowers in Idaho. The assistance consists of grant programs and a second mortgage for a maximum combined loan-to-value (CLTV) of 102%. The grant program is open to first time homebuyers whose total household income is equal to or less than eighty percent (80%) of the Area Median Income based on the property location and the total number of household members. The subsidy assistance can range up to a maximum of $10,000, based on need.

Real Estate Construction. We have been an active originator of real estate construction loans in our market area for many years. At September 30, 2007, our construction and land development loans amounted to $44.2 million, or 9.1%, of the total loan portfolio.

The following table shows the composition of the construction loan portfolio at the dates indicated:

	At September 30,	
	2007	2006
	(in thousands)	
One- to four-family residential:		
Speculative	$15,672	$15,646
Permanent	347	5,903
Custom	4,526	2,129
Multi-family residential	1,770	--
Commercial real estate:		
Construction	13,691	6,402
Land development loans	8,208	9,942
Total construction and land development	$44,214	$40,022

Our construction loans to individuals to build their personal residences typically are structured as construction/permanent loans whereby there is one closing for both the construction loan and the permanent financing. During the construction phase, which typically lasts for six months, our staff appraiser or an approved fee inspector makes periodic inspections of the construction site and loan proceeds are disbursed directly to the contractors or borrowers as construction progresses. Typically, disbursements are made in five draws during the construction period. Construction loans require payment of interest only during the construction phase and are structured to be converted to fixed or adjustable rate permanent loans at the end of the construction phase. Prior to making a commitment to fund a construction loan, we require an appraisal of the property by an independent fee appraiser or our in-house appraiser. Our staff appraiser or an approved fee inspector also reviews and inspects each project prior to each disbursement of funds during the term of the construction loan. Loan proceeds are disbursed based on a percentage of completion.

During the year ended September 30, 2007, we originated $29.2 million of short-term builder construction loans to fund the construction of one- to four-family residential properties. Most loans are written with maturities of one year, have interest rates that are tied to the prime rate plus a margin, and are subject to monthly rate adjustments tied to the movement of the prime rate. All builder/borrowers are underwritten to the same standards as other commercial loan credits, requiring minimum debt service coverage ratios and established cash reserves to carry projects through construction completion and sale of the project. The maximum loan-to-value ratio on both pre-sold

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and speculative projects is 80%. There were no default or foreclosure actions involving builder construction loans during the year ended September 30, 2007, with all loans performing according to their terms. There was one foreclosure action involving builder construction loans during the year ended September 30, 2007.

We originate construction and site development loans to contractors and builders primarily to finance the construction of single-family homes and subdivisions, which homes typically have an average price ranging from $150,000 to $300,000. Loans to finance the construction of single-family homes and subdivisions are generally offered to experienced builders and builders in our primary market areas. The maximum loan-to-value limit applicable to these loans is generally up to 80% of the appraised market value upon completion of the project. We generally do not require any cash equity from the borrower if there is sufficient equity in the land being used as collateral. Development plans are required from builders prior to making the loan. Our loan officers are required to personally visit the proposed site of the development and the sites of competing developments. We require that builders maintain adequate insurance coverage. Maturity dates for residential construction loans are largely a function of the estimated construction period of the project, and generally do not exceed 36 months for residential subdivision development loans. Substantially all of our residential construction loans have adjustable rates of interest based on The Wall Street Journal prime rate and during the term of construction, the accumulated interest is added to the principal of the loan through an interest reserve. Construction loan proceeds are disbursed periodically in increments as construction progresses and as inspection by our approved inspectors warrant. At September 30, 2007, our largest subdivision development loan had a commitment for $1.2 million and an outstanding principal balance of $1.2 million. This loan was secured by a first mortgage lien and was performing according to its original terms at September 30, 2007. At September 30, 2007, the average outstanding principal balance of subdivision loans to contractors and developers was $590,000.

We also make construction loans for commercial development projects. These projects include multi-family, apartment, retail, office/warehouse and office buildings. These loans generally have an interest-only phase during construction, and generally convert to permanent financing when construction is completed. Disbursement of funds is at our sole discretion and is based on the progress of construction. The maximum loan-to-value limit applicable to these loans is 80% of the appraised post-construction value.

We originate land loans to local contractors and developers for the purpose of holding the land for future development. These loans are secured by a first lien on the property, are limited to 65% of the lower of the acquisition price or the appraised value of the land, and generally have a term of up to two years with a fixed interest rate based on prime rate. Our land loans are generally secured by property in our primary market area. We require title insurance and, if applicable, a hazardous waste survey reporting that the land is free of hazardous or toxic waste.

Our construction and land development loans are based upon estimates of costs and value associated with the completed project. These estimates may be inaccurate. Construction and land development lending involves additional risks when compared with permanent residential lending because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. These loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or

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lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. Further, our ability to continue to originate a significant amount of construction loans is dependent on the continued strength of the housing market in Ada, Canyon, Elmore and Gem counties, Idaho. If we lost our relationship with one or more of our larger borrowers building in these counties or there is a decline in the demand for new housing in these counties, it is expected that the demand for construction loans would decline, our liquidity would substantially increase and our net income would be adversely affected. We have attempted to minimize these risks by generally concentrating on residential construction loans in our market area to contractors with whom we have established relationships. At September 30, 2007, no construction loans were delinquent in excess of 90 days. Two construction loans were held in nonaccrual status on September 30, 2007. These loans had a combined balance of $436,000. Four construction loans were charged off during the year ended September 30, 2007. These loans were all to related parties and the total amount charged off was $91,000. Two builder finance loans to a different related party were restructured in the year ended September 30, 2007 with accompanying charge-offs totaling approximately $13,000. For the years ended September 30, 2006 and 2005, no construction loans were charged off.

Commercial and Multi-Family Real Estate Lending. As of September 30, 2007, $6.9 million, or 1.4%, and $133.8 million, or 27.6%, of our total loan portfolio was secured by multi-family and commercial real estate property, respectively. These loans generally are priced at a higher rate of interest than one- to four-family residential loans. Typically, these loans have higher loan balances, are more difficult to evaluate and monitor, and involve a greater degree of risk than one- to four-family residential loans. Often payments on loans secured by multi-family or commercial properties are dependent on the successful operation and management of the property; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. We generally require and obtain loan guarantees from financially capable parties based upon the review of personal financial statements. If the borrower is a corporation, we generally require and obtain personal guarantees from the corporate principals based upon a review of their personal financial statements and individual credit reports.

The average size loan in our multi-family and commercial real estate loan portfolio was $609,000 as of September 30, 2007. We target individual multi-family and commercial real estate loans to small- and mid-size owner occupants and investors between $500,000 and $2.0 million; however, we can by policy originate loans to one borrower up to 80% of our regulatory limit. As of September 30, 2007, the maximum we could lend to any one borrower based on this limit was $11.6 million. The largest multi-family loan as of September 30, 2007 was a 44-unit residential apartment complex with an outstanding principal balance of $1.6 million located in Canyon County. This loan is performing according to its terms as of September 30, 2007.

We offer both fixed and adjustable rate loans on multi-family and commercial real estate loans. Loans originated on a fixed rate basis generally are originated at fixed terms up to ten years, with amortization terms up to 25 years. As of September 30, 2007, we had $2.0 million in fixed rate multi-family residential loans and $21.3 million in fixed rate commercial real estate loans.

Commercial and multi-family real estate loans are originated with rates that generally adjust after an initial period ranging from three to ten years. Adjustable rate multi-family residential and commercial real estate loans are generally priced utilizing the applicable Federal Home Loan Bank Term Borrowing Rate plus an acceptable margin. These loans are generally amortized for up to 25 years with prepayment penalty structures applied for each rate lock period. As of September 30, 2007, we had $4.9 million in adjustable rate multi-family residential loans and $112.5 million in adjustable rate commercial real estate loans. The maximum loan-to-value ratio for commercial and multi-family real estate loans is generally 80% on purchases and refinances. We require appraisals of all properties securing commercial and multi-family real estate loans. Appraisals are performed by independent appraisers designated by us or by our staff appraiser. We require our commercial and multi-family real estate loan borrowers with outstanding balances in excess of $500,000 to submit annual financial statements and rent rolls on the subject property. We also inspect the subject property at least every three to five years if the loan balance exceeds $250,000. We generally require a minimum pro forma debt coverage ratio of 1.2 times for loans secured by commercial and multi-family properties.

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We originate commercial real estate loans, including loans secured by hotels, office space, office/warehouse, retail strip centers, recreational vehicle dealerships, mini-storage facilities, medical and professional buildings, retail sites and churches located in our Idaho market area. Commercial real estate loans totaled $133.8 million, or 27.6%, of our total loan portfolio as of September 30, 2007.

Our Senior Management Loan Committee, which presently consists of the President, the Chief Executive Officer, the Executive Vice President/Commercial Banking and the Senior Vice President/Chief Credit Officer is authorized to approve loans to one borrower or a group of related borrowers of up to $7.0 million in the aggregate, with no single loan over $3.5 million with concurrence of three of the committee members. Individual committee members are authorized to approve single loans up to $750,000 with aggregate borrowing of $1.5 million.

Consumer Lending. We offer a variety of consumer loans to our customers, including home equity loans and lines of credit, savings account loans, automobile loans, recreational vehicle loans and personal unsecured loans. Generally, consumer loans have shorter terms to maturity and higher interest rates than mortgage loans. The maximum term we offer on automobile loans is 72 months and is applicable to new and one year old cars and light trucks. In addition, we offer loan terms of up to 120 months on motor homes, and qualifying travel trailers and boats. All automobile loans are risk priced based on the percentage of cost, or established value, being financed. Consumer loans are made with both fixed and variable interest rates and with varying terms. At September 30, 2007, consumer loans amounted to $46.6 million, or 9.6%, of the total loan portfolio.

At September 30, 2007, the largest component of the consumer loan portfolio consisted of home equity loans and lines of credit, which totaled $43.0 million, or 8.9%, of the total loan portfolio. Home equity loans are made for, among other purposes, the improvement of residential properties, debt consolidation and education expenses. The majority of these loans are secured by a first or second mortgage on residential property. The maximum loan-to-value ratio is 89.9% or less, when taking into account both the balance of the home equity loan and the first mortgage loan. Home equity lines of credit allow for a ten-year draw period, plus an additional ten year repayment period, and the interest rate is tied to the prime rate as published in *The Wall Street Journal*, and may include a margin.

Consumer loans entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciating assets such as automobiles. In these cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans. These risks are not as prevalent with respect to our consumer loan portfolio because a large percentage of the portfolio consists of home equity loans and lines of credit that are underwritten in a manner such that they result in credit risk that is substantially similar to one- to four-family residential mortgage loans. Nevertheless, home equity loans and lines of credit have greater credit risk than one- to four-family residential mortgage loans because they are secured by mortgages subordinated to the existing first mortgage on the property, which we may or may not hold. In addition, we do not have private mortgage insurance coverage for these loans. At September 30, 2007, there were $100,000 of consumer loans in nonaccrual status. During the years ended September 30, 2007 and 2006, we charged off $36,000 and $39,000, respectively, in consumer loans.

Commercial Business Lending. As part of our strategic plan, we are focusing on increasing the commercial business loans that we originate, including lines of credit, term loans and letters of credit. These loans are typically secured by collateral and are used for general business purposes, including working capital financing, equipment financing, capital investment and general investment. Loan terms vary from one to seven years. The interest rates on such loans are generally floating rates indexed to the Wall Street Journal Prime Rate plus a margin.

Commercial business loans typically have shorter maturity terms and higher interest spreads than real estate loans, but generally involve more credit risk because of the type and nature of the collateral. We are focusing our efforts on small- to medium-sized, privately-held companies with local or regional businesses that operate in our market area. At September 30, 2007, commercial business loans totaled $3.1 million, or 0.6%, of our loan portfolio. Our commercial business lending policy includes credit file documentation and analysis of the borrower's background,

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capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as an evaluation of other conditions affecting the borrower. Analysis of the borrower's past, present and future cash flows is also an important aspect of our credit analysis. We generally obtain personal guarantees on our commercial business loans.

Repayment of our commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value. Our commercial business loans are originated primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral consists of accounts receivable, inventory or equipment. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Loan Maturity and Repricing. The following table sets forth certain information at September 30, 2007 regarding the dollar amount of loans maturing or repricing in our portfolio based on their contractual terms to maturity or next repricing date, but does not include scheduled payments or potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less. Loan balances do not include undisbursed loan proceeds, unearned discounts, unearned income and allowance for loan losses.

	Within 1 Year	After 1 Year	After 3 Years	After 5 Years	Beyond 10 Years	Total

		Through 3 Years	Through 5 Years	Through 10 Years		
			(in thousands)			
Real estate:						
One- to four-family residential	$10,992	$21,056	$51,007	$31,491	$134,999	$249,545
Multi-family residential	1,167	424	2,816	464	1,993	6,864
Commercial	9,992	31,929	53,338	36,896	1,668	133,823
Total real estate	22,151	53,409	107,161	68,851	138,660	390,232
Real estate construction:						
One- to four-family residential	20,198	--	--	--	347	20,545
Multi-family residential	920	--	--	850	--	1,770
Commercial and land development	9,267	3,254	847	8,531	--	21,899
Total real estate construction	30,385	3,254	847	9,381	347	44,214
Consumer:						
Home equity	28,332	68	164	767	13,659	42,990
Automobile	25	895	994	232	27	2,173
Other consumer	1,035	341	29	--	--	1,405
Total consumer	29,392	1,304	1,187	999	13,686	46,568
Commercial business	2,074	591	267	190	--	3,122
Total loans receivable	$84,002	$58,558	$109,462	$79,421	$152,693	$484,136

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The following table sets forth the dollar amount of all loans due more than one year after September 30, 2007, which have fixed interest rates and have floating or adjustable interest rates.

	Floating or Adjustable Rate	Fixed Rates	Total
		(in thousands)	
Real estate:			
One- to four-family residential	$ 79,485	$159,068	$238,553
Multi-family residential	3,704	1,993	5,697
Commercial	103,353	20,478	123,831
Total real estate	186,542	181,539	368,081
Real estate construction:			
One- to four-family residential	--	347	347
Multi-family residential	850	--	850
Commercial and land development	9,206	3,426	12,632
Total real estate construction	10,056	3,773	13,829
Consumer:			
Home equity	--	14,658	14,658
Automobile	--	2,148	2,148
Other consumer	--	370	370
Total consumer	--	17,176	17,176

Commercial business	--	1,048	1,048
Total loans receivable	$196,598	$203,536	$400,134

Loan Solicitation and Processing. Loan originations are obtained from a variety of sources, including walk-in customers, loan brokers for primarily multi-family real estate and commercial loans, and referrals from builders and realtors. As part of our commercial banking strategy, we are focusing our efforts in increasing the amount of our direct originations of commercial and multi-family real estate loans, construction loans to builders and commercial business loans. Residential real estate loans are solicited through media advertising, direct mail to existing customers and by realtor referrals. Loan originations are further supported by lending services offered through our internet website, advertising, cross-selling and through our employees' community service.

