HomeTrust Bancshares, Inc.
Form 10-K
September 15, 2014

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

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 2014

OR

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

For the Transition Period From __________________ To __________________

Commission File Number 1-35593

HOMETRUST BANCSHARES, INC.
(Exact Name of Registrant as Specified in its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	45-5055422 (I.R.S. Employer Identification No.)
10 Woodfin Street, Asheville, North Carolina (Address of Principal Executive Offices)	28801 (Zip Code)

Registrant’s Telephone Number, Including Area Code: (828) 259-3939

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act:

Preferred Share Purchase Rights

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

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

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

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

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

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

Large Accelerated Filer [ ]	Accelerated Filer [X]
Non-Accelerated Filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

As of September 5, 2014, there were issued and outstanding 20,512,248 shares of the Registrant's Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Registrant computed by reference to the closing price of such stock as of December 31, 2013, was $300.2 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the Registrant that such person is an affiliate of the Registrant.)

HOMETRUST BANCSHARES, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

		Page
	PART I	
Item 1	Business	4
Item 1A.	Risk Factors	47
Item 1B.	Unresolved Staff Comments	57
Item 2	Properties	57
Item 3	Legal Proceedings	57
Item 4	Mine Safety Disclosures	57
	PART II	
Item 5	Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	58
Item 6	Selected Financial Data	60
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	63
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	81
Item 8	Financial Statements and Supplementary Data	82
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	126
Item 9A.	Control and Procedures	126
Item 9B.	Other Information	127
	PART III	
Item 10	Directors, Executive Officers and Corporate Governance	128
Item 11	Executive Compensation	128
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	128
Item 13	Certain Relationships and Related Transactions, and Director Independence	128
Item 14	Principal Accountant Fees and Services	128
	PART IV	
Item 15	Exhibits and Financial Statement Schedules	129
	Signatures	130

Forward-Looking Statements

Certain matters in this Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of the words “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” “intends,” “plans,” “targets,” “potentially,” “probably,” “projects,” “outlook” or similar expressions or future or co verbs such as “may,” “will,” “should,” “would” and “could.” Forward-looking statements include statements with respect to o beliefs, plans, objectives, goals, expectations, assumptions and statements about future economic performance and projections of financial items. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated or implied by our forward-looking statements, including, but not limited to: the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; decreases in the secondary market for the sale of loans that we originate; results of examinations of us by the Office of the Comptroller of the Currency (“OCC”) or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including the effect of Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III; our ability to attract and retain deposits; increases in premiums for deposit insurance; management’s assumptions in determining the adequacy of the allowance for loan losses; our ability to control operating costs and expenses, especially costs associated with our operation as a public company; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risks associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; computer systems on which we depend could fail or experience a security breach; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we have acquired or may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; statements with respect to our intentions regarding disclosure and other changes resulting from the Jumpstart Our Business Startups Act of 2012 (“JOBS Act”); changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services; and the other risks detailed from time to time in our filings with the Securities and Exchange Commission, including this report on Form 10-K.

Any of the forward-looking statements are based upon management’s beliefs and assumptions at the time they are made. We undertake no obligation to publicly update or revise any forward-looking statements included in this report or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur and you should not put undue reliance on any forward-looking statements.

As used throughout this report, the terms “we”, “our”, “us”, “HomeTrust Bancshares” or the “Company” refer to HomeTr Bancshares, Inc. and its consolidated subsidiaries, including HomeTrust Bank (“HomeTrust”) unless the context indicates otherwise.

3

PART I

Item 1. Business

General

HomeTrust Bancshares, Inc., a Maryland corporation, was formed for the purpose of becoming the savings and loan holding company for HomeTrust Bank in connection with HomeTrust Bank's conversion from mutual to stock form, which was completed on July 10, 2012 (the "Conversion"). In connection with the Conversion, HomeTrust Bancshares issued an aggregate of 21,160,000 shares of common stock at an offering price of $10.00 per share for gross proceeds of $211.6 million. HomeTrust Bancshares received $208.4 million in net proceeds from the stock offering of which $104.2 million or 50% of the net proceeds were contributed to HomeTrust Bank upon completion of the Conversion. HomeTrust Bancshares' business activities generally are limited to passive investment activities and oversight of its investment in HomeTrust Bank. HomeTrust Bank is the eighth largest community bank headquartered in North Carolina based on asset size. Our headquarters is located in Asheville, North Carolina.

As of August 25, 2014, HomeTrust Bancshares converted from a savings and loan holding company to a bank holding company and is subject to regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve"), as a result of HomeTrust Bank converting from a federal savings bank to a national bank with the title, "HomeTrust Bank, National Association." HomeTrust Bank is regulated by the OCC, its primary federal regulator, and by the Federal Deposit Insurance Corporation ("FDIC"), the insurer of its deposits. HomeTrust Bank is a member of the Federal Home Loan Bank of Atlanta ("FHLB" or "FHLB of Atlanta"), which is one of the 12 regional banks in the Federal Home Loan Bank System ("FHLB System"). At June 30, 2014, HomeTrust Bank had total assets of $2.07 billion, total deposits of $1.58 billion and total stockholders' equity of $377.2 million.

HomeTrust Bank was originally chartered in 1926, in Clyde, North Carolina, as Clyde Building & Loan Association. We expanded our product offerings over the years and changed our name to Clyde Savings Bank. As we continued to grow beyond a single market area, on July 22, 2003, we rebranded by changing our name to HomeTrust Bank.

In 1996, HomeTrust Bank's board of directors and executive management implemented their vision of a new banking partnership which is branded as the HomeTrust Banking Partnership. Our mission has been to create a unique partnership, where hometown community banks could combine their financial resources to achieve our shared vision. Together, we can better respond to the continuous changes in the banking industry and offer all the products, services and technology needed to be relevant and competitive in all of our communities- while better preserving our hometown values and culture focused on building caring relationships with our employees, customers and communities while delivering on our brand promise that "It's Just Better Here."

Between fiscal years 1996 and 2011, five mutual saving banks joined the HomeTrust Banking Partnership. In addition, in 2007 we formed a de novo branch, known as the Rutherford County Bank, as another partner. Each now operates as a banking division of HomeTrust Bank with a local management team, board of directors and employees. HomeTrust Bank and its banking divisions, which we sometimes refer to as "partner banks", are set forth below:

- HomeTrust Bank, since 1926, Asheville, North Carolina
- Tryon Federal Bank, since 1935, Tryon, North Carolina
- Shelby Savings Bank, since 1905, Shelby, North Carolina
- Home Savings Bank, since 1909, Eden, North Carolina

- Industrial Federal Bank, since 1929, Lexington, North Carolina
- Cherryville Federal Bank, since 1912, Cherryville, North Carolina
- Rutherford County Bank, since 2007, Forest City, North Carolina

4

Brought together by shared values, trust and mutual respect, these partner banks have combined their resources to build a technology and operations center, develop new products and services for retail and business customers and seek to achieve organic growth by attracting new loan customers and related core deposits in the communities they serve. Through the HomeTrust Banking Partnership, we created a more efficient operating structure with greater capabilities to compete with larger, out of town competitors.

We intend to expand through organic growth and through the acquisition of other community financial institutions and/or bank branches. Our goal is to continue to enhance our franchise value and earnings through strategic, planned growth in our banking operations, while maintaining the community-focused, relationship style of exceptional customer service that has differentiated our brand and characterized our success to date. As part of this strategy, On July 31, 2013, we completed our first acquisition as a public company, by acquiring BankGreenville Financial Corporation (“BankGreenville”) with one office in Greenville, South Carolina. On May 31, 2014, we completed our acquisition of Jefferson Bancshares, Inc. (“Jefferson”), the holding company for Jefferson Federal Bank, with twelve branch office locations across East Tennessee. Additionally, on July 31, 2014, we completed our acquisition of Bank of Commerce with one office in Charlotte, North Carolina.

At June 30, 2014 we had 34 banking offices in North Carolina (including the Asheville metropolitan area and the “Piedmont” region), South Carolina (Greenville), and East Tennessee (including Kingsport/Johnson City, Knoxville, and Morristown).

Our principal business consists of attracting deposits from the general public and investing those funds, along with borrowed funds, in loans secured primarily by first and second mortgages on one- to four-family residences including home equity loans and construction and land/lot loans, commercial real estate loans, construction and development loans, and municipal leases. Municipal leases are secured primarily by a ground lease for a firehouse or an equipment lease for fire trucks and firefighting equipment to fire departments located throughout North and South Carolina. We also purchase investment securities consisting primarily of mortgage-backed securities issued by United States Government agencies and government-sponsored enterprises.

We offer a variety of deposit accounts for individuals, businesses and nonprofit organizations. Deposits are our primary source of funds for our lending and investing activities.

Recent Developments (activity after the fiscal year end)

On July 21, 2014, the HomeTrust Bank opened a commercial loan production office (“LPO”) in downtown Roanoke, Virginia.

On July 31, 2014, HomeTrust Bank completed its acquisition of Bank of Commerce. Bank of Commerce shareholders were paid $6.25 per share in cash consideration, representing approximately $10.1 million of aggregate deal consideration. In addition, all $3.2 million of Bank of Commerce’s preferred stock was redeemed. Bank of Commerce had total assets of $122.8 million, total deposits of $92.8 million, and stockholders’ equity of $12.3 million at June 30, 2014.