Upon receipt of a loan application from a prospective borrower, we obtain a credit report and other data to verify specific information relating to the applicant's employment, income and credit standing. An appraisal of the real estate offered as collateral generally is undertaken by an appraiser we have retained and approved, and who is licensed in the State of Idaho.

Mortgage loan applications are initiated by loan officers and are required to be approved by our underwriting staff who have Board-approved lending authority. Loans that exceed the underwriter's lending authority must be approved by one or more members of the Management Loan Committee. All loans up to and including $3.5 million may be approved by the Management Loan Committee without Board approval; loans in excess of $3.5 million must be approved by the Board of Directors Loan Committee.

We require title insurance on all real estate loans, fire and casualty insurance on all secured loans and on home equity loans and lines of credit where the property serves as collateral.

Loan Originations, Servicing, Purchases and Sales. During the year ended September 30, 2007, our total loan originations were $224.6 million.

One- to four-family home loans are generally originated in accordance with the guidelines established by Freddie Mac and Fannie Mae, with the exception of our special community development loans under the Community

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Reinvestment Act. We utilize the Freddie Mac Loan Prospector and Fannie Mae Desktop Underwriter automated loan systems to underwrite the majority of our residential first mortgage loans (excluding community development loans). The remaining loans are underwritten by designated real estate loan underwriters internally in accordance with standards as provided by our Board-approved loan policy.

We actively sell residential first mortgage loans to the secondary market. The majority of all residential mortgages are sold to the secondary market at the time of origination. During the year ended September 30, 2007, we sold $96.4 million to the secondary market. This number included $4.4 million in loans originated in prior years. The remaining $92.0 million of loans represents 95.4% of total current year one- to four-family residential loan originations. Our primary secondary market relationships have been with Freddie Mac, Fannie Mae and major correspondent banks. In the past, we generally retained the servicing on the majority of loans sold into the secondary market. Recently, the majority of loans have been sold into the secondary market with servicing released. Loans are generally sold on a non-recourse basis. As of September 30, 2007, our residential loan servicing portfolio was $190.0 million.

Multi-family and commercial real estate loans are underwritten by designated lending staff or our Management Loan Committee depending on the size of the loan and are serviced by the commercial loan department.

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The following table shows total loans originated, purchased, sold and repaid during the periods indicated.

	Year Ended September 30,		
	2007	2006	2005
		(in thousands)	
Loans originated:			
Real estate:			
One- to four-family residential (1)	$ 96,254	$124,670	$111,652
Multi-family residential	2,000	345	47
Commercial	23,598	26,152	32,033
Total real estate	121,852	151,167	143,732
Real estate construction:			
One- to four-family residential	41,529	58,233	44,125
Multi-family residential	1,770	9	593
Commercial and land development	18,266	19,623	23,805
Total real estate construction	61,565	77,865	68,523
Consumer:			
Home equity	32,136	33,454	12,745
Automobile	654	667	2,500
Other consumer	3,264	2,876	1,763
Total consumer	36,054	36,997	17,008
Commercial business	5,159	5,164	2,501
Total loans originated	224,630	271,193	231,764
Loans purchased:			
One- to four-family residential	--	38,782	--
Loans Sold:			
One- to four-family residential	(96,370)	(81,575)	(57,597)
Participation loans	--	--	(1,377)
Total loans sold	(96,370)	(81,575)	(58,974)
Principal repayments	(149,714)	(157,581)	(131,638)
Transfer to real estate owned	(857)	--	(777)
Increase (decrease) in other items (net)	149	(128)	(92)
Net increase (decrease) in loans receivable and loans held for sale	$(22,162)	$ 70,691	$ 40,283

(1) Includes originations of loans held for sale of $92.0 million, $80.1 million, and $60.9 million for the years ended September 30, 2007, 2006 and 2005, respectively.

Loan Origination and Other Fees. In some instances, we receive loan origination fees on real estate related products. Loan fees generally represent a percentage of the principal amount of the loan, and are paid by the borrower. Accounting standards require that certain fees received, net of certain origination costs, be deferred and amortized over the contractual life of the loan. Net deferred fees or costs associated with loans that are prepaid or sold are recognized as income at the time of prepayment. We had $1.0 million of net deferred loan fees and costs as of September 30, 2007.

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Asset Quality

The objective of our loan review process is to determine risk levels and exposure to loss. The depth of review varies by asset types, depending on the nature of those assets. While certain assets may represent a substantial investment and warrant individual reviews, other assets may have less risk because the asset size is small, the risk is spread over a large number of obligors or the obligations are well collateralized and further analysis of individual assets would expand the review process without measurable advantage to risk assessment. Asset types with these characteristics may be reviewed as a total portfolio on the basis of risk indicators such as delinquency (consumer and residential real estate loans) or credit rating. A formal review process is conducted on individual assets that represent greater potential risk. A formal review process is a total reevaluation of the risks associated with the asset and is documented by completing an asset review report. Certain real estate-related assets must be evaluated in terms of their fair market value or net realizable value in order to determine the likelihood of loss exposure and, consequently, the adequacy of valuation allowances.

We define a loan as being impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due under the contractual terms of the loan agreement. Large groups of smaller balance homogenous loans such as consumer secured loans, residential mortgage loans and consumer unsecured loans are collectively evaluated for potential loss. All other loans are evaluated for impairment on an individual basis.

We generally assess late fees or penalty charges on delinquent loans of five percent of the monthly principal and interest amount. The borrower is given a 10 to 15-day grace period to make the loan payment depending on loan type. When a borrower fails to make a required payment when it is due, we institute collection procedures. The first notice is mailed to the borrower on the day following the expiration of the grace period requesting payment and assessing a late charge. Attempts to contact the borrower by telephone generally begin upon the 30th day of delinquency. If a satisfactory response is not obtained, continual follow-up contacts are attempted until the loan has been brought current. Before the 90th day of delinquency, attempts to interview the borrower are made to establish the cause of the delinquency, whether the cause is temporary, the attitude of the borrower toward the debt and a mutually satisfactory arrangement for curing the default.

When a consumer loan borrower fails to make a required payment on a consumer loan by the payment due date, we institute the same collection procedures as for our mortgage loan borrowers.

The Board of Directors is informed monthly as to the number and dollar amount of mortgage and consumer loans that are delinquent by more than 30 days, and is given information regarding classified assets.

If a borrower is chronically delinquent and all reasonable means of obtaining payments have been exercised, we will seek to recover any collateral securing the loan according to the terms of the security instrument and applicable law. In the event of an unsecured loan, we will either seek legal action against the borrower or refer the loan to an outside collection agency.

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The following table shows our delinquent loans by the type of loan and number of days delinquent as of September 30, 2007:

	Loans Delinquent For: 60-89 Days		Over 90 Days		Total Delinquent Loans	
	Number of Loans	Principal Balance Loans	Number of Loans	Principal Balance Loans	Number of Loans	Principal Balance Loans
	(dollars in thousands)					
Real estate:						
One- to four-family residential	2	$ 145	2	$370	4	$ 515
Multi-family residential	--	--	--	--	--	--
Commercial	1	113	2	294	3	407
Total real estate	3	258	4	664	7	922
Real estate construction:						
One- to four-family residential	2	665	--	--	2	665
Multi-family residential	--	--	--	--	--	--
Commercial and land development	--	--	--	--	--	--
Total real estate construction	2	665	--	--	2	665
Consumer:						
Home equity	3	129	2	100	5	229
Automobile	--	--	--	--	--	--
Other consumer	2	6	--	--	2	6
Total consumer	5	135	2	100	7	235
Commercial business	--	--	--	--	--	--
Total	10	$1,058	6	$764	16	$1,822

When a loan becomes 90 days delinquent, we place the loan on nonaccrual status; accordingly, we have no accruing loans that are contractually past due 90 days or more. As of September 30, 2007, nonaccrual loans as a percentage of total loans was 0.32%, and as a percentage of total assets it was 0.22%.

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Nonperforming Assets. The following table sets forth information with respect to our nonperforming assets and restructured loans within the meaning of Statement of Financial Accounting Standards No. 15 for the periods indicated. During the periods presented, there were no accruing loans that were contractually past due 90 days or more.

	At September 30, 2007	2006	2005	2004	2003
	(dollars in thousands)				
Loans accounted for on a non-accrual basis:					
Real estate:					
One- to four-family residential	$ 588	$358	$ 388	$ --	$ 69
Multi-family residential	--	--	--	--	--
Commercial	407	--	--	560	--
Total real estate	995	358	388	560	69
Real estate construction:					
One- to four-family residential	436	--	--	--	--
Multi-family residential	--	--	--	--	--
Commercial and land development	--	--	--	--	--
Total real estate construction	436	--	--	--	--

Consumer:					
Home equity	100	30	79	30	41
Automobile	--	--	5	7	9
Other consumer	--	--	6	13	14
Total consumer	100	30	90	50	64
Commercial business	--	--	--	--	--
Total loans	1,531	388	478	610	133
Accruing loans which are contractually past due 90 days or more	--	--	--	--	--
Total of nonaccrual and 90 days past due loans	1,531	388	478	610	133
Repossessed assets	--	--	--	--	--
Real estate owned	549	--	534	113	--
Total nonperforming assets	$2,080	$388	$1,012	$723	$133
Restructured loans	$ 35	$ 11	$ 322	$ --	$ --
Allowance for loan loss on nonperforming loans	66	--	7	92	9
Classified assets included in nonperforming assets	1,666	388	1,000	704	133
Allowance for loan loss on classified assets	191	46	64	225	9
Nonaccrual and accruing loans 90 days or more past due as a percentage of loans receivable	0.32%	0.08%	0.11%	0.16%	0.04%
Nonaccrual and accruing loans 90 days or more past due as a percentage of total assets	0.22%	0.05%	0.07%	0.08%	0.03%
Nonperforming assets as a percentage of total assets	0.29%	0.05%	0.15%	0.10%	0.03%
Loans receivable, net	$408,118	$503,065	$430,944	$392,634	$372,629
Nonaccrued interest (1)	$36	$11	$5	$12	$1
Total assets	$709,954	$761,292	$689,577	$743,867	$450,196

(1) If interest on the loans classified as nonaccrual had been accrued, interest income in these amounts would have been recorded on nonaccrual loans.

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Real Estate Owned and Other Repossessed Assets. Real estate we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until it is sold. When the property is acquired, it is recorded at the lower of its cost, which is the unpaid principal balance of the related loan plus foreclosure costs, or the fair market value of the property less selling costs. Other repossessed collateral, including autos, are also recorded at the lower of cost (i.e., the unpaid principal balance plus repossession costs) or fair market value. As of September 30, 2007, we had $549,000 in real estate owned.

Restructured Loans. According to generally accepted accounting principles, we are required to account for certain loan modifications or restructuring as a "troubled debt restructuring." In general, the modification or restructuring of a debt is considered a troubled debt restructuring if we, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower that we would not otherwise consider. As of September 30, 2007, we had two restructured loans with an aggregate balance of $35,000.

Classified Assets. Federal regulations provide for the classification of lower quality loans and other assets, such as debt and equity securities, as substandard, doubtful or loss. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the borrower or any collateral pledged. Substandard assets include those characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions and values. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When we classify problem assets as either substandard or doubtful, we may establish a specific allowance in an amount we deem prudent and approved by the Classified Asset Committee to address the risk specifically or we may allow the loss to be addressed in the general allowance. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been specifically allocated to particular problem assets. When an insured institution classifies problem assets as a loss, it is required to charge off such assets in the period in which they are deemed uncollectible. Assets that do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated as special mention. Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by the OTS, which can order the establishment of additional loss allowances.

In connection with the filing of periodic reports with the OTS and in accordance with our classification of assets policy, we regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of our review of our assets, as of September 30, 2007, we had classified assets of $4.5 million. The total amount classified represented 4.0% of equity capital and 0.6% of total assets as of September 30, 2007.

The aggregate amounts of classified assets at the dates indicated were as follows:

	At September 30,	
	2007	2006
	(in thousands)	
Classified assets:		
Loss	$ --	$ --
Doubtful	10	10
Substandard	4,521	911
Total	$4,531	$921
Classified assets included in nonperforming loans	$1,666	$388
Allowance for loan loss on classified assets	191	46

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Classified assets increased $3.6 million to $4.5 million at September 30, 2007, from $921,000 at September 30, 2006. The increase in classified assets was due to an increase in delinquent and/or troubled loans among all major loan types. As of September 30, 2007, there were three impaired loans included in classified assets.

Potential Problem Loans. Potential problem loans are loans that do not yet meet the criteria for placement on non-accrual status, but where known information about possible credit problems of the borrowers causes management to have serious doubts as to the ability of the borrowers to comply with present loan repayment terms. This may result in the future inclusion of such loans in the non-accrual loan category. As of September 30, 2007, the aggregate amount of potential problem loans was $4.2 million.

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The following table summarizes the distribution of the allowance for loan losses by loan category.