On August 13, 2014, the Bank received approval from the Office of the Comptroller of the Currency to purchase the branch banking operations of ten locations in Virginia and North Carolina from Bank of America Corporation. Six of the branches are located in Roanoke Valley, two in Danville, one in Martinsville, Virginia, and one in Eden, North Carolina. The acquisition will add approximately $504 million of deposits. In addition to the branches, the Bank will acquire a small amount of loans as part of the transaction. The Bank expects the purchase to be effective Monday, November 17, 2014, following satisfaction of customary closing conditions.

On August 25, 2014, HomeTrust Bank converted from a federal savings bank charter to a national bank charter. Additionally, HomeTrust Bancshares, Inc. converted to a bank holding company.

Market Areas

HomeTrust Bank operates in eight metropolitan statistical areas: Asheville, NC; Charlotte-Concord-Gastonia, NC-SC; Greenville-Anderson-Mauldin, SC; Johnson City, TN; Kingsport-Bristol-Bristol, TN-VA; Knoxville, TN; Morristown, TN and Roanoke, VA.

Asheville is known for its natural beauty and scenic surroundings. In addition, the Asheville metropolitan area has a vibrant cultural and arts community that parallels that of many larger cities in the United States and is home to a number of historical attractions, the most prominent of which is the Biltmore Estate, a historic mansion with gardens and a winery that draws approximately one million tourists each year. Due to its scenic location and diverse cultural and historical offerings, the Asheville metropolitan area has become a popular destination for tourists, which has historically positively impacted our local economy. In addition, affordable housing prices compared to many bigger cities, combined with the region's favorable climate, scenic surroundings and cultural attractions, have also made the Asheville metropolitan area an increasingly attractive destination for retirees seeking to relocate from other parts of the United States.

Not unlike many areas across the country, the recent economic recession has caused the Asheville metropolitan area to experience a decline in tourism and a reduced influx of retirees from other parts of the country. In addition, the recent economic recession has also resulted in increased job losses in the manufacturing services sector. Over the course of the past three years, the tourism industry in the Asheville metropolitan area has largely recovered, which has positively impacted the economy in a number of our local markets, such as Buncombe and Henderson Counties, which directly benefit from this industry. Based on information from the North Carolina Association of Realtors, the average existing home price in the Asheville metropolitan area in June 2014 was $290,530, a 12% increase from June 2013 and a 1% increase from June 2012. Existing home sales in the Asheville metropolitan area for June 2014 increased by 22% and 13% as compared to June 2013 and 2012, respectively. The average unemployment rate in the Asheville metropolitan area in 2013 was 6.3%, a decrease from 7.7% in 2012, and a decrease from 8.1% in 2011.

The Charlotte-Concord-Gastonia, NC-SC metropolitan area is located in both North and South Carolina, within and surrounding the city of Charlotte. Located in the Piedmont region of the Southeastern United States, the Charlotte metropolitan area is well known for its auto racing history (especially NASCAR). The region is headquarters to 8 Fortune 500 and 7 Fortune 1000 companies, including Bank of America, Duke Energy, Nucor Steel, and Lowe's Home Improvement Stores. Additional headquarters include Harris Teeter, Food Lion, Cheerwine and Sundrop. The Charlotte MSA is the largest in the Carolinas. Based on information from the North Carolina Association of Realtors, the average existing home price in the Charlotte-Concord-Gastonia, NC-SC metropolitan area in June 2014 was $257,854, an 8% increase from June 2013 and a 23.5% increase from June 2012. The Charlotte-Concord-Gastonia, NC-SC metropolitan area had a 2013 total population of 2.3 million, which is unchanged from 2012 and 2011. The average unemployment rate in the Charlotte-Concord-Gastonia, NC-SC metropolitan area in 2013 was 8.1%, a decrease from 9.3% in 2012, and a decrease from 10.7% in 2011.

The Greenville-Anderson-Mauldin, SC metropolitan area is located in upstate South Carolina, in the foothills of the Blue Ridge Mountains. The MSA had a 2013 total population of 850,047, an increase of 3.1% from 2010, and an increase of 14.6% from 2000. Major employment sectors for the MSA include services, manufacturing, and retail trade comprising 45.4%, 19.8%, and 12.6% of all jobs, respectively. The average unemployment rate in the Greenville-Anderson-Mauldin, SC MSA in 2013 was 6.2%, a decrease from 7.5% in 2012, and a decrease from 8.5% in 2011.

The Johnson City, TN metropolitan area is an economic hub largely fueled by East Tennessee State University and the medical "Med-Tech" corridor, anchored by the Johnson City Medical Center, Franklin Woods Community Hospital and affiliated facilities. The city's museums and historical sites include the Hands On! Museum and the Tipton-Haynes State Historic Site, which hosts the annual Bluegrass and Sorghum Making Festival, as well as other seasonal events. The average unemployment rate in the Johnson City, TN metropolitan area in 2013 was 7.8%, a slight increase from 7.6% in 2012, and a decrease from 8.6% in 2011.

The Kingsport-Bristol-Bristol, TN-VA metropolitan statistical area is home to the headquarters of Eastman Chemical Company. The major economic components in Kingsport are healthcare, manufacturing and educational services. The average unemployment rate in the Kingsport-Bristol-Bristol, TN-VA metropolitan statistical area in 2013 was 7.5%, a decrease from 7.6% in 2012, and a decrease from 8.3% in 2011.

The Knoxville, TN metropolitan area is located where the French Broad and Holston Rivers converge to form the Tennessee River. It is the largest city in East Tennessee and ranks third largest in the state. It is located in a broad valley between the Cumberland Mountains to the northwest and the Great Smoky Mountains to the southeast. The Knoxville area is frequently cited in national surveys as a quality place in which to live. The University of

Tennessee calls Knoxville home, with over 27,000 students, making an array of educational and cultural opportunities available to area residents. Affordable housing, health care costs below the national average, a low crime rate, and a pleasant climate with lakes and mountains nearby are factors which make Knoxville an attractive place to settle. Major employment sectors in the Knoxville area include government, education, and healthcare. The estimated population of the Knoxville, TN MSA in 2013 was 852,715, an increase of 21.0% from 2011. The average unemployment rate in the Knoxville, TN metropolitan area in 2013 was 6.9%, a slight increase from 6.7% in 2012, and a decrease from 7.5% in 2011.

The Morristown, TN metropolitan area includes facilities for numerous Fortune 500 companies including General Electric, International Paper, Alcoa (Howmet), Coca-Cola, Lear Corporation, Pepsi Bottling, NCR Corporation and Arvin Meritor, Inc. Morristown also includes the facilities of a number of international companies from countries such as Germany, Japan, Sweden, United Kingdom, Italy, Canada and France. Local industries include furniture manufacturing, poultry processing, aircraft parts, healthcare products and automotive parts. Agriculture including soybeans, corn, livestock and dairy are also significant economic components. Morristown's major job providing segments are healthcare, manufacturing, educational services, furniture and related products, transportation equipment, educational services, and accommodation and food services. The average unemployment rate in the Morristown, TN metropolitan area in 2013 was 9.5%, a decrease from 9.8% in 2012, and a decrease from 11.0% in 2011.

The Roanoke, VA metropolitan area is located in the Roanoke Valley of western Virginia in the midst of the Blue Ridge and Alleghany Mountains. This 1,874-square mile region is bordered on the west by West Virginia and along the east by the Blue Ridge Mountains. The area is strategically accessible to both the East Coast and Mid-West markets with Interstate 81 passing through the region, Interstate 64 directly north, and Interstate 77 nearby to the south. The Roanoke MSA is the transportation hub of the area with an integrated interstate highway, rail, and air transportation network. Roanoke has the most diverse economy in Virginia and is the cultural and business hub for western Virginia. The Roanoke MSA is home to several large regional banking offices, headquarters of the Fortune 500 retailer Advance Auto, and to several large advanced manufacturing operations, such as those owned by General Electric, ITT Exelis, Dynax America, and Optical Cable Corporation, among others. The Roanoke, VA MSA's major employment sectors include government, health care and social assistance, retail trade, and manufacturing. The average unemployment rate in the Roanoke, VA metropolitan area in 2013 was 5.8%, a decrease from 6.1% in 2012, and a decrease from 6.8% in 2011.

There are indications over the past year that the U.S. job market is improving. In June 2014, the national unemployment rate was 6.1%. Additionally in June 2014, the state unemployment rates for North Carolina, South Carolina, Tennessee and Virginia were 6.5%, 5.7%, 7.4%, and 5.4%, respectively. The national unemployment rate was 7.5% and 8.2% as of June 2013 and 2014, respectively. The state unemployment rates for North Carolina, South Carolina, Tennessee and Virginia as of June 2013 and 2014 were 8.6% and 9.6%, 8.3% and 9.5%, and 8.9% and 8.7%, and 6.0% and 6.2%, respectively.

Through the HomeTrust Banking Partnership, we have built a strong foundation in the communities we serve. The directors of each partner bank work with their management team and employees to support local nonprofit and community organizations. Each partner bank helps provide critical services to meet the financial needs of its customers and improve the quality of life for individuals and businesses in its community. Initiatives supporting the core business include affordable housing, education and financial education and building healthy communities. We support these initiatives through both financial and people resources in all of our communities. Collectively, partner bank employees volunteer thousands of hours annually in their local communities; from helping to build homes to teaching grade school youth how to start healthy savings habits, partner bank employees are making a positive difference in the lives of others every day.

Competition

We face strong competition in originating real estate and other loans and in attracting deposits. Competition in originating real estate loans comes primarily from other savings institutions, commercial banks, credit unions, life insurance companies and mortgage bankers. Other savings institutions, commercial banks, credit unions and finance companies provide vigorous competition in consumer lending. Commercial and industrial loan competition is primarily from local commercial banks. We believe that we compete effectively because we consistently deliver high-quality, personal service to our customers that results in a high level of customer satisfaction. We recently added significant technology resources to expand our capabilities and increase our efficiencies in residential lending.

We attract our deposits through our branch office system. Competition for deposits is principally from other savings institutions, commercial banks and credit unions located in the same communities, as well as mutual funds and other alternative investments. We believe that we compete for deposits by offering superior service and a variety of deposit accounts at competitive rates. We also have a highly competitive suite of cash management services, technology solutions, and internal support expertise specific to the needs of small to mid-sized commercial business customers. Based on the most recent branch deposit data provided by the FDIC, HomeTrust Bank was third, twentieth, twenty-fourth, eighth, twentieth, thirty-fifth, and second in share of deposits in the Asheville, NC; Charlotte-Concord-Gastonia, NC-SC; Greenville-Anderson-Mauldin, SC; Johnson City, TN; Kingsport-Bristol-Bristol, TN-VA; Knoxville, TN; and Morristown, TN Metropolitan Statistical Areas, respectively. HomeTrust Bank was fourth, seventeenth, and eighth in deposit share in the nine North Carolina, one South Carolina, and four Tennessee counties in which we operate, respectively. Finally, HomeTrust Bank had a deposit market share of 0.38%, 0.13%, and 0.34% of all banks and thrifts in North Carolina, South Carolina, and Tennessee, respectively.

Overall, we believe that we distinguish ourselves from larger, national banks operating in our market areas by offering quicker decision-making in the delivery of our products and services and competitive customer-driven products with excellent service and responsiveness, and by providing customer access to our senior managers. In addition, our larger capital base and product mix enable us to compete effectively against smaller banks. Our lending staff is experienced and knowledgeable about local lending in our markets, enabling us to build on the relationship-style banking that is our hallmark.

In addition, the way we create differentiation from our competition to fuel organic growth is by focusing on “HOW” we deliver our products and services. When we promise our customers that ‘It’s Just Better Here’, more than anything, it refers to the care and responsiveness our employees provide to each and every customer. Teamwork is key to our success. Many of our employees have been a part of the HomeTrust Banking Partnership for decades, while a significant number of employees have more recently brought their industry knowledge and expertise to us through internal growth and acquisition, reflecting their desire to be a part of a high performing team that works well together to make a difference for customers. Our culture includes relationship training and coaching with respect to banking and adding value to our customers. This “culture model” includes four key principles:

- making a difference for customers every day is fun and rewarding;
- success is built on relationships;
- we must continually add value to relationships with our customers and with each other; and
- we need to grow ourselves and our ability to make a difference and add value to relationships.

In implementing these principles, the directors, management team and employees of each partner bank work to support local nonprofit and community organizations and strive to provide critical services to meet the financial needs of its customers and improve the quality of life for individuals and businesses in our communities. We support affordable housing and education initiatives to help build healthy communities where our partner banks do business through both financial assistance and employees volunteering thousands of hours annually in their local communities. We believe the opportunity to stay close to our customers gives us a unique position in the banking industry as compared to our larger competitors and we are committed to continuing to build strong relationships with our employees, customers and communities for generations to come.

Lending Activities

The following table presents information concerning the composition of our loan portfolio in dollar amounts and in percentages (before deductions for deferred fees and allowances for losses) at the dates indicated.

	At June 30,								
	2014		2013		2012		2011		201(
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
	(Dollars in thousands)								
Retail consumer loans:									
One- to four-family	$660,200	44.08 %	$602,980	51.69 %	$620,486	50.36 %	$610,528	45.88 %	$509,464
Home equity	148,379	9.91	125,676	10.77	143,052	11.61	156,720	11.78	157,050
Construction and land/lots	59,249	3.96	51,546	4.42	53,572	4.35	68,199	5.12	79,007
Consumer	15,164	1.01	3,349	0.29	3,819	0.31	4,265	0.32	3,769
Total retail consumer loans	882,992	58.95	783,551	67.17	820,2929	66.63	839,712	63.10	749,290
Commercial loans:									
Commercial real estate	377,769	25.22	231,086	19.81	238,644	19.37	269,449	20.24	270,272
Construction and development	56,457	3.77	23,994	2.06	42,362	3.44	79,458	5.97	127,054
Commercial and industrial	74,435	4.97	11,452	0.98	14,578	1.18	19,250	1.45	20,117
Municipal leases	106,215	7.09	116,377	9.98	115,516	9.38	122,921	9.24	123,099
Total commercial loans	614,876	41.05	382,909	32.83	411,100	33.37	491,078	36.90	540,542
Total loans	1,497,868	100.00%	1,166,460	100.00%	1,232,029	100.00%	1,330,790	100.00%	1,289,832
Less:									
Deferred fees	(1,340)		(2,277)		(2,984)		(4,273)		(4,509)
Allowance for losses	(23,429)		(32,073)		(35,100)		(50,140)		(41,713)
Total loans receivable, net	$1,473,099		$1,132,110		$1,193,945		$1,276,377		$1,243,610

9

The following table shows the composition of our loan portfolio in dollar amounts and in percentages (before deductions for deferred fees and allowances for loan losses) at the dates indicated.

	At June 30,					
	2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Fixed-rate loans:						
Retail consumer loans:						
One- to four-family	$350,725	23.42 %	$340,399	29.18 %	$329,171	26.72 %
Home equity	-	-	711	0.06	201	0.02
Construction and land/lots	37,484	2.50	30,163	2.59	24,652	2.00
Consumer	14,911	1.00	3,327	0.29	3,797	0.31
Commercial loans:						
Commercial real estate	258,272	17.24	167,168	14.33	157,209	12.76
Construction and development	36,070	2.41	15,933	1.37	21,566	1.75
Commercial and industrial	40,606	2.71	8,732	0.75	8,660	0.70
Municipal leases	106,215	7.09	116,377	9.98	115,516	9.38
Total fixed-rate loans	844,283	56.37	682,810	58.54	660,772	53.63
Adjustable-rate loans:						
Retail consumer loans:						
One- to four-family	309,475	20.66	262,581	22.51	291,315	23.65
Home equity	148,379	9.91	124,965	10.71	142,851	11.59
Construction and land/lots	21,765	1.45	21,383	1.83	28,920	2.35
Consumer	253	0.02	22	-	22	-
Commercial loans:						
Commercial real estate	119,497	7.98	63,918	5.48	81,435	6.61
Construction and development	20,387	1.36	8,061	0.69	20,796	1.69
Commercial and industrial	33,829	2.26	2,720	0.23	5,918	0.48
Municipal leases	-	-	-	-	-	-
Total adjustable-rate loans	653,585	43.63	483,650	41.46	571,257	46.37
Total loans	1,497,868	100.00 %	1,166,460	100.00 %	1,232,029	100.00 %
Less:						
Deferred fees	(1,340)		(2,277)		(2,984)	
Allowance for losses	(23,429)		(32,073)		(35,100)	
Total loans receivable, net	$1,473,099		$1,132,110		$1,193,945	

The increase in loans during 2014 was primarily driven by the $329.3 million in loans obtained as part of our acquisition of Jefferson effective May 31, 2014. These loans are accounted for under Accounting Standards

Codification (“ASC”) Topic 310, Receivables, which requires purchased loans to be recorded at fair value on the acquisition dated with no separate allowance for loan losses. For further discussion of the Company’s acquisition accounting for loans, see Note 1-Summary of Significant Accounting Polices, Note 2-Business Combinations, and Note 4-Loans in the consolidated financial statements.

Loan Maturity. The following table sets forth certain information at June 30, 2014 regarding the dollar amount of loans maturing in our portfolio based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments. Loan balances do not include undisbursed loan proceeds, unearned discounts, unearned income and allowance for loan losses.