	At September 30, (dollars in thousands)												
	2007			2006			2005			2004			
	Loan Balance	Amount by Loan Category	Percent of Loans in Loan Category to Total Loans	Loan Balance	Amount by Loan Category	Percent of Loans in Loan Category to Total Loans	Loan Balance	Amount by Loan Category	Percent of Loans in Loan Category to Total Loans	Loan Balance	Amount by Loan Category	Percent of Loans in Loan Category to Total Loans	Loan Balance
Real estate:													
One- to four-family residential	$249,545	$ 840	51.55%	$293,640	$ 873	57.88%	$252,126	$ 784	58.00%	$242,818	$ 704	61.27%	$247,309
Multi-family residential	6,864	60	1.42	7,049	61	1.39	5,454	61	1.25	6,265	75	1.58	7,750
Commercial	133,823	1,205	27.64	125,401	1,087	24.72	116,432	1,297	26.78	93,575	1,281	23.61	79,020
Total real estate	390,232	2,105	80.61	426,090	2,021	83.99	374,012	2,142	86.03	342,658	2,060	86.46	334,079
Real estate construction:													
One- to four-family residential	20,545	188	4.24	23,678	290	4.67	14,421	241	3.32	7,207	69	1.82	5,225
Multi-family residential	1,770	23	0.37	--	--	--	1,427	18	0.33	834	11	0.21	352
Commercial and land development	21,899	245	4.52	16,344	294	3.22	7,470	132	1.72	11,151	148	2.81	9,128
Total real estate	44,214	455	9.13	40,022	584	7.89	23,318	391	5.37	19,192	228	4.84	14,705

Consumer:													
Home equity	42,990	311	8.88	34,143	243	6.73	28,558	192	6.57	27,351	204	6.90	20,640
Automotive	2,173	35	0.45	3,245	58	0.64	4,576	79	1.05	3,838	79	0.97	1,939
Other consumer	1,405	37	0.29	1,300	32	0.26	1,530	39	0.35	1,949	45	0.49	2,827
Total consumer	46,568	383	9.62	38,688	333	7.63	34,664	310	7.97	33,138	328	8.36	25,406
Commercial business	3,122	45	0.64	2,480	36	0.49	2,759	39	0.63	1,363	21	0.34	1,662
Total loans	$484,136	$2,988	100.00%	$507,280	$2,974	100.00%	$434,753	$2,882	100.00%	$396,351	$2,637	100.00%	$375,852

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The following table sets forth an analysis of our allowance for loan losses at the dates and for the periods indicated.

	Year Ended September 30,				
	2007	2006	2005	2004	2003
	(in thousands)				
Allowance at beginning of period	$2,974	$2,882	$2,637	$1,853	$1,385
Provisions for loan losses	409	138	456	900	615
Transfer to unfunded commitments	(192)	--	--	--	--
Recoveries:					
Real estate:					
One- to four-family residential	--	--	--	1	--
Multi-family residential	--	--	--	--	--
Commercial	--	--	2	--	--
Total real estate	--	--	2	1	--
Real estate construction:					
One- to four-family residential	--	--	--	--	--
Multi-family residential	--	--	--	--	--
Commercial and land development	--	--	--	--	--
Total real estate construction	--	--	--	--	--
Consumer:					
Home equity	--	--	12	--	--
Automobile	4	12	--	12	--
Other consumer	12	12	9	7	7
Total consumer	16	24	21	19	7
Commercial business	--	--	--	--	--
Total recoveries	16	24	23	20	7
Charge-offs:					
Real estate:					
One- to four-family residential	73	--	--	60	7
Multi-family residential	--	--	--	--	--
Commercial	--	--	56	--	--

Total real estate	73	--	56	60	7
Real estate construction:					
One- to four-family residential	91	--	--	--	--
Multi-family residential	--	--	--	--	--
Commercial and land development	--	--	--	--	--
Total real estate construction	91	--	--	--	--
Consumer:					
Home equity	--	3	19	--	37
Automobile	--	3	22	23	40
Other consumer	36	33	51	53	70
Total consumer	36	39	92	76	147

(table continues on the following page)

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	Year Ended September 30,				
	2007	2006	2005	2004	2003
			(in thousands)		
Commercial business	19	31	86	--	--
Total charge-offs	219	70	234	136	154
Net charge-offs	203	46	211	116	147
Balance at end of period	$2,988	$2,974	$2,882	$2,637	$1,853
Allowance for loan losses as a percentage of total loans outstanding at the end of the period	0.62%	0.59%	0.67%	0.67%	0.49%
Net charge-offs as a percentage of average loans outstanding during the period	0.04%	0.01%	0.05%	0.03%	0.04%
Allowance for loan losses as a percentage of nonaccrual and 90 days or more past due loans at end of period	195.17%	766.49%	602.97%	432.30%	1,393.23%

Our Asset Liability Management Committee reviews the appropriate level of the allowance for loan losses on a quarterly basis and establishes the provision for loan losses based on the risk composition of our loan portfolio, delinquency levels, loss experience, economic conditions, bank regulatory examination results, seasoning of the loan portfolios and other factors related to the collectibility of the loan portfolio as detailed further under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Allowance for Loan Losses." The allowance is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of actual loan charge-offs, net of recoveries.

Management believes that our allowance for loan losses as of September 30, 2007 was adequate to absorb the known and inherent risks of loss in the loan portfolio at that date. While management believes the estimates and assumptions used in its determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provision that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of Home Federal Bank's allowance for loan losses is subject to review by bank regulators, as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

The following table provides certain information with respect to our allowance for loan losses, including charge-offs, recoveries and selected ratios for the periods indicated.

	At September 30,				
	2007	2006	2005	2004	2003
	(dollars in thousands)				
Provisions for loan losses	$ 409	$ 138	$ 456	$ 900	$ 615
Allowance for loan losses	2,988	2,974	2,882	2,637	1,853
Allowance for loan losses as a percentage of total loans outstanding at the end of the period	0.62%	0.59%	0.67%	0.67%	0.49%
Net charge-offs	$ 203	$ 46	$ 211	$ 116	$ 147
Total of nonaccrual and 90 days past due loans	1,531	388	478	610	133
Nonaccrual and 90 days or more past due loans as a percentage of loans receivable	0.32%	0.08%	0.11%	0.16%	0.04%
Loans receivable, net	$480,118	$503,065	$430,944	$392,634	$372,629

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Investment Activities

General. OTS regulations permit the Bank to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies, certain certificates of deposit of federally insured banks and savings institutions, banker's acceptances, repurchase agreements and federal funds. Subject to various restrictions, we also may invest a portion of our assets in commercial paper and corporate debt securities.

Our investment policies are designed to provide and maintain adequate liquidity and to generate favorable rates of return without incurring undue interest rate or credit risk. The investment policies generally limit investments to mortgage-backed securities, U.S. Government and agency securities, municipal bonds, certificates of deposit and marketable corporate debt obligations. Investment in mortgage-backed securities includes those issued or guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. We may purchase mortgage-backed securities to supplement loan originations for portfolio during periods when the Company is not able to originate the desired level of portfolio loans.

At September 30, 2007, our consolidated investment portfolio totaled $171.8 million and consisted principally of mortgage-backed securities and Federal Home Loan Bank or FHLB stock. From time to time, investment levels may be increased or decreased depending upon yields available on investment alternatives and management's projections as to the demand for funds to be used in loan originations, deposits and other activities.

Mortgage-Backed Securities. Our mortgage-backed securities had a fair value of $162.3 million and a $166.0 million amortized cost at September 30, 2007. The mortgage-backed securities were primarily comprised of Fannie Mae and Freddie Mac mortgage-backed securities. At September 30, 2007, the portfolio had a weighted-average coupon rate of 4.77% and an estimated weighted-average yield of 4.96%. These securities had an estimated average maturity of 19.2 years and an estimated average life of 4.4 years at September 30, 2007.

During the quarter ended June 30, 2007, the Company transferred its entire portfolio of held to maturity mortgage-backed securities to available for sale to meet the additional liquidity needs associated with increasing commercial banking activities.

The following table sets forth the composition of our investment securities portfolios at the dates indicated. The amortized cost of the available for sale investments and mortgage backed-securities is their net book value before the mark-to-market fair value adjustment.

	At September 30,					
	2007		2006		2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
			(in thousands)			
Available for sale:						
Mortgage-backed securities:						
Fannie Mae	$ 68,019	$ 66,477	$ --	$ --	$ --	$ --
Freddie Mac	94,484	92,394	--	--	--	--
Non-Agency	3,464	3,387	12,476	12,182	15,105	14,830
Total available for sale	$165,967	$162,258	$ 12,476	$ 12,182	$ 15,105	$ 14,830
Held to maturity:						
Mortgage-backed securities:						
Fannie Mae	$ --	$ --	$ 65,234	$ 63,452	$ 72,028	$ 71,067
Freddie Mac	--	--	114,505	111,954	105,308	103,985
Non-Agency	--	--	3,540	3,436	3,638	3,561
Total held to maturity	$ --	$ --	$183,279	$178,842	$180,974	$178,613

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The table below sets forth information regarding the amortized cost, weighted average yields and maturities or periods to repricing of our investment portfolio at September 30, 2007.

	Amount Due or Repricing within:									
	1 Year or Less		Over 1 to 5 Years		Over 5 to 10 Years		Over 10 Years		Totals	
	Amortized Cost	Weighted Average Yield (1)								
					(dollars in thousands)					
Available for sale:										
Mortgage-backed securities:										
Fannie Mae	$ 1	5.55%	$ --	--%	$5,972	4.08%	$ 62,046	5.00%	$ 68,019	4.92%
Freddie Mac	90	6.01	239	6.69	613	6.96	93,542	4.97	94,484	4.99
Non-Agency	--	--	--	--	--	--	3,464	4.59	3,464	4.59
Total available for sale	$91	6.00%	$239	6.69%	$6,585	4.35%	$159,052	4.97%	$165,967	4.96%

(1) Interest and dividends are reported on a tax-equivalent basis. During the time period presented, the Company did not own any tax exempt investment securities. For available for sale securities carried at fair value, the weighted average yield is computed using amortized cost.

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The following table sets forth certain information with respect to each category which had an aggregate book value in excess of 10% of our total equity at the date indicated.

	At September 30, 2007	
	Amortized Cost	Fair Value
	(in thousands)	
Available for sale:		
Mortgage-backed securities:		
Fannie Mae	$ 68,019	$ 66,477
Freddie Mac	94,484	93,394
Total available for sale	$162,503	$158,871

Federal Home Loan Bank Stock. As a member of the FHLB of Seattle, the Bank is required to own its capital stock. The amount of stock the Bank holds is based on percentages specified by the FHLB of Seattle on outstanding advances. The redemption of any excess stock the Bank holds is at the discretion of the FHLB of Seattle. At September 30, 2007, the carrying value of FHLB stock totaled $9.6 million.

Bank-Owned Life Insurance. We purchased bank-owned life insurance policies ("BOLI") to offset future employee benefit costs. At September 30, 2007, we had a $11.2 million investment in life insurance contracts. The purchase of BOLI policies, and its increase in cash surrender value, is classified as "Bank owned life insurance" in the Consolidated Balance Sheets. The income related to the BOLI, which is generated by the increase in the cash surrender value of the policy, is classified in "Increase in cash surrender value of bank owned life insurance" in the Consolidated Statements of Income. The potential death benefits as of September 30, 2007 were $22.7 million.

Deposit Activities and Other Sources of Funds

General. Deposits and loan repayments are the major sources of our funds for lending and other investment purposes. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are influenced significantly by general interest rates and market conditions. Borrowings from the FHLB of Seattle are used to supplement the availability of funds from other sources and also as a source of term funds to assist in the management of interest rate risk.

Our deposit composition reflects a mixture with certificates of deposit accounting for approximately one-half of the total deposits while interest and noninterest-bearing checking, savings and money market accounts comprise the balance of total deposits. We rely on marketing activities, convenience, customer service and the availability of a broad range of competitively priced deposit products and services to attract and retain customer deposits.

Deposits. With the exception of our Health Savings Accounts, substantially all of our depositors are residents of the State of Idaho. We occasionally supplement our deposits through brokered certificates of deposit and, to a lesser extent, municipal deposits. Deposits are attracted from within our market area through the offering of a broad selection of deposit instruments, including checking accounts, money market deposit accounts, savings accounts and certificates of deposit with a variety of rates and terms to maturity. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. We offer a number of different deposit programs including our High Performance Checking, All-In-One Checking, Wall Street Select Checking, Money Market Accounts, Health Savings Accounts and Escalator Certificates of Deposit. Our High Performance Checking program is comprised of several different transaction account products with varying minimum balance requirements, number of checks permitted and interest rate options. Our All-In-One Checking product offers a significantly higher rate of interest to customers who agree to maintain an automatic deposit and use their Home Federal debit card a minimum of twelve times per month. Our Wall Street Select Checking and Money Market Account products offer significantly higher rates of interest on larger deposit balances while maintaining the availability of the customer's funds. Our Health Savings Accounts are offered directly or through unaffiliated third parties including insurance agents and third-party benefits administrators to qualified individuals and employers. The program is offered on a nationwide basis and participants in the plan receive a debit card to facilitate account access. Our Escalator Certificate of Deposit has a guaranteed blended rate for its four-year term with fixed rate increases occurring every six months from the date of

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the original deposit, and also offers the customer the opportunity to withdraw the entire balance at any six-month anniversary without a pre-payment penalty. In determining the terms of our deposit accounts, we consider the development of long term profitable customer relationships, current market interest rates, current maturity structure and deposit mix, our customer preferences and the profitability of acquiring customer deposits compared to alternative sources.

At September 30, 2007, we had $64.9 million of jumbo ($100,000 or more) certificates of deposit, which are primarily from local customers, representing 16.0% of total deposits at that date.

Deposit Activities. The following table sets forth the total deposit activities of Home Federal Bank for the periods indicated.

	Year Ended September 30,		
	2007	2006	2005
		(in thousands)	
Beginning balance	$430,281	$396,325	$343,087
Net deposits before interest credited	(38,025)	24,203	47,690
Interest credited	12,353	9,753	5,548
Net increase (decrease) in deposits	(25,672)	33,956	53,238
Ending balance	$404,609	$430,281	$396,325

Time Deposits by Rates. The following table sets forth the time deposits in Home Federal Bank classified by rates as of the dates indicated.

	At September 30,		
	2007	2006	2005
		(in thousands)	
0.00 - 0.99%	$ 374	$ 268	$ 1,803
1.00 - 1.99	5	341	10,286
2.00 - 2.99	2,257	17,924	56,344
3.00 - 3.99	24,012	57,055	89,955
4.00 - 4.99	63,632	75,300	20,437
5.00 - 5.99	123,617	74,728	18,412
6.00 - 6.99	1,294	8,108	228
Total	$215,191	$233,724	$197,465

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Time Deposits by Maturities. The following table sets forth the amount and maturities of time deposits at September 30, 2007.

	Amounts Due					
	Less Than 1 Year	1-2 Years	2-3 Years	3-4 Years	After 4 Years	Total
	(in thousands)					
0.00 - 0.99%	$ 374	$ --	$ --	$ --	$ --	$ 374
1.00 - 1.99	5	--	--	--	--	5
2.00 - 2.99	2,011	173	13	60	--	2,257
3.00 - 3.99	19,104	4,171	557	148	32	24,012
4.00 - 4.99	40,560	13,181	7,249	2,145	497	63,632
5.00 - 5.99	109,516	7,522	2,557	2,915	1,107	123,617
6.00 - 6.99	1,014	--	199	81	--	1,294
Total	$172,584	$25,047	$10,575	$5,349	$1,636	$215,191

The following table sets forth information concerning our time deposits and other deposits at September 30, 2007.