	Retail Consumer							
	One- to Four-Family		Home Equity		Construction and land/lots		Consumer	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due During Years Ending June 30,								
2015	$15,788	5.58 %	$1,577	4.55 %	$1,997	6.37 %	$1,876	3.15 %
2016	8,120	5.56	2,632	4.17	2,207	5.91	793	5.00
2017	9,009	5.75	4,838	3.96	1,412	6.66	1,114	5.55
2018 and 2019	30,156	5.14	21,139	4.10	1,646	6.53	2,809	4.80
2020 to 2023	99,745	4.08	61,603	4.37	4,016	5.83	7,499	4.67
2024 to 2028	106,033	4.16	44,174	3.94	11,309	5.88	276	4.50
2029 and following	391,349	4.14	12,416	2.87	36,662	4.09	797	14.14
Total	$660,200	4.25 %	$148,379	4.04 %	$59,249	4.82 %	$15,164	4.93 %

	Commercial Loans							
	Commercial Real Estate		Construction and Development		Commercial and Industrial		Municipal Leases(1)	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due During Years Ending June 30,								
2015	$51,314	5.22 %	$25,562	4.94 %	$37,811	4.62 %	$1,254	5.97 %
2016	22,574	5.36	4,942	4.64	4,614	4.54	1,534	6.95
2017	34,302	4.96	5,955	4.61	5,280	4.89	2,227	7.42
2018 and 2019	150,813	4.31	12,556	4.43	16,474	4.30	8,178	6.38
2020 to 2023	81,675	4.40	4,941	3.97	5,443	4.14	14,895	7.06
2024 to 2028	28,168	4.53	2,249	4.29	4,111	4.92	38,659	7.34
2029 and following	8,923	3.17	252	6.16	702	5.81	39,468	7.31
Total	$377,769	4.50 %	$56,457	4.68 %	$74,435	4.55 %	$106,215	7.19 %

Total	
Amount	Weighted Average

			Rate	
	(Dollars in thousands)			
Due During Years Ending June 30,				
2015	$	137,179	5.06	%
2016		47,416	5.24	
2017		64,137	5.09	
2018 and 2019		243,770	4.49	
2020 to 2023		279,817	4.43	
2024 to 2028		234,980	4.78	
2029 and following		490,569	4.29	
Total	$	1,497,868	4.56	%

(1) The weighted average rate of municipal loans is adjusted for a 34% federal tax rate since the interest income from these leases is tax exempt.

The total amount of loans due after June 30, 2015, which have predetermined interest rates is $771.9 million, while the total amount of loans due after such dates which have adjustable interest rates is $588.2 million.

Lending Authority. Residential real estate loans up to $750,000 may be approved at varying levels by certain officers of HomeTrust Bank. Our Chief Credit Officer may approve loans up to $5.0 million. Loan relationships in excess of $5.0 million in total credit exposure must be approved by our Senior Loan Committee. Loans outside our general underwriting guidelines generally must be approved by the Chief Credit Officer, Chief Banking Officer, a Senior Credit Officer, or Mortgage Fulfilment Manager for residential loans. Certain other bank officers may approve loans outside of our general underwriting guidelines on a limited basis and generally at a lower amount. Lending authority is also granted to certain other bank officers at lower amounts, generally up to $500,000 in total credit exposure for real estate secured loan relationships, provided the loan does not have a Criticized or Classified risk grade.

Beginning in fiscal year 2008, we implemented continuously more stringent underwriting policies and procedures related to residential lending as the economy and housing market continued to deteriorate, which included an increased emphasis on a borrower’s ongoing ability to repay a loan by requiring lower debt to income ratios, higher credit scores and lower loan to value ratios than our previous lending policies had required. As a result, the percentage of one-to four-family residential loans and home equity lines of credit made to borrowers with a credit score greater than 675 has increased from 78.6% during fiscal 2007 to 93.7% during fiscal 2014. This has also resulted in a reduced percentage of loans approved as compared to loan applications, from 83.9% during fiscal 2007 to 67.9% in fiscal 2014.

At June 30, 2014, the maximum amount under federal regulation that we could lend to any one borrower and the borrower’s related entities was approximately $43.2 million. Our five largest lending relationships are with commercial borrowers and totaled approximately $48.6 million in the aggregate, or 3.2% of our $1.50 billion net loan portfolio at June 30, 2014. The largest lending relationship at June 30, 2014 consisted of approximately $19.9 million in twenty-six loans. The largest loan in this relationship had an outstanding balance of $2.9 million as of June 30, 2014 and was secured by a non-owner-occupied retail property located in Buncombe County. The remaining relationship exposure primarily consisted of various non-owner-occupied commercial real estate properties located throughout Buncombe County, and owner-occupied residential property located in Buncombe County, NC. At June 30, 2014 these loans were performing in accordance with their original repayment terms.

The second largest lending relationship at June 30, 2014 was approximately $11.7 million to a local borrower in East Tennessee consisting of three loans, the largest of which is a $4.4 million loan secured by a nursing home located in Sacramento, California. The remaining loans are secured by a nursing home and medical facility also located in California. As of June 30, 2014, all loans in the relationship were performing in accordance with their original repayment terms.

The third largest lending relationship at June 30, 2014 was approximately $6.6 million consisting of two leases, the largest of which was a $3.5 million lease secured by two fire substations, two fire trucks and affiliated machinery and equipment, land, and two squad trucks. The remaining lease is secured by three fire station buildings, a heavy rescue vehicle, two fire trucks, and affiliated machinery and equipment. All collateral is located in Chatham County, NC. As of June 30, 2014 these leases were performing in accordance with their original repayment terms.

The fourth largest lending relationship at June 30, 2014 was approximately $5.2 million consisting of eight loans. The largest loan in the relationship was a $2.2 million loan secured by three non-owner-occupied retail buildings and land. The remaining loans are secured by additional liens on the above mentioned collateral, an owner-occupied residence, a multi-unit retail center, and cash. All properties securing the loans are located in Buncombe County, NC. At June 30, 2014 these loans were performing in accordance with their original repayment terms.

The fifth largest lending relationship at June 30, 2014 was $5.1 million, consisting of four loans secured by several hotels in Morristown, TN. As of June 30, 2014 these loans were performing in accordance with its original repayment terms.

At June 30, 2014, we had 48 additional relationships that exceeded $2.0 million, for a total of $145.0 million.

Retail Consumer Loans

One-to Four-Family Real Estate Lending. We originate loans secured by first mortgages on one-to four-family residences typically for the purchase or refinance of owner-occupied primary or secondary residences located primarily in our market areas. We originate one-to four-family residential mortgage loans primarily through referrals from real estate agents, builders and from existing customers. Walk-in customers are also important sources of loan originations. At June 30, 2014, $660.2 million, or 44.1%, of our loan portfolio consisted of loans secured by one-to four-family residences.

We originate both fixed-rate loans and adjustable-rate loans. We generally originate mortgage loans in amounts up to 80% of the lesser of the appraised value or purchase price of a mortgaged property, but will also permit loan-to-value ratios of up to 95%. For loans exceeding an 80% loan-to-value ratio we generally require the borrower to obtain private mortgage insurance covering us for any loss on the amount of the loan in excess of 80% in the event of foreclosure.

The majority of our one-to four-family residential loans are originated with fixed rates and have terms of ten to 30 years. At June 30, 2014 our one-to four-family residential loan portfolio included $350.7 million in fixed rate loans, of which $82.4 million were ten year fixed rate loans. We generally originate fixed rate mortgage loans with terms greater than fifteen years for sale to various secondary market investors on a servicing released basis. We also originate adjustable-rate mortgage, or ARM, loans which have interest rates that adjust annually to the yield on U.S. Treasury securities adjusted to a constant one-year maturity plus a margin. Most of our ARM loans are hybrid loans, which after an initial fixed rate period of one, five or seven years will convert to an annual adjustable interest rate for the remaining term of the loan. Our ARM loans have terms up to 30 years. Our pricing strategy for mortgage loans includes setting interest rates that are competitive with other local financial institutions and consistent with our asset/liability management objectives. Our ARM loans generally have a floor interest rate set at the initial interest rate, and a cap of two percentage points on rate adjustments during any one year and six percentage points over the life of the loan. As a consequence of using caps, the interest rates on these loans may not be as rate sensitive as is our cost of funds.

We generally retain ARM loans that we originate in our loan portfolio rather than selling them in the secondary market. The retention of ARM loans in our loan portfolio helps us reduce our exposure to changes in interest rates. There are, however, unquantifiable credit risks resulting from the potential of increased interest to be paid by the customer as a result of increases in interest rates. It is possible that during periods of rising interest rates the risk of default on ARM loans may increase as a result of repricing and the increased costs to the borrower. We attempt to reduce the potential for delinquencies and defaults on ARM loans by qualifying the borrower based on the borrower’s ability to repay the ARM loan assuming that the maximum interest rate that could be charged at the first adjustment period remains constant during the loan term. Another consideration is that although ARM loans allow us to increase the sensitivity of our asset base due to 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, we have no assurance that yield increases on ARM loans will be sufficient to offset increases in our cost of funds.

Most of our loans are written using generally accepted underwriting guidelines, and are readily saleable to Freddie Mac, Fannie Mae, or other private investors. Our real estate loans generally contain a “due on sale” clause allowing us to declare the unpaid principal balance due and payable upon the sale of the security property. The average size of our one-to four-family residential loans was $104,000 at June 30, 2014.

A portion of our loans are “non-conforming” because they do not satisfy credit or other requirements due to personal and financial reasons (i.e. divorce, bankruptcy, length of time employed, etc.), and other requirements, imposed by secondary market purchasers. Many of these borrowers have higher debt-to-income ratios, or the loans are secured by unique properties in rural markets for which there are no sales of comparable properties to support the value according to secondary market requirements. We may require additional collateral or lower loan-to-value ratios to reduce the risk of these loans. We believe that these loans satisfy a need in our local market areas. As a result, subject to market conditions, we intend to continue to originate these types of loans.

Property appraisals on real estate securing our one-to four-family loans in excess of $250,000 that are not originated for sale are made by a state-licensed or state-certified independent appraiser approved by the board of directors. Appraisals are performed in accordance with applicable regulations and policies. For loans that are less than $250,000, we may use the tax assessed value, broker price opinions, and/or a property inspection in lieu of an appraisal. We generally require title insurance policies on all first mortgage real estate loans originated. Homeowners, liability, fire and, if required, flood insurance policies are also required for one-to four-family loans. We do not originate permanent one-to four- family mortgage loans with a negatively amortizing payment schedule, and currently do not offer interest-only mortgage loans. We have not typically originated stated income or low or no documentation one-to four- family loans. At June 30, 2014, $3.3 million of our one-to four-family loans were interest-only.

At June 30, 2014, $78.0 million of our one-to four-family loan portfolio consisted of loans secured by non-owner occupied residential properties. Loans secured by residential rental properties represent a unique credit risk to us and, as a result, we adhere to specific underwriting guidelines for such loans. Additionally, we have established specific loan portfolio concentration limits for loans secured by residential rental property to prevent excessive credit risk that could result from an elevated concentration of these loans. A primary risk factor in non-owner occupied residential real estate lending is the consistency of rental income of the property. Payments on loans secured by rental properties often depend on the successful operation and management of the properties, as well as, the ability of tenants to pay rent. As a result, repayment of such loans may be subject to adverse economic conditions and unemployment trends, and may be sensitive to changes in the supply and demand for such properties. We consider and review a rental income cash flow analysis of the borrower and consider the net operating income of the property, the borrower’s expertise, credit history and profitability, and the value of the underlying property. We generally require collateral on these loans to be a first mortgage along with an assignment of rents and leases. We periodically monitor the performance and cash flow sufficiency of certain residential rental property borrowers based on a number of factors such as loan performance, loan size, total borrower credit exposure, and risk grade.

Home Equity Lines of Credit. Our home equity loans, consisting of adjustable-rate lines of credit, have been the second largest component of our retail loan portfolio over the past several years. At June 30, 2014, home equity lines of credit totaled $148.4 million or 9.9% of our loan portfolio of which $40.5 million was secured by a first lien on owner-occupied residential property. The lines of credit may be originated in amounts, together with the amount of the existing first mortgage, typically up to 85% of the value of the property securing the loan (less any prior mortgage loans). Home equity lines of credit are originated with an adjustable-rate of interest, based on The Wall Street Journal prime rate plus a margin. Currently, our home equity line of credit floor interest rate is dependent on the overall loan to value, and has a cap of 18% above the floor rate over the life of the loan. Home equity lines of credit generally have up to a fifteen-year draw period and amounts may be reborrowed after payment at any time during the draw period. Once the draw period has lapsed, the payment is amortized over a fifteen year period based on the loan balance at that time. At June 30, 2014, unfunded commitments on these lines of credit totaled $138.4 million.

Our underwriting standards for home equity lines of credit are similar to our one-to four-family loan underwriting standards and include a determination of the applicant’s credit history and an assessment of the applicant’s ability to meet existing obligations and payments on the proposed loan. The stability of the applicant’s monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income.

Home equity lines of credit generally entail greater risk than do one-to four-family residential mortgage loans where we are in the first lien position. For those home equity lines secured by a second mortgage, it is unlikely that we will be successful in recovering all or a portion of our loan proceeds in the event of default unless we are prepared to repay the first mortgage loan and such repayment and the costs associated with a foreclosure are justified by the value of the property.

Construction and Land/Lots. We have been an active originator of construction to permanent loans to homeowners building a residence. In addition, we originate land/lot loans predominately for the purchase or refinance of an improved lot for the construction of a residence to be occupied by the borrower. All of our construction and land/lot loans were made on properties located within our market area.

At June 30, 2014, our construction and land/lot loan portfolio was $59.2 million compared to $51.5 million at June 30, 2013 and $53.6 million at June 30, 2012. At June 30, 2014, unfunded loan commitments totaled $25.2 million, compared to $24.7 million at June 30, 2013. Construction-to-permanent loans are made for the construction of a one-to four-family property which is intended to be occupied by the borrower as either a primary or secondary residence. Construction-to-permanent loans are originated to the homeowner rather than the homebuilder and are structured to be converted to a first lien fixed or adjustable rate permanent loan at the completion of the construction phase. We do not originate construction phase only or junior lien construction-to-permanent loans. The permanent loan is generally underwritten to the same standards as our one-to four-family residential loans and may be held by us for portfolio investment or sold in the secondary market. At June 30, 2014 our construction-to-permanent loans totaled $30.4 million and the average loan size was $155,000. During the construction phase, which typically lasts for six to twelve months, we make 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 monthly draws during the construction period. Loan proceeds are disbursed based on a percentage of completion. Construction-to-permanent loans require payment of interest only during the construction phase. Prior to making a commitment to fund a construction loan, we require an appraisal of the property by an independent appraiser. Construction loans may be originated up to 95% of the cost or of the appraised value upon completion, whichever is less; however, we generally do not originate construction loans which exceed the lower of 80% loan to cost or appraised value without securing adequate private mortgage insurance or other form of credit enhancement such as the Federal Housing Administration or other governmental guarantee. We also require general liability, builder's risk hazard insurance, title insurance, and flood insurance (as applicable, for properties located or to be built in a designated flood hazard area) on all construction loans. Subject to market conditions, we expect this type of lending to continue and grow as the economy improves. At June 30, 2014, the largest construction to permanent loan had an outstanding balance of $690,000 and was performing according to the original repayment terms.

Included in our construction and land/lot loan portfolio are land/lot loans, which are typically loans secured by developed lots in residential subdivisions located in our market areas. We originate these loans to individuals intending to construct their primary or secondary residence on the lot within one year from the date of origination. This portfolio may also include loans for the purchase or refinance of unimproved land that is generally less than or equal to five acres, and for which the purpose is to commence the improvement of the land and construction of an owner-occupied primary or secondary residence within one year from the date of loan origination. We do not currently originate interest-only land loans or loans for the speculative purchase or investment in land or lots.

Land/lot loans are typically originated in an amount up to 70% of the lower of the purchase price or appraisal, are secured by a first lien on the property, for up to a 20 year term, require payments of interest only and are structured with an adjustable rate of interest on terms similar to our one-to four-family residential mortgage loans. At June 30, 2014, our land/lot loans totaled $29.2 million and the average land/lot loan size was $63,000. At June 30, 2014, the largest land/lot loan had an outstanding balance of $837,000 and was performing according to the original repayment terms.

Construction and land/lot lending affords us the opportunity to achieve higher interest rates and fees with shorter terms to maturity than the rates and fees generated by our one-to four-family permanent mortgage lending. Construction/permanent loans, however, generally involve a higher degree of risk than our one-to four-family permanent mortgage lending. If our appraisal of the value of the completed residence proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction and may incur a loss. Land/lot loans also pose additional risk because of the lack of income being produced by the property and the potential illiquid nature of the collateral. These risks can also be significantly impacted by supply and demand conditions.

Consumer Lending. Our consumer loans consist principally of automobile loans; however, we also originate loans secured by savings deposits and other consumer loans. At June 30, 2014, our consumer loans totaled $15.2 million, or 1.0% of our loan portfolio. We originate our consumer loans primarily in our market areas.

During the middle of fiscal year 2014, we added an indirect auto finance line of business, working with 19 select auto dealerships in western North Carolina and upstate South Carolina. The dealers are compensated via an industry standard commission, known as dealer reserve, on marked-up interest rates or from flat rate commission amounts. Our auto finance sales team uses purchased industry data to provide quantitative analysis of dealer sales history to target strong dealerships as the starting point of building long lasting, successful relationships. Local, quick decisions, broad hour coverage, personalized customer service, and prompt contract funding are keys to our success in this competitive line of business. Additionally, our process has been designed to integrate with existing dealership practices, utilize an industry leading decision engine, and leverage consumer credit data which provides our internal underwriters with the tools needed to respond quickly to loans meeting our credit policy criteria.

Working with strong dealerships within our market area provides us with the opportunity to actively deepen customer relationships through cross-selling opportunities, as 85% of our indirect auto finance loans are originated to noncustomers.

Indirect auto finance customers receive a fixed rate loan that is commensurate to their FICO credit score and consumer payment credit history. Our current portfolio is made up of approximately 50% new and 50% used car loans with an average FICO credit score of 740 and an average loan to value of 99%. The loan term is averaging 69 months which is comparable to national auto industry data. As of June 30, 2014, our consumer loans included approximately $9.1 million in loans originated through this new line of business.

Consumer loans generally have shorter terms to maturity, which reduces our exposure to changes in interest rates. In addition, management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

Our underwriting standards for consumer loans include a determination of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income.