Weighted Average Interest Rate	Original Term	Category	Amount (in thousands)	Minimum Balance	Percentage of Total Deposits
0.64%	N/A	Savings deposits	$ 23,116	10	5.71%
0.63	N/A	Interest-bearing demand deposits	58,485	50	14.45
--	N/A	Noninterest-bearing demand deposits	38,644	50	9.55
3.53	N/A	Money market accounts	45,701	1,000	11.30
1.06	N/A	Health savings accounts	23,472	25	5.80
		<u>Certificates of Deposit</u>			
4.92	1-12 months	Fixed term, fixed rate	116,054	500	28.68
4.70	13-24 months	Fixed term, fixed rate	64,967	500	16.06
3.95	25-36 months	Fixed term, fixed rate	11,401	500	2.82
4.76	37-60 months	Fixed term, fixed rate	22,568	500	5.58
4.67	Over 60 months	Fixed term, fixed rate	201	500	0.05
		Total	$404,609		100.00%

The following table indicates the amount of jumbo certificates of deposit by time remaining until maturity as of September 30, 2007. Jumbo certificates of deposit are certificates in amounts of $100,000 or more.

Maturity Period	Certificates of Deposit of $100,000 or More (in thousands)
Three months or less	$15,608
Over three through six months	21,228
Over six through twelve months	17,756
Over twelve months	10,338
Total	$64,930

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Deposit Flow. The following table sets forth the balances of deposits in the various types of accounts offered by Home Federal Bank at the dates indicated.

	At September 30,								
	2007			2006			2005		
	Amount	Percent Of Total	Increase/ (Decrease)						
	(dollars in thousands)								
Savings deposits	$ 23,116	5.71%	$ (539)	$ 23,655	5.50%	$ (1,564)	$ 25,219	6.36%	$ (234)
Demand deposits	97,129	24.01	(11,413)	108,542	25.22	(247)	108,789	27.46	23,002
Money market accounts	45,701	11.30	12,278	33,423	7.77	1,902	31,521	7.95	(3,871)
Health savings accounts	23,472	5.80	(7,465)	30,937	7.19	(2,394)	33,331	8.41	1,101
Fixed rate certificates that mature in the year ending:									
Within 1 year	172,584	42.65	(15,877)	188,461	43.80	81,444	107,017	27.00	38,821
After 1 year, but within 2 years	25,047	6.19	(3,360)	28,407	6.60	(34,295)	62,702	15.82	3,784
After 2 years, but within 5 years	17,365	4.29	768	16,597	3.86	(10,346)	26,943	6.80	(9,472)
After 5 years	195	0.05	(64)	259	0.06	5	254	0.06	191
Other certificates of deposit	--	--	--	--	--	(549)	549	0.14	(84)
Total	$404,609	100.0%	$(25,672)	$430,281	100.0%	$33,956	$396,325	100.0%	$53,238

Borrowings. Customer deposits are the primary source of funds for our lending and investment activities. We use advances from the FHLB of Seattle to supplement our supply of lendable funds to meet short-term deposit withdrawal requirements and also to provide longer term funding to better match the duration of selected loan and investment maturities. As one of our capital management strategies, we also use borrowings from the FHLB of Seattle to fund the purchase of investment securities and origination of loans in order to increase our net interest income when attractive opportunities exist.

As a member of the FHLB of Seattle, we are required to own its capital stock and are authorized to apply for advances on the security of the stock and certain of our mortgage loans and mortgage-backed securities provided certain creditworthiness standards have been met. Advances are made individually under various terms pursuant to several different credit programs, each with its own interest rate and range of maturities. We maintain a committed credit facility with the FHLB of Seattle that provides for immediately available advances up to an aggregate of 40% of the Bank's total assets, or $275.8 million as of September 30, 2007. At September 30, 2007, our outstanding advances from the FHLB of Seattle totaled $180.7 million.

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The following table sets forth information regarding our borrowings at the end of and during the periods indicated. The table includes both long- and short-term borrowings.

	Year Ended September 30,		
	2007	2006	2005
	(dollars in thousands)		
	$223,000	$214,000	$182,000

Maximum amount of borrowing outstanding at any month end:			
FHLB advances			
Approximate average borrowings outstanding:			
FHLB advances	202,000	191,000	153,000
Approximate weighted average rate paid on:			
FHLB advances	4.49%	4.20%	3.87%

	At September 30,		
	2007	2006	2005
	(dollars in thousands)		
Balance outstanding at end of period:			
FHLB advances	$180,730	$210,759	$175,932
Weighted average rate at end of period on:			
FHLB advances	4.55%	4.36%	3.96%

Competition

We face intense competition in originating loans and in attracting deposits within our targeted geographic market. We compete by leveraging our full service delivery capability comprised of convenient branch locations, including six branches located inside Wal-Mart Superstores offering extended banking hours, call center and Internet banking, and consistently delivering high-quality, individualized service to our customers that result in a high level of customer satisfaction. According to data published by the Federal Deposit Insurance Corporation, as of June 30, 2007, we ranked sixth in terms of deposits, among the 21 federally-insured depository institutions in Ada and Canyon counties, our primary market area. Our key competitors are U.S. Bank, Wells Fargo, Washington Mutual, Bank of America, Key Bank, and Bank of the Cascades. These competitors control approximately 67% of the deposit market with $5.0 billion of the $7.5 billion total deposits in Ada and Canyon Counties as of June 30, 2007. Aside from these traditional competitors, credit unions, insurance companies and brokerage firms are an increasingly competing challenge for consumer deposit relationships. We also compete for loans and deposits through our two branch offices in Gem and Elmore Counties.

Our competition for loans comes principally from mortgage bankers, commercial banks, thrift institutions, credit unions and finance companies. Several other financial institutions, including those previously mentioned, have greater resources than we do and compete with us for lending business in our targeted market area. Among the advantages of some of these institutions are their ability to make larger loans, finance extensive advertising campaigns, access lower cost funding sources and allocate their investment assets to regions of highest yield and demand. This competition for the origination of loans may limit our future growth and earnings prospects.

Subsidiaries and Other Activities

Home Federal Bank has one wholly-owned subsidiary, Idaho Home Service Corporation, which was established in 1981 as Home Service Corporation for the purpose of facilitating various business activities. Since 2000, Idaho Home Service Corporation has been inactive.

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Personnel

At September 30, 2007, we had 223 full-time equivalent employees. Our employees are not represented by any collective bargaining group. We believe our relationship with our employees is good.

Internet Website

We maintain a website with the address www.homefederal.com. The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor's own Internet access charges, we make available free of charge through our website our Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we have electronically filed such material with, or furnished such material to, the Securities and Exchange Commission.

HOW WE ARE REGULATED

The following is a brief description of certain laws and regulations which are applicable to Home Federal Bancorp, new Home Federal Bancorp upon completion of our conversion and Home Federal Bank. The description of these laws and regulations, as well as descriptions of laws and regulations contained elsewhere in this annual report, does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations. Legislation is introduced from time to time in the United States Congress that may affect our operations. In addition, the regulations governing us may be amended from time to time by the respective regulators. Any such legislation or regulatory changes in the future could adversely affect us. We cannot predict whether any such changes may occur.

New Home Federal Bancorp like Home Federal Bancorp, will be registered as a savings and loan holding company under the Savings and Loan Holding Company Act and be subject to regulation and supervision by the Office of Thrift Supervision. New Home Federal Bancorp will be required to file annually a report of operations with, and is subject to examination by, the Office of Thrift Supervision. This regulation and oversight is generally intended to ensure that new Home Federal Bancorp limits activities to those allowed by law and that it operate in a safe and sound manner without endangering the financial health of Home Federal Bank.

Regulation and Supervision of Home Federal Bank

General. Home Federal Bank, as a federally chartered savings institution, is subject to extensive regulation, examination and supervision by the Office of Thrift Supervision, as its primary federal regulator, and the Federal Deposit Insurance Corporation, as its deposits insurer. Home Federal Bank is a member of the Federal Home Loan Bank System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation. Home Federal Bank must file reports with the Office of Thrift Supervision and the Federal Deposit Insurance Corporation concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the Office of Thrift Supervision and, under certain circumstances, the Federal Deposit Insurance Corporation to evaluate Home Federal Bank's safety and soundness and compliance with various regulatory requirements. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the Office of Thrift Supervision, the Federal Deposit Insurance Corporation or Congress, could have a material adverse impact on new Home Federal Bancorp and Home Federal Bank and their operations. New Home Federal Bancorp, like Home Federal Bancorp, will, as a savings and loan holding company, be required to file certain reports with, and be subject to examination by, and otherwise must comply with the rules and regulations of the Office of Thrift Supervision. Like Home Federal Bancorp, new Home Federal Bancorp is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws. See "- Savings and Loan Holding Company Regulations."

Office of Thrift Supervision. The Office of Thrift Supervision has extensive authority over the operations of savings institutions. As part of this authority, Home Federal Bank is required to file periodic reports with the Office

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of Thrift Supervision and is subject to periodic examinations by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. The Office of Thrift Supervision also has extensive enforcement authority over all savings institutions and their holding companies, including Home Federal Bank and new Home Federal Bancorp. This enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease-and-desist or removal orders and initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the Office of Thrift Supervision. Except under certain circumstances, public disclosure of final enforcement actions by the Office of Thrift Supervision is required.

In addition, the investment, lending and branching authority of Home Federal Bank also are prescribed by federal laws, which prohibit Home Federal Bank from engaging in any activities not permitted by these laws. For example, no savings institution may invest in non-investment grade corporate debt securities. In addition, the permissible level of investment by federal institutions in loans secured by non-residential real property may not exceed 400% of total capital, except with approval of the Office of Thrift Supervision. Federal savings institutions are also generally authorized to branch nationwide. Home Federal Bank is in compliance with the noted restrictions.

All savings institutions are required to pay assessments to the Office of Thrift Supervision to fund the agency's operations. The general assessments, paid on a semi-annual basis, are determined based on the savings institution's total assets, including consolidated subsidiaries. Home Federal Bank's Office of Thrift Supervision assessment for the fiscal year ended September 30, 2007 was $163,000.

Home Federal Bank's general permissible lending limit for loans-to-one-borrower is equal to the greater of $500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At September 30, 2007, Home Federal Bank's lending limit under this restriction was $14.5 million and, at that date, Home Federal Bank's largest single loan to one borrower was $5.4 million, which was performing according to its original terms.

The Office of Thrift Supervision, as well as the other federal banking agencies, has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution that fails to comply with these standards must submit a compliance plan.

Federal Home Loan Bank System. Home Federal Bank is a member of the Federal Home Loan Bank of Seattle, which is one of 12 regional Federal Home Loan Banks that administer the home financing credit function of savings institutions. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans or advances to members in accordance with policies and procedures, established by the board of directors of the Federal Home Loan Bank, which are subject to the oversight of the Federal Housing Finance Board. All advances from the Federal Home Loan Bank are required to be fully secured by sufficient collateral as determined by the Federal Home Loan Bank. In addition, all long-term advances are required to provide funds for residential home financing. At September 30, 2007, Home Federal Bank had $180.7 million of outstanding advances from the Federal Home Loan Bank of Seattle under an available credit facility of $275.8 million, which is limited to available collateral. See Business - Sources of Funds - Borrowings.

As a member, Home Federal Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Seattle. At September 30, 2007, Home Federal Bank had $9.6 million in Federal Home Loan Bank stock, which was in compliance with this requirement.

Under federal law, the Federal Home Loan Banks are required to provide funds for the resolution of troubled savings institutions and to contribute to low- and moderately-priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of Federal Home Loan Bank dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of Federal Home Loan Bank stock in the future. A reduction in value of Home Federal Bank's Federal Home Loan Bank stock may result in a corresponding reduction in Home Federal Bank's capital.

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Federal Deposit Insurance Corporation. Home Federal Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation. The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged effective March 31, 2006. As insurer, the Federal Deposit Insurance Corporation imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by Federal Deposit Insurance Corporation-insured institutions. It also may prohibit any Federal Deposit Insurance Corporation-insured institution from engaging in any activity the Federal Deposit Insurance Corporation determines by regulation or order to pose a serious risk to the insurance fund. The Federal Deposit Insurance Corporation also has the authority to initiate enforcement actions against savings institutions, after giving the Office of Thrift Supervision an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The Federal Deposit Insurance Corporation recently amended its risk-based assessment system for 2007 to implement authority granted by the Federal Deposit Insurance Reform Act of 2005, which was enacted in 2006 ("Reform Act"). Under the revised system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Risk category I, which contains the least risky depository institutions, is expected to include more than 90% of all institutions. Unlike the other categories, Risk Category I contains further risk differentiation based on the Federal Deposit Insurance Corporation's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the Federal Deposit Insurance Corporation and currently range from five to seven basis points for the healthiest institutions (Risk Category I) to 43 basis points of assessable deposits for the riskiest (Risk Category IV). The Federal Deposit Insurance Corporation may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points. No institution may pay a dividend if in default of the Federal Deposit Insurance Corporation assessment.

The Reform Act also provided for a one-time credit for eligible institutions based on their assessment base as of December 31, 1996. Subject to certain limitations with respect to institutions that are exhibiting weaknesses, credits can be used to offset assessments until exhausted. Home Federal Bank's one-time credit is $239,869. The Reform Act also provided for the possibility that the Federal Deposit Insurance Corporation may pay dividends to insured institutions once the Deposit Insurance Fund reserve ratio equals or exceeds 1.35% of estimated insured deposits.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly and during the fiscal year ended September 30, 2007 averaged 1.14 basis points of assessable deposits.

The Reform Act provided the Federal Deposit Insurance Corporation with authority to adjust the Deposit Insurance Fund ratio to insured deposits within a range of 1.15% and 1.50%, in contrast to the prior statutorily fixed ratio of 1.25%. The ratio, which is viewed by the Federal Deposit Insurance Corporation as the level that the fund should achieve, was established by the agency at 1.25% for 2007.