Consumer loans generally entail greater risk than do one- to four-family residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciable assets, such as automobiles. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. As a result, consumer loan collections are dependent on the borrower's continuing financial stability and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Commercial Loans

Commercial Real Estate Lending. We originate commercial real estate loans, including loans secured by hotels, office space, office/warehouse, retail strip centers, vehicle dealerships, mini-storage facilities, medical and professional buildings, retail sites and churches located in our market areas. As of June 30, 2014, $377.8 million or 25.2% of our total loan portfolio was secured by commercial real estate property, including multifamily loans totaling $36.4 million, or 2.4% of our total loan portfolio. Of that amount, $166.3 million was identified as owner occupied commercial real estate, and the remainder of $211.5 million was secured by income producing, or non-owner-occupied commercial real estate. Commercial real estate 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 commercial or multi-family 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 outstanding loan size in our commercial real estate portfolio was $328,000 as of June 30, 2014. Given the Bank's recent acquisition and expansion into mid-metro markets, the Bank's commercial focus will be to develop and foster strong banking relationships with small to mid-size clients within our local market area. At June 30, 2014, the largest commercial real estate loan in our portfolio was to a local borrower in East Tennessee for $4.4 million, secured by a renovated nursing home located in Sacramento, California. Our largest multi-family loan as of June 30, 2014 was a brick townhouse complex on approximately 11 acres in Morristown, Tennessee with an outstanding balance of $4.5 million. Both of these loans were performing according to their original repayment terms as of June 30, 2014.

We offer both fixed and adjustable rate commercial real estate loans. Our commercial real estate mortgage loans generally include a balloon maturity of five years or less. Amortization terms are generally limited to 20 years. Adjustable rate based loans typically include a floor and ceiling interest rate and are indexed to The Wall Street

Journal prime rate, plus or minus an interest rate margin and rates generally adjust daily. The maximum loan to value ratio for commercial real estate loans is generally up to 80% on purchases and refinances. We require appraisals of all non-owner occupied commercial real estate securing loans in excess of $250,000, and all owner-occupied commercial real estate securing loans in excess of $500,000, performed by independent appraisers. For loans less than these amounts, we may use the tax assessed value, broker price opinions, and/or a property inspection in lieu of an appraisal.

If we foreclose on a commercial 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. Further, our commercial 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 collectability of our commercial real estate loans, any resulting charge-offs may be larger on a per loan basis than those incurred with our retail loan portfolios.

Construction and Development Lending. For many years, we had been an active originator of commercial real estate construction loans in our market areas to builders; however, as housing markets weakened in recent years we significantly reduced our origination of new construction and development loans. Our construction and development loans are predominately for the purchase or refinance of unimproved land held for future residential development, improved residential lots held for speculative investment purposes and for the future construction of speculative one-to-four-family or commercial real estate. We also originate construction loans for the development of business properties and multi-family dwellings.

Over the past five years, we have worked diligently to manage and reduce our exposure to construction and development loans. Through the BankGreenville and Jefferson mergers, we acquired $31.6 million in construction and development loans, which increased this portfolio to $56.5 million at June 30, 2014 compared to $24.0 million at June 30, 2013. At June 30, 2014, $11.1 million or 19.7% of our construction and development loans required interest-only payments. Unfunded commitments at June 30, 2014 totaled $1.9 million compared to $2.3 million at June 30, 2013 and $1.4 million at June 30, 2012. We have reduced the origination of new speculative construction and development loans related to residential properties to select borrowers with whom we have long-standing lending relationships. Currently, only the board of directors and certain senior officers are authorized to approve speculative one-to-four-family construction loans or loans for the development of land into residential lots.

Since fiscal 2009 we have not originated a significant amount of builder construction loans to fund the speculative construction of one- to four-family residential properties. These homes typically have an average price ranging from $200,000 to $500,000. Speculative construction loans are made to home builders and are termed “speculative” because the home builder does not have, at the time of loan origination, a signed contract with a home buyer who has a commitment for permanent financing with either us or another lender for the finished home. The home buyer may be identified either during or after the construction period, with the risk that the builder will have to fund the debt service on the speculative construction loan and finance real estate taxes and other carrying costs of the completed home for a significant period of time after the completion of construction, until a home buyer is identified. Loans to finance the construction of speculative single-family homes and subdivisions were generally offered to experienced builders in our primary market areas. All builders are qualified using 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. These loans require payment of interest-only during the construction phase. At June 30, 2014, loans for the speculative construction of single family properties totaled $5.1 million compared to $4.8 million at June 30, 2013 and $15.9 million at June 30, 2012. At June 30, 2014, we had one borrower with an aggregate outstanding loan balance of $1.5 million and secured by properties located in our market areas. At June 30, 2014, four speculative construction loans totaling $1.2 million were on non-accrual status.

Land acquisition and development loans are included in the construction and development loan portfolio, and represent loans made to developers for the purpose of acquiring raw land and/or for the subsequent development and sale of residential lots. Such loans typically finance land purchase and infrastructure development of properties (i.e. roads, utilities, etc.) with the aim of making improved lots ready for subsequent sale to consumers or builders for ultimate construction of residential units. The primary source of repayment is generally the cash flow from developer sale of lots or improved parcels of land, secondary sources and personal guarantees, which may provide an additional measure of security for such loans. Strong demand for housing led to loan growth in this category in recent years. However, the recent downturn in real estate has slowed lot and home sales within our market areas. This has impacted certain developers by lengthening the marketing period of their projects and negatively affecting borrower's liquidity and collateral values.

Land acquisition and development loans are generally secured by property in our primary market areas. In addition, these loans are secured by a first lien on the property, are generally limited up to 65% of the lower of the acquisition price or the appraised value of the land and generally have a maximum amortization term of 10 years with a balloon maturity of up to three years. We require title insurance and, if applicable, a hazardous waste survey reporting that the land is free of hazardous or toxic waste. At June 30, 2014, our land acquisition and development loans in our commercial construction and development portfolio totaled $39.5 million. The largest land acquisition and development loan had an outstanding balance at June 30, 2014 of $3.5 million and was performing according to its repayment terms. The subject loan is secured by property located in Morristown, TN. At June 30, 2014, 33 land acquisition and development loans totaling $5.1 million were on non-accrual status.

We have made construction loans for commercial development projects. These projects include multi-family, apartment, retail, office/warehouse and office buildings. We generally do not originate commercial real estate construction loans without a satisfactory permanent financing ("take-out") commitment or non-contingent arm's length purchase contract from a reputable lender or qualified purchaser. Commercial construction and construction to permanent loans are offered on an adjustable interest rate or fixed interest rate basis. Adjustable interest rate based loans typically include a floor and ceiling interest rate and are indexed to The Wall Street Journal prime rate, plus or minus an interest rate margin. The initial construction period is generally limited to twelve months from the date of origination, and amortization terms are generally limited to 20 years; however, amortization terms of up to 25 years may be available for certain property types based on elevated underwriting and qualification criteria. Construction to permanent loans generally include a balloon maturity of five years or less; however, balloon maturities of greater than five years are allowed on a limited basis depending on factors such as property type, amortization term, lease terms, pricing, or the availability of credit enhancements. Construction loan proceeds are disbursed commensurate with the percentage of completion of work in place, as documented by periodic internal or third party inspections. The maximum loan-to-value limit applicable to these loans is generally 80% of the appraised post-construction value. Disbursement of funds is at our sole discretion and is based on the progress of construction. At June 30, 2014 we had $14.9 million of non-residential construction loans included in our commercial construction and development loan portfolio.

We require all real estate securing construction and development loans to be appraised by an independent HomeTrust Bank-approved state-licensed or state-certified real estate appraiser. General liability, builder's risk hazard insurance, title insurance, and flood insurance (as applicable, for properties located or to be built in a designated flood hazard area) are also required on all construction and development loans.

Construction and development lending affords us the opportunity to achieve higher interest rates and fees with shorter terms to maturity than the rates and fees generated by its single-family permanent mortgage lending. Construction lending, however, generally involves a higher degree of risk than single-family permanent mortgage lending because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost of the project, as well as the time needed to sell the property at completion. The nature of these loans is such that they are generally more difficult to evaluate and monitor. 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. Land acquisition and development loans also pose additional risk because of the lack of income being produced by the property and the potential illiquid nature of the collateral. These risks can be significantly impacted by the supply and demand conditions. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property or refinance the indebtedness, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the 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.

Commercial and Industrial Loans. We typically offer commercial and industrial loans to small businesses located in our primary market areas. These loans are primarily originated as conventional loans to business borrowers, which include 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 investments. Loan terms vary from typically one to five years. The interest rates on such loans are either fixed rate or adjustable rate indexed to The Wall Street Journal prime rate plus a margin. Inherent with our extension of business credit is the business deposit relationship which frequently includes multiple accounts and related services from which we realize low cost deposits plus service and ancillary fee income.

Commercial and industrial loans typically have shorter maturity terms and higher interest rates 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 areas. At June 30, 2014, commercial and industrial loans totaled $74.4 million, which represented 5.0% of our total loan portfolio. We acquired $59.2 million in commercial and industrial loans from the Jefferson merger. Our commercial business lending policy includes credit file documentation and analysis of the borrower’s background, 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 and industrial 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 equipment, inventory or accounts receivable. 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.

Municipal Leases. We offer ground and equipment lease financing to fire departments located primarily throughout North Carolina and, to a lesser extent, South Carolina. Municipal leases are secured primarily by a ground lease in our name with a sublease to the borrower for a firehouse or an equipment lease for fire trucks and firefighting equipment. We originate these loans primarily through a third party that assigns the lease to us after we fund the loan. All leases are underwritten directly by us prior to funding. These leases are at a fixed rate of interest and may have a term to maturity of up to 20 years.