The Federal Deposit Insurance Corporation has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of Home Federal Bank. There can be no prediction as to what insurance assessment rates will be in the future. Insurance of deposits may be terminated by the Federal Deposit Insurance Corporation upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the Federal Deposit Insurance Corporation or the Office of Thrift Supervision. Management of Home Federal Bank is not aware of any practice, condition or violation that might lead to termination of Home Federal Bank's deposit insurance.

Capital Requirements. The Office of Thrift Supervision's capital regulations require federal savings institutions to meet three minimum capital standards: a 1.5% tangible capital to total assets ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS system) and, together with the risk-based capital standard itself, a 4% Tier I risk-based capital standard. The Office of Thrift Supervision regulations also require that, in meeting the tangible, leverage and risk-based capital standards,

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institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard requires federal savings institutions to maintain Tier I (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, assigned by the Office of Thrift Supervision capital regulation based on the risks believed inherent in the type of asset. Core (Tier I) capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The Office of Thrift Supervision also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. At September 30, 2007, Home Federal Bank met each of these capital requirements.

Prompt Corrective Action. The Office of Thrift Supervision is required to take certain supervisory actions against undercapitalized savings institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, an institution that has a ratio of total capital to risk-weighted assets of less than 8%, a ratio of Tier I (core) capital to risk-weighted assets of less than 4%, or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." An institution that has a total risk-based capital ratio less than 6%, a Tier I capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and an institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the Office of Thrift Supervision is required to appoint a receiver or conservator for a savings institution that is "critically undercapitalized." Office of Thrift Supervision regulations also require that a capital restoration plan be filed with the Office of Thrift Supervision within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. "Significantly undercapitalized" and "critically undercapitalized" institutions are subject to more extensive mandatory regulatory actions. The Office of Thrift Supervision also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At September 30, 2007, Home Federal Bank was categorized as "well capitalized" under the prompt corrective action regulations of the Office of Thrift Supervision.

Qualified Thrift Lender Test. All savings institutions, including Home Federal Bank, are required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on their operations. This test requires a savings institution to have at least 65% of its total assets, as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, the savings institution may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code. Under either test, such assets primarily consist of residential housing related loans and investments.

A savings institution that fails to meet the QTL is subject to certain operating restrictions and may be required to convert to a national bank charter. Recent legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered "qualified thrift investments." As of September 30, 2007, Home Federal Bank maintained 85.3% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

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Limitations on Capital Distributions. Office of Thrift Supervision regulations impose various restrictions on savings institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Generally, savings institutions, such as Home Federal Bank, that before and after the proposed distribution are well-capitalized, may make capital distributions during any calendar year equal to up to 100% of net income for the year-to-date plus retained net income for the two preceding years. However, an institution deemed to be in need of more than normal supervision by the Office of Thrift Supervision may have its dividend authority restricted by the Office of Thrift Supervision. Home Federal Bank may pay dividends to new Home Federal Bancorp in accordance with this general authority.

Savings institutions proposing to make any capital distribution need not submit written notice to the Office of Thrift Supervision prior to such distribution unless they are a subsidiary of a holding company or would not remain well-capitalized following the distribution. Savings institutions that do not, or would not meet their current minimum capital requirements following a proposed capital distribution or propose to exceed these net income limitations, must obtain Office of Thrift Supervision approval prior to making such distribution. The Office of Thrift Supervision may object to the distribution during that 30-day period based on safety and soundness concerns. See "- Capital Requirements."

Activities of Savings Institutions and their Subsidiaries. When a savings institution establishes or acquires a subsidiary or elects to conduct any new activity through a subsidiary that it controls, the savings institution must notify the Federal Deposit Insurance Corporation and the Office of Thrift Supervision 30 days in advance and provide the information each agency may, by regulation, require. Savings institutions also must conduct the activities of subsidiaries in accordance with existing regulations and orders.

The Office of Thrift Supervision may determine that the continuation by a savings institution of its ownership control of, or its relationship to, the subsidiary constitutes a serious risk to the safety, soundness or stability of the institution or is inconsistent with sound banking practices or with the purposes of the Federal Deposit Insurance Act. Based upon that determination, the Federal Deposit Insurance Corporation or the Office of Thrift Supervision has the authority to order the savings institution to divest itself of control of the subsidiary. The Federal Deposit Insurance Corporation also may determine by regulation or order that any specific activity poses a serious threat to the Deposit Insurance Fund. If so, it may require that no member of the Deposit Insurance Fund engage in that activity directly.

Transactions with Affiliates. Home Federal Bank's authority to engage in transactions with "affiliates" is limited by Office of Thrift Supervision regulations and by Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board's Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. Home Federal Bancorp and its non-savings institution subsidiaries are affiliates of Home Federal Bank. In general, transactions with affiliates must be on terms that are as favorable to the institution as comparable transactions with non-affiliates. In addition, certain types of transactions are restricted to an aggregate percentage of the institution's capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from an institution. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act of 2002 generally prohibits a company from making loans to its executive officers and directors. However, there is a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws. Under such laws, Home Federal Bank's authority to extend credit to executive officers, directors and 10% stockholders ("insiders"), as well as entities such persons control, is limited. The law restricts both the individual and aggregate amount of loans Home Federal Bank may make to insiders based, in part, on Home Federal Bank's capital position and requires certain board approval procedures to be followed. Such loans must be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. There are additional restrictions applicable to loans to executive officers.

Community Reinvestment Act. Under the Community Reinvestment Act, every Federal Deposit Insurance Corporation-insured institution has a continuing and affirmative obligation consistent with safe and sound banking

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practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the Community Reinvestment Act. The Community Reinvestment Act requires the Office of Thrift Supervision, in connection with its examination of Home Federal Bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch, by Home Federal Bank. An unsatisfactory rating may be used as the basis for the denial of an application by the Office of Thrift Supervision. Due to the heightened attention being given to the Community Reinvestment Act in the past few years, Home Federal Bank may be required to devote additional funds for investment and lending in its local community. Home Federal Bank was examined for Community Reinvestment Act compliance and received a rating of outstanding in its latest examination.

Affiliate Transactions. New Home Federal Bancorp and Home Federal Bank are separate and distinct legal entities. Various legal limitations restrict Home Federal Bank from lending or otherwise supplying funds to Home Federal Bancorp, generally limiting any single transaction to 10% of Home Federal Bank's capital and surplus and limiting all such transactions to 20% of Home Federal Bank's capital and surplus. These transactions also must be on terms and conditions consistent with safe and sound banking practices that are substantially the same as those prevailing at the time for transactions with unaffiliated companies.

Federally insured savings institutions are subject, with certain exceptions, to certain restrictions on extensions of credit to their parent holding companies or other affiliates, on investments in the stock or other securities of affiliates and on the taking of such stock or securities as collateral from any borrower. In addition, these institutions are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or the providing of any property or service.

Enforcement. The Office of Thrift Supervision has primary enforcement responsibility over savings institutions and has the authority to bring action against all "institution-affiliated parties," including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers or directors, receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or $1.1 million per day in especially egregious cases. The Federal Deposit Insurance Corporation has the authority to recommend to the Director of the Office of Thrift Supervision that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the Federal Deposit Insurance Corporation has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Standards for Safety and Soundness. As required by statute, the federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the Office of Thrift Supervision determines that a savings institution fails to meet any standard prescribed by the guidelines, it may require the institution to submit an acceptable plan to achieve compliance with the standard.

Environmental Issues Associated with Real Estate Lending. The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), a federal statute, generally imposes strict liability on all prior and present "owners and operators" of sites containing hazardous waste. However, Congress asked to protect secured creditors by providing that the term "owner and operator" excludes a person whose ownership is limited to protecting its security interest in the site. Since the enactment of the CERCLA, this "secured creditor exemption" has been the subject of judicial interpretations which have left open the possibility that lenders could be liable for cleanup costs on contaminated property that they hold as collateral for a loan. To the extent that legal uncertainty exists in this area, all creditors, including Home Federal Bank, that have made loans secured by properties with potential hazardous waste contamination (such as petroleum contamination) could be subject to liability for cleanup costs, which costs often substantially exceed the value of the collateral property.

Privacy Standards. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 ("GLBA"), modernized the financial services industry by establishing a comprehensive framework to permit affiliations among

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commercial banks, insurance companies, securities firms and other financial service providers. Home Federal Bank is subject to Office of Thrift Supervision regulations implementing the privacy protection provisions of the GLBA. These regulations require Home Federal Bank to disclose its privacy policy, including identifying with whom it shares "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter.

Anti-Money Laundering and Customer Identification. Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act") in response to the terrorist events of September 11, 2001. The USA Patriot Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. Since its enactment, Congress has refined certain expiring provisions of the USA Patriot Act.

Regulation and Supervision of New Home Federal Bancorp

General. Home Federal Bancorp, Inc. is a federal mutual holding company subsidiary within the meaning of the Home Owners' Loan Act. It is required to file reports with the OTS and is subject to regulation and examination by the OTS. In addition, the OTS has enforcement authority over the Company and any non-savings institution subsidiaries. This permits the OTS to restrict or prohibit activities that it determines to be a serious risk to the Bank. This regulation is intended primarily for the protection of the depositors and not for the benefit of stockholders of the Company.

Upon consummation of the reorganization, new Home Federal Bancorp will be subject to regulation as a savings and loan holding company under the Home Owners' Loan Act, as amended. As a result, new Home Federal Bancorp will register with the Office of Thrift Supervision and will be subject to Office of Thrift Supervision regulations, examinations, supervision and reporting requirements relating to savings and loan holding companies. New Home Federal Bancorp will also be required to file certain reports with, and otherwise comply with the rules and regulations of the Securities and Exchange Commission. As a subsidiary of a savings and loan holding company, Home Federal Bank will be subject to certain restrictions in its dealings with new Home Federal Bancorp and affiliates thereof.

New Home Federal Bancorp will be a nondiversified unitary savings and loan holding company within the meaning of federal law. Generally, companies that become savings and loan holding companies following the May 4, 1999 grandfather date in the Gramm-Leach-Bliley Act of 1999 may engage only in the activities permitted for financial institution holding companies under the law for multiple savings and loan holding companies.

Although savings and loan holding companies are not currently subject to specific capital requirements or specific restrictions on the payment of dividends or other capital distributions, federal regulations do prescribe such restrictions on subsidiary savings institutions as described below. Home Federal Bank must notify the Office of Thrift Supervision 30 days before declaring any dividend to new Home Federal Bancorp. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the Office of Thrift Supervision and the Office of Thrift Supervision has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

Acquisition of Control. Under the federal Change in Bank Control Act, a notice must be submitted to the Office of Thrift Supervision if any person (including a company), or group acting in concert, seeks to acquire "control" of a savings and loan holding company or savings association. An acquisition of control can occur upon the acquisition of 10% or more of the voting stock of a savings and loan holding company or savings institution or as otherwise defined by the Office of Thrift Supervision. Under the Change in Bank Control Act, the Office of Thrift Supervision has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquiror and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company.

Qualified Thrift Lender Test. Under Section 2303 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996, a savings association can comply with the Qualified Thrift Lender test by either meeting the Qualified Thrift Lender test set forth in the Home Owners' Loan Act and implementing regulations or qualifying as a domestic building and loan association as defined in Section 7701(a)(19) of the Internal Revenue Code of 1986. A savings

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bank subsidiary of a savings and loan holding company that does not comply with the Qualified Thrift Lender test must comply with the following restrictions on its operations:

- the institution may not engage in any new activity or make any new investment, directly or indirectly, unless

the activity or investment is permissible for a national bank;
- the branching powers of the institution are restricted to those of a national bank; and
- payment of dividends by the institution are subject to the rules regarding payment of dividends by a national bank.

Upon the expiration of three years from the date the institution ceases to meet the Qualified Thrift Lender test, it must cease any activity and not retain any investment not permissible for a national bank (subject to safety and soundness considerations).

As of September 30, 2007, Home Federal Bank maintained 85.3% of its portfolio assets in qualified thrift investments and, therefore, met the Qualified Thrift Lender test.

Limitations on Transactions with Affiliates. Transactions between savings institutions and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a savings institution is any company or entity which controls, is controlled by or is under common control with the savings institution. In a mutual holding company context, the mutual holding company and mid-tier holding company of a savings institution (such as Home Federal Bancorp) and any companies which are controlled by such holding companies are affiliates of the savings institution. Generally, Section 23A limits the extent to which the savings institution or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of the institution's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. Section 23B applies to "covered transactions" as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least as favorable, to the savings institution as those provided to a non-affiliate. The term "covered transaction" includes the making of loans to, purchase of assets from and issuance of a guarantee to an affiliate and similar transactions. Section 23B transactions also include the provision of services and the sale of assets by a savings institution to an affiliate. In addition to the restrictions imposed by Sections 23A and 23B, Section 11 of the Home Owners' Loan Act prohibits a savings institution from (1) making a loan or other extension of credit to an affiliate, except for any affiliate which engages only in certain activities which are permissible for bank holding companies or (2) purchasing or investing in any stocks, bonds, debentures, notes or similar obligations of any affiliate, except for affiliates which are subsidiaries of the savings institution.

In addition, Sections 22(g) and (h) of the Federal Reserve Act place restrictions on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, executive officer or greater than 10% stockholder of a savings institution, and certain affiliated interests, may not exceed, together with all other outstanding loans to such person and affiliated interests, the savings institution's loans to one borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus). Section 22(h) also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons unless the loans are made pursuant to a benefit or compensation program that (1) is widely available to employees of the institution, and (2) does not give preference to any director, executive officer or principal stockholder, or certain affiliated interests, over other employees of the savings institution. Section 22(h) also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a savings institution to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers. At September 30, 2007, Home Federal Bank was in compliance with these restrictions.

Restrictions on Acquisitions. Except under limited circumstances, savings and loan holding companies are prohibited from acquiring, without prior approval of the Director of the Office of Thrift Supervision, (1) control of any other savings institution or savings and loan holding company or substantially all the assets thereof or (2) more than 5% of the voting shares of a savings institution or holding company thereof which is not a subsidiary. Except with the prior approval of the Director, no director or officer of a savings and loan holding company or person

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owning or controlling by proxy or otherwise more than 25% of such company's stock, may acquire control of any savings institution, other than a subsidiary savings institution, or of any other savings and loan holding company.

The Director of the Office of Thrift Supervision may only approve acquisitions resulting in the formation of a multiple savings and loan holding company which controls savings institutions in more than one state if: (1) the multiple savings and loan holding company involved controls a savings institution which operated a home or branch office located in the state of the institution to be acquired as of March 5, 1987; (2) the acquirer is authorized to acquire control of the savings institution pursuant to the emergency acquisition provisions of the Federal Deposit Insurance Act; or (3) the statutes of the state in which the institution to be acquired is located specifically permit institutions to be acquired by the state-chartered institutions or savings and loan holding companies located in the state where the acquiring entity is located (or by a holding company that controls such state-chartered savings institutions).

Federal Securities Laws. Upon completion of the offering, new Home Federal Bancorp's common stock will be registered in the same manner as Home Federal Bancorp's common stock is registered with the Securities and Exchange Commission under Section 12(b) of the Securities Exchange Act of 1934, as amended. We will remain subject to information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Sarbanes-Oxley Act of 2002. Following completion of the conversion, new Home Federal Bancorp, as a public company, will be subject to the Sarbanes-Oxley Act of 2002 to the same degree as Home Federal Bancorp, Inc. Sarbanes Oxley implements a broad range of corporate governance and accounting measures for public companies designed to promote honesty and transparency in corporate America and better protect investors from corporate wrongdoing. The Sarbanes-Oxley Act of 2002 was signed into law by President Bush on July 30, 2002 in response to public concerns regarding corporate accountability in connection with several accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules, requires the Securities and Exchange Commission and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the Securities and Exchange Commission and the Comptroller General.

TAXATION

Federal Taxation

General. Home Federal MHC, Home Federal Bancorp, new Home Federal Bancorp and Home Federal Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to Home Federal MHC, Home Federal Bancorp or Home Federal Bank. The income tax returns of Home Federal MHC, Home Federal Bancorp and Home Federal Bank have not been audited in the past seven years.

New Home Federal Bancorp anticipates that it will file a consolidated federal income tax return with Home Federal Bank commencing with the first taxable year after completion of the conversion. Accordingly, it is anticipated that any cash distributions made by new Home Federal Bancorp to its stockholders would be considered to be taxable dividends and not as a non-taxable return of capital to stockholders for federal and state tax purposes.

Method of Accounting. For federal income tax purposes, new Home Federal Bancorp will report its income and expenses on the accrual method of accounting and use a fiscal year ending on September 30 for filing its federal income tax return.

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Minimum Tax. The Internal Revenue Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, called alternative minimum taxable income. The alternative minimum tax is payable to the extent such alternative minimum taxable income is in excess of an exemption amount. Net operating losses can offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. Home Federal Bank has not been subject to the alternative minimum tax, nor does it have any such amounts available as credits for carryover.

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. This provision applies to losses incurred in taxable years beginning after August 6, 1997. At September 30, 2007, Home Federal Bank had no net operating loss carryforwards for federal income tax purposes.

Corporate Dividends-Received Deduction. New Home Federal Bancorp may eliminate from its income dividends received from Home Federal Bank as a wholly-owned subsidiary of new Home Federal Bancorp if it elects to file a consolidated return with Home Federal Bank. The corporate dividends-received deduction is 100%, or 80%, in the case of dividends received from corporations with which a corporate recipient does not file a consolidated tax return, depending on the level of stock ownership of the payer of the dividend. Corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct 70% of dividends received or accrued on their behalf.

State Taxation

Idaho. New Home Federal Bancorp and Home Federal Bank are subject to the general corporate tax provisions of the State of Idaho. Idaho's state corporate income taxes are generally determined under federal tax law with some modifications. Idaho taxable income is taxed at a rate of 7.6%. These taxes are reduced by certain credits, primarily the Idaho investment tax credit in the case of Home Federal Bank.

Item 1A. Risk Factors

Our business, and an investment in our common stock, involves risks. Summarized below are the risk factors which we believe are material to our business and could negatively affect our operating results, financial condition and the trading value of our common stock. Other risks factors, not currently known to us, or that we currently deem to be immaterial or unlikely, also could adversely affect our business. In assessing the following risk factors, you should also refer to the other information contained in this Annual Report on Form 10-K and our other filings with the Securities and Exchange Commission.

Our increased emphasis on commercial lending may expose us to increased lending risks.

Our business strategy is focused on the expansion of commercial real estate, construction and land development and commercial business lending. These types of lending activities, while potentially more profitable than single-family residential lending, are generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict. Collateral evaluation and financial statement analysis in these types of loans requires a more detailed analysis at the time of loan underwriting and on an ongoing basis. While economic trends in the Treasure Valley Region of Southwest Idaho have been relatively positive, a decline in real estate values, would reduce the value of the real estate collateral securing our loans and increase the risk that we would incur losses if borrowers defaulted on their loans. In addition, these loans generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Further, such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four family residential mortgage loans. Also, many of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. Accordingly, when there are defaults and losses on these types of loans, they are often larger on a per loan basis than those for permanent single-family or consumer loans. A secondary market for most types of commercial real estate and construction loans is not readily liquid, so we have less opportunity to mitigate credit risk by selling part or all of our interest in these loans.

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Our business strategy includes significant growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We intend to continue pursuing a significant growth strategy for our business. Our growth initiatives are based upon recruiting experienced personnel to lead such initiatives, and, accordingly, the failure to identify and retain such personnel would place significant limitations on our ability to execute our growth strategy. In addition, achieving our growth targets requires us to attract customers that currently have banking relationships with other financial institutions in our market, thereby increasing our share of the market. To the extent we expand our lending beyond our current market area, we could incur additional risk related to those new market areas. We cannot assure that we will be able to expand our market presence in our existing markets or successfully enter new markets or that any such expansion will not adversely affect our profitability. If we do not manage our growth effectively, we may not be able to achieve our business plan, and our business, profitability and prospects could be harmed. Also, if our growth occurs more slowly than anticipated or declines, our profitability could be materially adversely affected.

Our ability to successfully grow will depend on a variety of factors, including our ability to attract and retain experienced bankers, the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market area and our ability to manage our growth. While we believe we have the executive management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or that we will successfully manage our growth.

We are highly dependent on key individuals and a number of the members of the original senior management team that were in place at the time of our mutual holding company reorganization have either left Home Federal Bank or will be retiring in the next year and as a result there will be a new management team leading us going forward.

Consistent with our policy of focusing on select growth initiatives we are highly dependent on the continued services of a limited number of our executive officers and key management personnel. The loss of services of any of these individuals could have a material adverse impact on our operations because other officers may not have the experience and expertise to readily replace these individuals.

The senior management team of Home Federal Bancorp in place at the time of the mutual holding company reorganization had worked together for a number of years and, until recently, virtually all of them had worked for us for five years or more. Daniel L. Stevens who has been our President and Chief Executive Officer since 1995 has announced that he will retire on September 30, 2008 and has begun the transition to his retirement, including working with his replacement, Len E. Williams. Roger D. Eisenbarth who was our Senior Vice President and Chief Lending Officer since 1993 retired on October 15, 2007. Karen Wardwell who had been a Senior Vice President in Operations and Technology left in June 2007 and T. Blake Burgess our Corporate Secretary and Director of Accounting left in August 2007. On November 15, 2007, we announced that Lynn Sander, who has been our Executive Vice President of Consumer Banking, would transition from her current position to a new role as our Vice President and Community Relations/Development Manager. The transition period is anticipated to last through December 2007. Concurrently, we announced the hiring of Steven K. Eyre as our Executive Vice President of Consumer Banking. In addition, we are currently interviewing potential candidates for the chief financial officer position. Once this individual is hired, Robert A. Schoelkoph, our current Chief Financial Officer, will continue to serve as Treasurer and Secretary of Home Federal Bancorp and Home Federal Bank.

We believe we have in place qualified individuals to replace these individuals and have provided for an orderly transition. Changes in key personnel and their responsibilities may be disruptive to our business and could have a material adverse effect on our business, financial condition and profitability. Moreover, our anticipated growth is expected to place increased demands on our human resources and will require the recruitment of additional middle management personnel. The competition to hire experienced banking professionals is also intense. If we are unable to attract qualified banking professionals, our expansion plans could be delayed or curtailed and our business, financial condition, and profitability may be adversely affected.

Fluctuations in interest rates could reduce our profitability and affect the value of our assets.

Like other financial institutions, we are subject to interest rate risk. Our primary source of income is net interest income, which is the difference between interest earned on loans and investments and the interest paid on deposits

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and borrowings. We expect that we will periodically experience imbalances in the interest rate sensitivities of our assets and liabilities and the relationships of various interest rates to each other. Over any defined period of time, our interest-earning assets may be more sensitive to changes in market interest rates than our interest-bearing liabilities, or vice versa. In addition, the individual market interest rates underlying our loan and deposit products (*e.g.*, prime) may not change to the same degree over a given time period. In any event, if market interest rates should move contrary to our position, our earnings may be negatively affected. In addition, loan volume and quality and deposit volume and mix can be affected by market interest rates. Changes in levels of market interest rates could materially affect our net interest spread, asset quality, origination volume, and overall profitability.

Interest rates have recently been at historically low levels. However, since June 30, 2004, the U.S. Federal Reserve Board has increased its target for the federal funds rate 17 times, from 1.00% to 5.25%. On September 18, 2007 and October 31, 2007, the U.S. Federal Reserve Board reduced the federal fund rate 0.25% to the current rate of 4.50%. While these short-term market interest rates (which we use as a guide to price our deposits) have increased, longer-term market interest rates (which we use as a guide to price our longer-term loans such as one- to four-family residential mortgages) have not reacted to the same degree. This "flattening" of the market yield curve has had a negative impact on our interest rate spread and net interest margin to date. If short-term interest rates continue to rise, and if rates on our deposits and borrowings continue to reprice upwards faster than the rates on our long-term loans and investments, we would experience further compression of our interest rate spread and net interest margin, which would have a negative effect on our profitability. In a declining rate environment, we may be susceptible to the prepayment or refinancing of high rate loans, which could reduce our profitability. Further, we may have to redeploy loan proceeds received into lower yielding assets, which may also negatively impact our profitability

We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. In a changing interest rate environment, we may not be able to manage this risk effectively. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially harmed.

Changes in the level of interest rates also may negatively affect our ability to originate real estate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings. At September 30, 2007, we had $203.5 million in loans due after one year with fixed rates of interest, representing 42.0% of our total loan portfolio and 28.7% of our total assets. Our most recent "rate shock" analysis indicates that our net portfolio value would be more adversely affected by an increase in interest rates than by a decrease. See Item 8-"Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management and Market Risk."

Our business is subject to various lending risks which could adversely impact our results of operations and financial condition.

Our business strategy centers on the continued transition to commercial banking activities in order to expand our net interest margin. Consistent with this strategy, we are working to further reduce the percentage of our assets that are lower-yielding residential loans and mortgage-backed securities and to increase the percentage of our assets consisting of construction and land development, commercial and multi-family real estate and commercial business loans that have higher risk-adjusted returns. Our increasing focus on these types of lending will continue to increase our risk profile relative to traditional thrift institutions as we continue to implement our business strategy for the following reasons:

Our commercial and multi-family real estate loans involve higher principal amounts than other loans and repayment of these loans may be dependent on factors outside our control or the control of our borrowers. We originate commercial and multi-family real estate loans for individuals and businesses for various purposes which are secured by commercial properties. As of September 30, 2007, $133.8 million, or 27.6% and $6.9 million, or 1.4% (excluding commercial real estate construction loans of $15.5 million), of our total loan portfolio was secured by commercial and multi-family real estate property, respectively.

The credit risk related to commercial and multi-family real estate loans is considered to be greater than the risk related to one- to four-family residential or consumer loans because the repayment of commercial and multifamily real estate loans typically is dependent on the income stream of the real estate securing the loan as collateral and the successful operation of the borrower's business, which can be significantly affected by conditions in the real estate

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markets or in the economy. For example, if the cash flow from the borrower's project is reduced as a result of leases not being obtained or renewed, the borrower's ability to repay the loan may be impaired. In addition, many of our commercial and multi-family real estate loans are not fully amortizing and contain large balloon payments upon maturity. These balloon payments may require the borrower to either sell or refinance the underlying property in order to make the balloon payment.

If we foreclose on a commercial and multi-family real estate loan, our holding period for the collateral typically is longer than for one- to four-family residential mortgage loans because there are fewer potential purchasers of the collateral. Additionally, commercial and multi-family real estate loans generally have relatively large balances to single borrowers or related groups of borrowers. Accordingly, if we make any errors in judgment in the collectibility of our commercial and multi-family real estate loans, any resulting charge-offs may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios.

Our construction and land development loans are based upon estimates of costs and value associated with the complete project. We make land purchase, lot development and real estate construction loans to individuals and builders, primarily for the construction of residential properties and, to a lesser extent, commercial and multi-family real estate projects. We will originate these loans whether or not the collateral property underlying the loan is under contract for sale. Residential real estate construction loans include single-family tract construction loans for the construction of entry level residential homes. Over the last two years, we have significantly increased the amount of construction and land development loans in our loan portfolio, both in dollar amounts and as a percentage of our total loans. At September 30, 2007, $44.2 million or 9.13% of our total loan portfolio consisted of construction and land development loans.

Our construction and land development loans are based upon estimates of costs and values associated with the completed project, which may be inaccurate. Construction and land development lending involves additional risks when compared with permanent residential lending because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. These loans often involve the disbursement of substantial funds with repayment primarily dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. Our ability to continue to originate a significant amount of construction loans is dependent on the continued strength of the housing market in the Treasure Valley Region of Southwest, Idaho. Further, if we lost our relationship with one or more of our larger borrowers building in these counties or there is a decline in the demand for new housing in these counties, it is expected that the demand for construction loans would decline, our liquidity would substantially increase and our net income would be adversely affected.

Repayment of our commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value. At September 30, 2007, commercial business loans totaled $3.1 million of our total loan portfolio, however, we intend to significantly expand these types of loans as a percentage of our total loan portfolio. Our commercial business loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral consists of accounts receivable, inventory or equipment. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any exists. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from it customers. The collateral securing other loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could be reduced.

We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the

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repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and evaluate economic conditions. Management recognizes that significant new growth in loan portfolios, new loan products and the refinancing of existing loans can result in portfolios comprised of unseasoned loans that may not perform in a historical or projected manner. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover actual losses, resulting in additions to our allowance. Material additions to our allowance could materially decrease our net income. In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize additional loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities could have a material adverse effect on our financial condition and profitability.

If the value of real estate in the Boise metropolitan area were to decline materially, a significant portion of our loan portfolio could become under-collateralized, which could have a material adverse effect on us.