At June 30, 2014, municipal leases totaled $106.2 million, which represented 7.1% of our total loan portfolio. At that date, $56.3 million, or 54.3% of our municipal leases were secured by fire trucks, $17.4 million, or 16.8%, were secured by firehouses, $25.3 million or 24.3%, were secured by both, with the remaining $4.8 million or 4.6% secured by miscellaneous firefighting equipment. At June 30, 2014, the average outstanding municipal lease size was $322,000. These loans are our highest yielding loans since the interest earned is tax-exempt, and this portfolio has the lowest delinquency rate of any of our loan types.

Repayment of our municipal leases is often dependent on the tax revenues collected by the county/municipality on behalf of the fire department. Although a municipal lease does not constitute a general obligation of the county/municipality for which the county/municipality's taxing power is pledged, a municipal lease is ordinarily backed by the county/municipality's covenant to budget for, appropriate and pay the tax revenues to the fire department. However, certain municipal leases contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. In the case of a "non-appropriation" lease, our ability to recover under the lease in the event of non-appropriation or default will be limited solely to the repossession of the leased property, without recourse to the general credit of the lessee, and disposition or releasing of the property might prove difficult. At June 30, 2014, $3.0 million of our municipal leases contained a non-appropriation clause.

Loan Originations, Purchases, Sales, Repayments and Servicing

We originate both fixed-rate and adjustable-rate loans. Our ability to originate loans, however, is dependent upon customer demand for loans in our market area. Demand is affected by competition and the interest rate environment. During the past few years, we, like many other financial institutions, have experienced significant prepayments on loans due to the low interest rate environment prevailing in the United States. In periods of economic uncertainty, the ability of financial institutions, including us, to originate large dollar volumes of real estate loans may be substantially reduced or restricted, with a resultant decrease in interest income. We do not generally purchase loans or loan participations except for leases. We actively sell the majority of our long-term fixed-rate residential first mortgage loans to the secondary market at the time of origination and retain our adjustable rate residential mortgages and fixed rate mortgages with terms to maturity less than 15 years and other consumer and commercial loans. During the years ended June 30, 2014 and 2013 we sold $73.5 million and $227.1 million, respectively, in whole loans to the secondary market. We release the servicing on the loans we sell into the secondary market. Loans are generally sold on a non-recourse basis.

In addition to interest earned on loans and loan origination fees, we receive fees for loan commitments, late payments and other miscellaneous services. The fees vary from time to time, generally depending on the supply of funds and other competitive conditions in the market.

The following table shows our loan origination, purchase, sale and repayment activities for the periods indicated.

	Years Ended June 30,		
	2014	2013	2012
		(In thousands)	
Originations by type:			
Retail consumer:			
One- to four-family	$141,743	$347,925	$330,106
Home equity	30,030	13,716	17,782
Construction and land/lots	49,455	35,907	33,668
Consumer	12,892	2,123	2,963
Commercial loans:			
Commercial real estate	35,773	28,649	16,008
Construction and development	13,389	3,971	1,636
Commercial and industrial	18,960	4,013	2,993
Total loans originated	$302,242	$436,304	$405,156
Purchases:			
Commercial loans:			
Commercial real estate	$330	$205	$580
Municipal leases	15,814	23,540	16,428
Loans acquired through business combination	377,093	-	-
Total loans purchased or acquired	$393,237	$23,745	$17,008
Sales and repayments:			
Retail consumer:			
One- to four-family sales	$4,095	$227,117	$192,383
Home equity	117	141	95
Construction and land/lots	219	-	-
Consumer	27	-	-
Commercial loans:			
Commercial real estate	427	827	534
Construction and development	213	500	6,273
Total sales	5,098	228,585	199,285
Principal repayments	366,276	297,033	315,423
Total reductions	$371,374	$525,618	$514,708
Net increase (decrease)	$324,105	$(65,569)	$(92,544)

Asset Quality

Loan Delinquencies and Collection Procedure. When a borrower fails to make a required payment on a residential real estate loan, we attempt to cure the delinquency by contacting the borrower. A late notice is sent 15 days after the due date, and the borrower may also be contacted by phone at this time. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower and additional collection notices and letters are sent. When a loan is 90 days delinquent, we may commence repossession or a foreclosure action. Reasonable attempts are made to collect from borrowers prior to referral to an attorney for collection. In certain instances, we may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize their financial affairs, and we attempt to work with the borrower to establish a repayment schedule to cure the delinquency.

Delinquent consumer loans are handled in a similar manner, except that late notices are sent at 30 days after the due date. Our procedures for repossession and sale of consumer collateral are subject to various requirements under the applicable consumer protection laws, as well as, other applicable laws and the determination by us that it would be beneficial from a cost basis.

Delinquent commercial loans are initially handled by the loan officer in charge of the loan, who is responsible for contacting the borrower. The collections department also works with the commercial loan officers to see that the necessary steps are taken to collect delinquent loans, while ensuring that standard delinquency notices and letters are mailed to the borrower. No later than 90 days past the due date, a collection officer takes over the loan for further collection activities. In addition, we have a management loan committee that meets as needed and reviews past due and classified commercial real estate loans, as well as, other loans that management believes may present possible collection problems. If an acceptable workout of a delinquent commercial loan cannot be reached, we generally initiate foreclosure or repossession proceedings on any collateral securing the loan.

The following table sets forth our loan delinquencies by type, by amount and by percentage of type at June 30, 2014.

	Loans Delinquent For:											
	30-89 Days				90 Days and Over				Total Loans Delinquent 30 Days or More			
	Number	Amount	Percent of Loan Category		Number	Amount	Percent of Loan Category		Number	Amount	Percent of Loan Category	
	(Dollars in thousands)											
Retail consumer loans:												
One-to four-family	62	$4,929	0.75	%	64	$8,208	1.24	%	126	$13,137	1.99	%
Home equity	9	400	0.27	%	24	939	0.63	%	33	1,339	0.90	%
Construction and land/lots	6	508	0.86	%	5	122	0.20	%	11	630	1.06	%
Consumer	8	34	0.18	%	14	16	0.15	%	22	50	0.33	%
Commercial loans:												
Commercial real estate	2	306	0.08	%	19	6,729	1.78	%	21	7,035	1.86	%
Construction and development	5	1,165	2.06	%	14	3,789	6.71	%	19	4,954	8.77	%
Commercial and industrial	4	183	0.25	%	14	576	0.77	%	18	759	1.02	%
Municipal leases	0	-	-	%	0	-	-	%	0	-	-	%
Total	96	$7,525	0.50	%	154	$20,379	1.36	%	250	$27,904	1.86	%

Non-performing Assets. Non-performing assets were $62.7 million, or 3.02%, of total assets at June 30, 2014, compared to $80.3 million, or 5.07%, and $80.3 million, or 4.67%, of total assets at June 30, 2013 and 2012, respectively. Slow sales and excess inventory in most housing markets, along with declines in property values, have been the primary cause of the elevated levels of delinquencies and foreclosures in recent years, particularly for construction and development loans, which, including related real estate owned and other foreclosed assets (“REO”), represented $15.7 million, or 25.1% of our non-performing assets at June 30, 2014. At June 30, 2014, $23.9 million, or 50.9%, of total non-accruing loans were current on their loan payments.

Although economic conditions have improved since the recent recession resulting in a material decrease in our provision for loan losses in recent periods, the pace of recovery has been modest and uneven and ongoing stress in the economy, reflected in high unemployment, tepid consumer spending, modest loan demand and very low interest rates, will likely continue to create a challenging operating environment going forward. Nonetheless, over the past year we have significantly improved our risk profile by aggressively managing and reducing our problem assets, and our total construction and development loans outstanding have declined substantially. We continue to believe our level of non-performing assets is manageable, and we believe that we have sufficient capital and human resources to manage the collection of our one- to four-family residential construction and related land and land development loans and other non-performing assets in an orderly fashion. However, our operating results will continue to be adversely impacted until we are able to significantly reduce the level of our non-performing assets.

Loans are placed on nonaccrual status when the collection of principal and/or interest becomes doubtful or other factors involving the loan warrant placing the loan on nonaccrual status. Troubled debt restructurings are loans which have renegotiated loan terms to assist borrowers who are unable to meet the original terms of their loans. Such modifications to loan terms may include a lower interest rate, a reduction in principal, or a longer term to maturity. During the fiscal year ended June 30, 2014, 37 loans for $3.3 million were modified from their original terms and were identified in our asset quality reports as a troubled debt restructuring. This compares to 149 loans for $11.7 million that were modified in the fiscal year ended June 30, 2013. As of June 30, 2014, the outstanding balance of troubled debt restructured loans was $37.8 million, comprised of 296 loans as compared to $44.1 million comprised of 341 loans at June 30, 2013. Although economic conditions have improved since the recent recession resulting in a material decrease in our provision for loan losses in recent periods, the pace of recovery has been modest and uneven and ongoing stress in the economy, reflected in high unemployment, tepid consumer spending, modest loan demand and very low interest rates, will likely continue to create a challenging operating environment going forward.