With substantially all of our loans secured by real property and concentrated in the State of Idaho, and specifically 44.5%, 27.1%, 3.9% and 3.1% respectively of our total loan portfolio concentrated in Ada, Canyon, Elmore and Gem counties, Idaho, respectively, a decline in local economic conditions could adversely affect the values of our real estate collateral. As a result, we have a greater risk of loan defaults and losses in the event of an economic downturn in our market area as adverse economic changes may have a negative effect on the ability of our borrowers to make timely repayment of their loans. Consequently, a decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are geographically diverse. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values to satisfy the debt, our financial condition and profitability could be adversely affected.

Because our loans are concentrated to borrowers in our market area, a downturn in the local economy or a decline in local real estate values could cause increases in nonperforming loans, which could hurt our profits.

Because the majority of our borrowers and depositors are individuals and businesses located and doing business in the Boise and surrounding metropolitan area, our success depends to a significant extent upon economic conditions in the Boise and surrounding metropolitan area. Adverse economic conditions in our market area could reduce our growth rate, affect the ability of our customers to repay their loans and generally affect our financial condition and results of operations. Conditions such as inflation, recession, unemployment, high interest rates, short money supply, scarce natural resources, international disorders, terrorism and other factors beyond our control may adversely affect our profitability. We do not have the ability of a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Any sustained period of increased payment delinquencies, foreclosures or losses caused by adverse market or economic conditions in the State of Idaho could adversely affect the value of our assets, revenues, profitability and financial condition. Moreover, we cannot give any assurance we will benefit from any market growth or favorable economic conditions in our primary market areas if they do occur.

The building of market share through our branching strategy could cause our expenses to increase faster than revenues.

We intend to continue to build market share through our branching strategy. We are planning four to six new branches that we intend to open within the next 24 months. There are costs involved in opening branches and new branches generally require a period of time to generate sufficient revenues to offset their costs, especially in areas in which we do not have an established presence. Accordingly, any new branch may negatively impact our earnings for some period of time until the branch reaches certain economies of scale. Our expenses could be further increased if we encounter delays in the opening of any of our new branches. Finally, there is a risk that our new branches will not be successful even after they have been established.

If external funds are not available, this could adversely impact our growth and future prospects.

We rely on deposits, brokered deposits, Federal Home Loan Bank advances and other borrowings to fund our operations. Although we have historically been able to replace maturing deposits if desired, no assurance can be given that we will be able to replace such funds in the future if our financial condition or market conditions were to

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change. Although we consider the sources of existing funds adequate for our current liquidity needs, we may seek additional brokered deposits or debt in the future to achieve our long-term business objectives. There can be no assurance additional funds, if sought, would be available to us or, if available, would be on favorable terms. If additional financing sources are unavailable or are not available on reasonable terms, our growth and future prospects could be adversely affected.

We face strong competition from other financial institutions, financial service companies and other organizations offering services similar to those offered by us, which could limit our growth and profitability.

We face direct competition from a significant number of financial institutions, many with a state-wide or regional presence, and in some cases a national presence, in both originating loans and attracting deposits. Competition in originating loans comes primarily from other banks, mortgage companies and consumer finance institutions that make loans in our primary market areas. We also face substantial competition in attracting deposits from other banking institutions, money market and mutual funds, credit unions and other investment vehicles.

In addition, banks with larger capitalization and non-bank financial institutions that are not governed by bank regulatory restrictions have large lending limits and are better able to serve the needs of larger customers. Many of these financial institutions are also significantly larger and have greater financial resources than us, have been in business for a long period of time and have established customer bases and name recognition.

We compete for loans principally on the basis of interest rates and loan fees, the types of loans we originate and the quality of service we provide to borrowers. Our ability to attract and retain deposits requires that we provide customers with competitive investment opportunities with respect to rate of return, liquidity, risk and other factors. To effectively compete, we may have to pay higher rates of interest to attract deposits, resulting in reduced profitability. If we are not able to effectively compete in our market area, our profitability may be negatively affected, potentially limiting our ability to pay dividends. The greater resources and deposit and loan products offered by some of our competitors may also limit our ability to increase our interest-earning assets.

We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

We are subject to extensive regulation which could adversely affect our business.

Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules and regulations applicable to it are subject to regular modification and change. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in this regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations or otherwise materially and adversely affect our business, financial condition, prospects or profitability.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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At September 30, 2007, we had 15 full service banking offices and two loan centers. Seven of the locations are owned, eight locations are leased and two locations are owned with the land being leased. At September 30, 2007, the net book value of our investment in properties and equipment was $11.2 million. The net book value of the data processing and computer equipment utilized by us at September 30, 2007 was $488,000.

The following table sets forth certain information relating to our offices as of September 30, 2007.

Location	Leased or Owned	Lease Expiration Date	Square Footage
ADMINISTRATIVE OFFICE			
500 12th Avenue South Nampa, Idaho 83651 (1) (2)	Owned	N/A	34,014
BRANCH OFFICES:			

Downtown Boise (2) 800 West State Street Boise, Idaho 83703	Leased	August 2010	3,500
Parkcenter (2) 871 East Parkcenter Boulevard Boise, Idaho 83706	Owned	N/A	4,500
Fairview (2) 10443 Fairview Avenue Boise, Idaho 83704	Building owned	June 2070	2,500
Meridian (2) 55 East Franklin Road Meridian, Idaho 83642	Owned	N/A	4,000
Caldwell (2) 923 Dearborn Caldwell, Idaho 83605	Owned	N/A	4,500
Mountain Home (2) 400 North 3rd East Mountain Home, Idaho 83647	Owned	N/A	2,600
Emmett (2) 250 South Washington Avenue Emmett, Idaho 83617	Owned	N/A	2,600
Boise (3) 8300 West Overland Road Boise, Idaho 83709	Leased	March 2011	695
Meridian (3) 4051 East Fairview Avenue Meridian, Idaho 83642	Leased	February 2011	695
Nampa (3) 2100 12th Avenue Road Nampa, Idaho 83651	Leased	August 2010	695
Caldwell (3) 5108 East Cleveland Boulevard Caldwell, Idaho 83605	Leased	August 2010	695

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Location	Leased or Owned	Lease Expiration Date	Square Footage
Garden City (3) 7319 West State Street Boise, Idaho 83714	Leased	August 2012	695
	Leased	December 2011	710

Idaho Center (3) 5875 E. Franklin Road Nampa, Idaho 83687			
Eagle (2) 100 E. Riverside Dr. Eagle, Idaho 83616	Owned	N/A	4,500
LOAN OFFICES:			
Blackeagle 1307 Maplegrove Boise, Idaho 83709	Leased	August 2010	4,310
Meridian 111 East 1st Street Meridian, Idaho 83642	Building owned Land leased	December 2009	2,600

(1) Includes home branch
(2) Drive-up ATM available
(3) Wal-Mart locations
We are in the process of constructing a branch in Nampa, Idaho with an estimated completion date of March 2008.

Item 3. Legal Proceedings

From time to time we are involved as a plaintiff or defendant in various legal actions arising in the normal course of business. We do not anticipate incurring any material liability as a result of such litigation, nor do we expect any material impact on our financial position, results of operations or cash flows.

In April 2006, the State of Idaho Department of Finance issued a cease and desist order to a former investment representative of Home Federal Bank with respect to marketing and selling unregistered securities in 2005. The investment representative was subsequently indicted and a civil action was brought against him by the Department of Finance. In February 2007, the investment representative pleaded guilty as part of a plea agreement that required repayment of $173,000 to the victims by August 30, 2007. Home Federal Bank was not named as a party in that action and no other actions have been filed against Home Federal Bank to date. Home Federal Bank's contract with its third-party broker-dealer includes an indemnity clause protecting Home Federal Bank against losses attributable to any non-deposit investment product transaction. The broker-dealer has been actively engaged in the investigation and in direct contact with the affected customers throughout the process. At this time, we do not believe the plea agreement will materially affect our financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 2007.

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PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Home Federal Bancorp's common stock is currently listed on the Nasdaq Global Market under the symbol "HOME," and there is an established market for such common stock. We have applied to have the common stock of new Home

Federal Bancorp listed for trading on the Nasdaq Global Select Market and assuming completion of the reorganization, we expect that the common stock will trade under the symbol "HOMED" for a period of 20 trading days after completion of the offering. Thereafter, new Home Federal Bancorp's trading symbol will revert to "HOME." We cannot assure you our common stock will be approved for listing on the Nasdaq Global Select Market.

As of September 30, 2007, there were approximately 5,756,000 shares of common stock issued to non-affiliates and approximately 633 stockholders of record, excluding persons or entities that hold stock in nominee or "street name" accounts with brokers.

The following table sets forth the high and low trading prices for Home Federal Bancorp common stock, as reported by The Nasdaq Stock Market LLC, and cash dividends paid for each quarter during the fiscal years ended September 30, 2007 and 2006.

Fiscal Year Ended September 30, 2007	High	Low	Cash Dividends Paid
Quarter Ended December 31, 2006	$17.91	$15.51	$0.055
Quarter Ended March 31, 2007	17.69	14.02	0.055
Quarter Ended June 30, 2007	17.80	14.53	0.055
Quarter Ended September 30, 2007	16.74	12.63	0.055

Fiscal Year Ended September 30, 2006	High	Low	Cash Dividends Paid
Quarter Ended December 31, 2005	$13.00	$12.10	$0.050
Quarter Ended March 31, 2006	13.67	12.16	0.055
Quarter Ended June 30, 2006	15.64	13.30	0.055
Quarter Ended September 30, 2006	15.74	13.63	0.055

Dividends

Home Federal Bancorp has paid quarterly cash dividends since the quarter ended June 30, 2005. We intend to continue to pay cash dividends on a quarterly basis assuming we complete the conversion and the offering. We currently expect that the level of cash dividends per share after the conversion and offering will be substantially consistent with the current amount of dividends per share paid by Home Federal Bancorp on its common stock as adjusted for the additional shares issued pursuant to the exchange ratio. For example, based on the current cash dividend of $0.055 per share and an assumed exchange ratio of 1.5369 at the maximum of the offering range, the cash dividend, if paid, would be approximately $.035 per share. However, the dividend rate and the continued payment of dividends will depend on a number of factors, including our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurance can be given that we will continue to pay dividends or that they will not be reduced in the future. Additionally, we can not guarantee that the amount of dividends that we pay after the conversion will be equal to the per share dividend amount that Home Bancorp's stockholders currently receive, as adjusted to reflect the exchange ratio.

Dividend payments by us may depend upon dividends received by the Company from the Bank. Under federal regulations, the amount of dividends the Bank may pay is dependent upon its capital position and recent net income. Generally, if the Bank satisfies its regulatory capital requirements, it may make dividend payments up to the limits prescribed in the OTS regulations. However, institutions that have converted to a stock form of ownership may not

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declare or pay a dividend on, or repurchase any of, its common stock if the effect thereof would cause the regulatory capital of the institution to be reduced below the amount required for the liquidation account which was established in connection with the mutual holding company reorganization or upon completion of our pending conversion. See "Item 1. Business - How We Are Regulated - Federal Regulation of Savings Institutions - Limitations on Dividends and Other Capital Distributions." During the year ended September 30, 2007, the Company paid dividends of $0.220 per share. Home Federal MHC waived the receipt of dividends paid on the shares it owns of the Company.

Equity Compensation Plan Information

The equity compensation plan information presented under subparagraph (d) in Part III, Item 12. of this Annual Report on Form 10-K is incorporated herein by reference.

Issuer Purchases of Equity Securities

As of September 30, 2007, the Company has no announced plan to repurchase shares of the Company's common stock. The Company did not purchase any of its outstanding common stock during the fourth quarter of the year ended September 30, 2007.

Performance Graph

The following graph compares the cumulative total stockholder return on the Company's common stock with the cumulative total return on the Russell 2000 Index and the SNL Thrift MHCs Index, a peer group index. The graph assumes that total return includes the reinvestment of all dividends, and that the value of the investment in Home Federal's common stock and each index was $100 on December 7, 2004, the initial day of trading for Home Federal's common stock. The initial offering price for Home Federal's common stock was $10.00 per share, and is the base amount used in the graph. The closing price of Home Federal's common stock on December 7, 2004, its initial day of trading, was $12.49.

	Period Ending					
Index	**12/07/04**	**09/30/05**	**03/31/06**	**09/30/06**	**03/31/07**	**09/30/07**
Home Federal Bancorp, Inc.	100.00	102.54	111.26	127.49	128.19	110.64
Russell 2000	100.00	107.84	124.26	118.54	131.60	133.16
SNL Thrift MHCs Index	100.00	99.54	111.05	126.45	136.86	131.90

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Item 6. Selected Financial Data

The following table sets forth certain information concerning the consolidated financial position and results of operations at and for the dates indicated and has been derived from our audited consolidated financial statements. The information below is qualified in its entirety by the detailed information included elsewhere herein and should be read along with "Item 7. Management's Discussion and Analysis of Financial

Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data."

	At September 30,				
	2007	2006	2005	2004	2003
FINANCIAL CONDITION DATA:			(in thousands)		
Total assets	$709,954	$761,292	$689,577	$743,867	$450,196
Investment securities, available for sale, at fair value	--	--	--	--	5,440
Mortgage-backed securities, available for sale	162,258	12,182	14,830	871	--
Mortgage-backed securities, held to maturity	--	183,279	180,974	96,595	24,425
Loans receivable, net (1)	480,118	503,065	430,944	392,634	372,629
Loans held for sale	4,904	4,119	5,549	3,577	5,066
Total deposit accounts	404,609	430,281	396,325	343,087	301,273
FHLB advances	180,730	210,759	175,932	122,797	96,527
Stockholders' equity	112,637	107,869	101,367	45,097	40,399

	Year Ended September 30,				
	2007	2006	2005	2004	2003
OPERATING DATA:			(in thousands, except share data)		
Interest and dividend income	$42,638	$39,913	$33,910	$27,512	$26,896
Interest expense	21,336	16,917	12,231	9,650	9,705
Net interest income	21,302	22,996	21,679	17,862	17,191
Provision for loan losses	409	138	456	900	615
Net interest income after provision for loan losses	20,893	22,858	21,223	16,962	16,576
Noninterest income	11,190	11,109	10,128	8,982	11,188
Noninterest expense	23,545	23,945	23,158	18,576	18,885
Income before income taxes	8,538	10,022	8,193	7,368	8,879
Income tax expense	3,267	3,810	2,910	2,684	3,423
Net income	$ 5,271	$ 6,212	$ 5,283	$ 4,684	$ 5,456
Earnings per common share:					
Basic	$0.36	$0.43	$0.36	nm(2)	nm(2)
Diluted	0.36	0.43	0.36	nm(2)	nm(2)

	At September 30,				
OTHER DATA:	2007	2006	2005	2004	2003
Number of:					
Real estate loans outstanding					
Deposit accounts					
Full service offices					

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(1) Net of allowance for loan losses, loans in process and deferred loan fees.

(2) Per share information is not meaningful. Home Federal Bancorp did not complete its minority stock offering until December 6, 2004 and did not have any outstanding shares prior to that date.

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	At or For the Year Ended September 30,				
	2007	2006	2005	2004	2003
KEY FINANCIAL RATIOS:					

Performance Ratios:					
Return on average assets (1)	0.71%	0.85%	0.82%	0.93%	1.23%
Return on average equity (2)	4.75	5.90	5.69	10.47	13.39
Dividend payout ratio (3)	23.52	19.72	10.68	--	--
Equity-to-assets ratio (4)	14.94	14.47	14.38	8.86	9.17
Interest rate spread (5)	2.40	2.79	3.15	3.55	3.93
Net interest margin (6)	3.03	3.33	3.57	3.84	4.19
Efficiency ratio (7)	72.46	70.21	72.81	69.20	66.55
Noninterest income/operating revenue(8)	34.4	32.6	31.8	33.5	39.4
Average interest-earning assets to average interest-bearing liabilities	120.71	122.32	121.07	113.62	110.96
Noninterest expense as a percent of average total assets	3.17	3.29	3.59	3.68	4.25
Capital Ratios:					
Tier 1 (core) capital (to tangible assets)	13.56	11.77	12.00	6.01	8.89
Total risk-based capital (to risk-weighted assets)	21.38	19.46	20.46	12.76	14.18
Tier 1 risk-based capital (to risk-weighted assets)	20.69	18.82	19.75	12.05	13.56
Asset Quality Ratios:					
Nonaccrual and 90 days or more past due loans as a percent of total loans	0.32	0.08	0.11	0.16	0.04
Nonperforming assets as a percent of total assets	0.29	0.05	0.15	0.10	0.03
Allowance for losses as a percent of gross loans receivable	0.62	0.59	0.67	0.67	0.49
Allowance for losses as a percent of nonperforming loans	195.17	766.49	602.97	432.30	1,393.23
Net charge-offs to average outstanding loans	0.04	0.01	0.05	0.03	0.04

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(1) Net income divided by average total assets.
(2) Net income divided by average equity.
(3) Dividends paid to stockholders, excluding shares held by Home Federal MHC, divided by net income.
(4) Average equity divided by average total assets.
(5) Difference between weighted average yield on interest-earning assets and weighted average rate on interest-bearing liabilities.
(6) Net interest margin, otherwise known as net yield on interest-earning assets, is calculated as net interest income divided by average interest-earning assets.
(8) Operating revenue is defined as the sum of net interest and noninterest income

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

We are a community-based financial institution primarily serving the Boise, Idaho and surrounding metropolitan area known as the Treasure Valley region of southwestern Idaho, including Ada, Canyon, Elmore and Gem counties, through our 15 full-service banking offices and two loan centers. We are in the business of attracting deposits from the public and utilizing those deposits to originate loans. We offer a wide range of loan products to meet the demands of our customers. Historically, lending activities have been primarily directed toward the origination of residential and commercial real estate loans. Real estate lending activities have been primarily focused on first mortgages on owner occupied, and one- to four-family residential properties. To an increasing extent in recent years, lending activities have also included the origination of residential and commercial construction and land development loans and home equity loans. While continuing our commitment to residential lending, management expects commercial lending, including commercial real estate, builder finance and commercial business lending, to become increasingly important activities for us. Consistent with this strategy, we appointed Mr. Williams as President of Home Federal Bank in September 2006 and expect him to succeed Mr. Stevens in October 2008. Mr. Williams has extensive experience in business related lending.

Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and investments, and interest expense, which is the interest that we pay on our deposits and borrowings. Changes in levels of interest rates affect our net interest income. The recent interest rate environment, which has caused short-term market interest rates to rise, while longer term interest rates have remained stable, has had a negative impact on our interest rate spread and net interest margin, which has reduced profitability and caused a decrease in our return on average assets and return on average equity. To offset the negative impact the current interest rate environment is having on our profitability, we are seeking to find means of increasing interest income while controlling expenses. We intend to diversity the mix of our assets by reducing the percentage of our assets that are lower-yielding residential loans and mortgage-backed securities and increasing the percentage of our assets consisting of construction and land development, commercial real estate, and commercial business loans that have higher risk-adjusted returns.

Our operating expenses consist primarily of compensation and benefits, occupancy and equipment, data processing, advertising, postage and supplies, professional services and, when applicable, deposit insurance premiums. Compensation and benefits consist primarily of the salaries and wages paid to our employees, payroll taxes, expenses for retirement and other employee benefits. Occupancy and equipment expenses, which are the fixed and variable costs of building and equipment, consist primarily of lease payments, taxes, depreciation charges, maintenance and costs of utilities.

Assuming the completion of our conversion, we anticipate that our operating expenses will increase as a result of the increased compensation expenses associated with the purchases of shares of common stock by our employee stock ownership plan in the offering, and awards under additional stock-based incentive plans we expect to propose in the future. While these additional expenses will negatively impact earnings, we do not expect them to completely offset the additional income we expect to receive by leveraging the proceeds from the offering.

Our results of operations may also be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

Operating Strategy

Our strategies center on our continued development into a full service, community-oriented bank. Our goal is to continue to enhance our franchise value and earnings through controlled growth in our banking operations, especially small business lending, while maintaining the community-oriented customer service and sales focus that has characterized our success to date. In order to be successful in this objective and increase stockholder value, we are committed to the following strategies:

Continue Growing in Our Existing Markets. We believe there is a large customer base in our market that is dissatisfied with the service received from larger regional banks. By offering quicker decision making in the delivery of banking products and services, offering customized products where appropriate, and providing customer

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access to our senior managers, we hope to distinguish ourselves from larger, regional banks operating in our market areas. Assuming completion of the conversion, our larger capital base resulting from the offering and our plans to diversify our product mix should allow us to compete more effectively against smaller banks.

Continue Our Disciplined Execution. We believe our success as a banking organization depends on a disciplined approach to originating loans and monitoring the performance of our loan portfolio. Despite our growth, we have consistently maintained strong asset quality. We believe our strong asset quality is the result of our underwriting standards, experienced loan officers and the strength of the local economy. In addition, many of the commercial loans we originate are to borrowers well known by our loan officers from existing and prior banking relationships.

Expanding Our Product Offerings. We intend to continue our emphasis on originating commercial lending products that diversify our loan portfolio by increasing the percentage of our assets consisting of higher-yielding construction and land development and commercial real estate and commercial business loans with higher risk adjusted returns, shorter maturities and more sensitivity to interest rate fluctuations, while still providing high quality loan products for single-family residential borrowers. We also intend to selectively add products to provide diversification of revenue sources and to capture our customer's full relationship. We intend to continue to expand our business by cross selling our loan and deposit products and services to our customers in order to increase our fee income.

Focus on our Branch Expansion. Branch expansion has played a significant role in our ability to grow loans, deposits and customer relationships. Since August 2000 we have opened eight branches in our existing markets. We are planning four to six new branches that we intend to open within the next 24 months. There is currently one new branch under construction in Nampa, Idaho and plans are being finalized for the construction of a new branch office in the Meridian, Idaho market in 2008. Our long-term strategy is to build two or three branches per year if appropriate sites can be identified and obtained. W e will also actively search for appropriate acquisitions to enhance our ability to deliver products and services in our existing markets and to expand into surrounding markets.

Increasing Our Core Transaction Deposits. A fundamental part of our overall strategy is to improve both the level and the mix of deposits that serve as a funding base for asset growth. By growing demand deposit accounts and other transaction accounts, we intend to reduce our reliance on higher-cost certificates of deposit and borrowings such as advances from the Federal Home Loan Bank of Seattle. In order to expand our core deposit franchise, we are focusing on introducing additional products and services to obtain money market and time deposits by bundling them with other consumer services. Business deposits are being pursued by the introduction of cash management products and by specific targeting of small business customers.

Hire Experienced Employees With a Customer Service Focus. Our ability to continue to attract and retain banking professionals with strong business banking and service skills, community relationships and significant knowledge of our markets is key to our success. We believe that by focusing on experienced bankers who are established in their communities, we enhance our market position and add profitable growth opportunities. We emphasize to our employees the importance of delivering exemplary customer service and seeking opportunities to build further relationships with our customers. Our goal is to compete by relying on the strength of our customer service and relationship banking approach.

Continuing an internal management culture which is driven by a focus on profitability, productivity and accountability for results and which responds proactively to the challenge of change. The primary method for reinforcing our culture is the comprehensive application of our "Pay for Performance" total compensation program. Every employee has clearly defined accountabilities and performance standards that tie directly or indirectly to our profitability. All incentive compensation is based on specific profitability measures, sales volume goals or a combination of specific profitability measures and individual performance goals. This approach encourages all employees to focus on our profitability and has created an environment that embraces new products, services and delivery systems.

Critical Accounting Policies

We use estimates and assumptions in our financial statements in accordance with generally accepted accounting principles. Management has identified several accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of our financial statements. These policies

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relate to the determination of the allowance for loan losses and the associated provision for loan losses, the fair market value of capitalized mortgage servicing rights, as well as deferred income taxes and the associated income tax expense. Management reviews the allowance for loan losses for adequacy on a quarterly basis and establishes a provision for loan losses that it believes is sufficient for the loan portfolio growth expected and the loan quality of the existing portfolio. The carrying value of the capitalized mortgage servicing rights is also assessed on a quarterly basis. Income tax expense and deferred income taxes are calculated using an estimated tax rate and are based on management's and our tax advisor's understanding of our effective tax rate and the tax code. These estimates are reviewed by our independent auditor on an annual basis and by our regulators when they examine Home Federal Bank.

Allowance for Loan Losses. Management recognizes that loan losses may occur over the life of a loan and that the allowance for loan losses must be maintained at a level necessary to absorb specific losses on impaired loans and probable losses inherent in the loan portfolio. Our Asset Liability Management Committee assesses the allowance for loan losses on a quarterly basis. The Committee analyzes several different factors including delinquency rates, charge-off rates and the changing risk profile of our loan portfolio, as well as local economic conditions such as unemployment rates, bankruptcies and vacancy rates of business and residential properties.

We believe that the accounting estimate related to the allowance for loan losses is a critical accounting estimate because it is highly susceptible to change from period to period, requiring management to make assumptions about future losses on loans. The impact of a sudden large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

Our methodology for analyzing the allowance for loan losses consists of specific allocations on significant individual credits and a general allowance amount, including a range of losses. The specific allowance component is determined when management believes that the collectibility of a specific large loan has been impaired and a loss is probable. The general allowance component relates to assets with no well-defined deficiency or weakness and takes into consideration loss that is inherent within the portfolio but has not been realized. The general allowance is determined by applying a historical loss percentage to various types of loans with similar characteristics and classified loans that are not analyzed specifically. Due to the imprecision in calculating inherent and potential losses, a range is added to the general allowance to provide an allowance for loan losses that is adequate to cover losses that may arise as a result of changing economic conditions and other factors that may alter our historical loss experience.

The allowance is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of actual loan charge-offs, net of recoveries.

The Company also estimates a reserve related to unfunded loan commitments. In assessing the adequacy of the reserve, the Company uses a similar approach used in the development of the allowance for loan losses. The reserve for unfunded loan commitments is included in other liabilities on the Consolidated Balance Sheet. The provision for unfunded commitments is charged to noninterest expense.

Mortgage Servicing Rights. Mortgage servicing rights represent the present value of the future loan servicing fees from the right to service loans for others. The most critical accounting policy associated with mortgage servicing is the methodology used to determine the fair value of capitalized mortgage servicing rights, which requires the development of a number of estimates, the most critical of which is the mortgage loan prepayment speeds assumption. The mortgage loan prepayment speeds assumption is significantly impacted by interest rates. In general, during periods of falling interest rates, the mortgage loans prepay faster and the value of our mortgage servicing asset declines. Conversely, during periods of rising rates, the value of mortgage servicing rights generally increases due to slower rates of prepayments. We perform a quarterly review of mortgage servicing rights for potential changes in value. This review may include an independent appraisal by an outside party of the fair value of the mortgage servicing rights.

Deferred Income Taxes. Deferred income taxes are reported for temporary differences between items of income or expense reported in the financial statements and those reported for income tax purposes. Deferred taxes are computed using the asset and liability approach as prescribed in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under this method, a deferred tax asset or liability is determined based on the enacted tax rates that will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in an institution's income tax returns. The

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deferred tax provision for the year is equal to the net change in the net deferred tax asset from the beginning to the end of the year, less amounts applicable to the change in value related to investments available for sale. The effect on deferred taxes of a change in tax rates is recognized as income in the period that includes the enactment date. The primary differences between financial statement income and taxable income result from depreciation expense, mortgage servicing rights, loan loss reserves and dividends received from the Federal Home Loan Bank of Seattle. Deferred income taxes do not include a liability for pre-1988 bad debt deductions allowed to thrift institutions that may be recaptured if the institution fails to qualify as a bank for income tax purposes in the future.

Comparison of Financial Condition at September 30, 2007 and September 30, 2006

General. Total assets decreased $51.4 million, or 6.7%, to $709.9 million at September 30, 2007 from $761.3 million at September 30, 2006. Mortgage-backed securities and loans, net decreased $33.2 and $22.9 million respectively and were the primary reason for the asset decline during the twelve-month period. Total liabilities decreased $56.1 million, or 8.6%, to $597.3 million. Federal Home Loan Bank advances and deposits decreased by $30.0 and $25.7 million respectively.

Assets. For the year ended September 30, 2007, total assets decreased $51.4 million. The increases and decreases were primarily concentrated in the following asset categories:

	Balance at September 30, 2007	Balance at September 30, 2006	Increase (decrease) Amount	Percent
		(dollars in thousands)		
Cash and amounts due from depository institutions	$ 20,588	$ 18,385	$ 2,203	12.0%
Mortgage-backed securities, available for sale	162,258	12,182	150,076	1,231.9
Mortgage-backed securities, held to maturity	--	183,279	(183,279)	(100.0)
Loans receivable, net of allowance for loan losses	480,118	503,065	(22,947)	(4.6)