Once a non-accruing troubled debt restructuring has performed according to its modified terms for six months and the collection of principal and interest under the revised terms is deemed probable, the troubled debt restructuring is removed from nonaccrual status. At June 30, 2014, $15.5 million of troubled debt restructurings were classified as nonaccrual, including $3.7 million of construction and development loans. As of June 30, 2014, $22.2 million or 58.7% of the restructured loans have a current payment status as compared to $14.0 million or 31.7% at June 30, 2013. Performing troubled debt restructurings increased $8.2 million, or 58.6%, from June 30, 2013 to June 30, 2014. The table below sets forth the amounts and categories of non-performing assets.

	At June 30,				
	2014	2013	2012	2011	2010
			(In thousands)		
Non-accruing loans:					
Retail consumer loans:					
One-to four-family	$17,967	$29,811	$27,659	$17,821	$9,076
Home equity	3,114	3,793	4,781	2,536	4,059
Construction and land/lots	688	2,172	3,437	2,766	2,549
Consumer	27	42	76	23	28
Commercial loans:					
Commercial real estate	16,941	21,149	15,008	8,197	12,097
Construction and development	6,270	10,172	12,583	16,620	18,005
Commercial and industrial	2,004	1,422	637	40	-
Municipal leases	-	-	-	474	486
Total non-accruing loans	47,011	68,561	64,181	48,477	46,300
REO assets:					
Retail consumer loans:					
One-to four-family	3,876	4,276	7,297	4,299	6,764
Home equity	627	642	-	32	268
Construction and land/lots	1,613	1,861	1,616	1,326	416
Consumer	-	-	-	-	-
Commercial loans:					
Commercial real estate	4,884	2,016	2,449	2,023	4,095
Construction and development	4,725	2,943	4,768	6,177	5,744
Commercial and industrial	-	-	-	-	-
Municipal leases	-	-	-	-	-
Total foreclosed assets	15,725	11,738	16,130	13,857	17,287
Total non-performing assets	$62,736	$80,299	$80,311	$62,334	$63,587
Total non-performing assets as a percentage of total assets	3.02 %	5.07 %	4.67 %	3.81 %	3.87 %

Performing Troubled Debt Restructurings	$22,179	$14,012	$20,588	$49,379	$28,655

For the years ended June 30, 2014 and 2013, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to $3.2 million and $3.6 million, respectively. The amount that was included in interest income on such loans was $8.2 million and $6.4 million, respectively. The amount included in interest income during fiscal years 2014 and 2013 exceeds the amount of foregone interest in fiscal year 2014 and 2013 due to interest payments received in fiscal year 2014 and 2013 that related to prior periods. At June 30, 2014, $50.4 million in non-accruing loans were individually evaluated for impairment; $1.1 million of the allowance for loan losses was allocated to these individually impaired loans at period-end. A loan is impaired when it is probable, based on current information and events, that we will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreements. Troubled debt restructurings are also considered impaired. Impaired loans are measured on an individual basis for individually significant loans based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

We record REO (acquired through a lending relationship) at fair value less cost to sell on a non-recurring basis. All REO properties are recorded at amounts which are equal to the lower of the related loan balance or the fair value of the properties based on independent appraisals (reduced by estimated selling costs) upon transfer of the loans to REO. From time to time, non-recurring fair value adjustments to REO are recorded to reflect partial write-downs based on an observable market price or current appraised value of property. The individual carrying values of these assets are reviewed for impairment at least annually and any additional impairment charges are expensed to operations. For the years ended June 30, 2014 and 2013, we recognized $581,000 and $1.2 million, respectively, of impairment charges related to these types of assets.

Within our non-accruing loans, as of June 30, 2014 we had a total of 7 nonaccrual lending relationships, each with aggregate loan exposures in excess of $1.0 million that collectively comprised $8.5 million, or 18.00% of our total non-accruing loans. The single largest relationship was $1.4 million at that date. Our non-accruing loan exposures in excess of $1.0 million are included in the following table (dollars in thousands):

Amount	Percent of Total Non-Accruing Loans		Collateral Securing the Indebtedness	Geographic Location
$1,372	2.92	%	1st Lien on 1-4 Family Residential Real Estate	Buncombe County, NC
1,368	2.91		1st Lien on 1-4 Family Residential Real Estate	Buncombe County, NC
1,357	2.89		1st Lien on Non Owner Occupied Medical Office Commercial Real Estate	Cleveland County, NC
1,144	2.43		1st Lien on Improved Land for Commercial Development	Buncombe County, NC
1,104	2.35		1st Lien on 1-4 Family Residential Real Estate	Polk County, NC
1,101	2.34		1st Lien on Non Owner Occupied RV Campground Commercial Real Estate	Sullivan County, TN
1,016	2.16		1st Lien on Owner Occupied Industrial Warehouse Commercial Real Estate	Hamblen County, TN
$8,462	18.00	%		

At June 30, 2014, we had $15.7 million of REO, the most significant of which is $2.9 million of commercial real estate located in Buncombe County. The second and third largest REO properties are undeveloped land in Anderson County, TN and Spartanburg County, SC with book values of $1.5 million and $877,000, respectively. At June 30, 2014 all other REO properties have individual book values of less than $654,000.

REO increased $4.0 million, or 34.0%, to $15.7 million at June 30, 2014 from $11.7 million at June 30, 2013. $3.3 million in REO was added in connection with the Jefferson acquisition and $2.1 million was added in connection with the BankGreenville acquisition. The proceeds from the sale of REO for the fiscal year ended June 30, 2014 decreased to $10.6 million compared to $11.1 million for the fiscal year ended June 30, 2013. This represented a decrease of $500,000 or 0.45%. The loss on sale and impairment of REO was $646,000 for the year ended June 30, 2014 compared to $951,000 for the year ended June 30, 2013. The decrease of $305,000, or 32.1%, was due to fewer REO write-downs during fiscal year 2014 offset by a $65,000 net loss on sales during fiscal year 2014 compared to a net gain on sales of $235,000 during fiscal year 2013.

In fiscal 2014, we liquidated $25.7 million in REO based on contractual loan values at the time of foreclosure, realizing $10.7 million in net proceeds, or 41.6%, of the foreclosed contractual loan balances. As of

June 30, 2014, the book value of our REO, expressed as a percentage of the related contractual loan balances at the time the properties were transferred to REO was 48.3%. During the year ended June 30, 2014, we disposed of $11.8 million of REO in construction and development, and realized $3.8 million, which equated to 32.2% of the related contractual loan balances at the time of foreclosure.

Other Loans of Concern. In addition to the nonperforming assets set forth in the table above, as of June 30, 2014, there were 616 accruing loans in special mention or worse totaling $77.8 million with respect to which known information about the possible credit problems of the borrowers have caused management to have concerns as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such items in the nonperforming asset categories. These loans have been considered in management's determination of our allowance for loan losses.

Classified Assets. Loans and other assets, such as debt and equity securities considered to be of lesser quality, are classified 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 obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions and values, "highly questionable and improbable." Assets 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 a problem asset as either substandard or doubtful, we may establish a specific allowance for loan losses in an amount deemed prudent by management. When we classify problem assets as "loss," we either establish a specific allowance for losses equal to 100% of that portion of the asset so classified or charge off such amount. Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by our bank regulators, which may order the establishment of additional general or specific loss allowances. Assets which do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories but possess weakness are designated by us as "special mention."

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 management's review of our assets, at June 30, 2014, our classified assets (consisting of $78.9 million of loans and $15.7 million of REO) totaled $94.6 million, or 4.6%, of our assets, of which $47.0 million was included in non-accruing loans. The aggregate amounts of our classified assets and special mention loans at the dates indicated (as determined by management), were as follows:

	At June 30,	
	2014	2013
	(In thousands)	
Classified Assets:		
Loss	$18	$43
Doubtful	5,967	9,159
Substandard – performing	31,374	36,710
– non-accruing	41,531	59,911
Total Classified Loans	78,890	105,823
Real Estate Owned	15,725	11,738
Total Classified Assets	94,615	117,561

Special Mention loans	45,927	41,402
Total Classified Assets and Special Mention Loans	$140,542	$158,963

Allowance for Loan Losses. The allowance for loan losses is a valuation account that reflects our estimation of the losses in our loan portfolio to the extent they are reasonable to estimate. The allowance is maintained through provisions for loan losses that are charged to earnings in the period they are established. We

25

charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. Recoveries on loans previously charged off are added back to the allowance.

Beginning in fiscal year 2009 and continuing throughout much of fiscal year 2012, housing markets deteriorated in many of our market areas and we experienced significantly higher levels of delinquencies and non-performing assets, primarily in our construction and land development loan portfolios. During this period, home and lot sales activity was exceptionally slow, causing stress on builders' and developers' cash flows and their ability to service debt, which was reflected in our increased non-performing asset totals. Further, property values generally declined, reducing the value of the collateral securing loans. In addition, other non-housing-related segments of the loan portfolio developed signs of stress and increasing levels of non-accruing loans as the effects of the recessionary economy became more evident and the pace of the recovery remained slow. As a result, during these periods our provision for loan losses was significantly higher than historical levels and our normal expectations. This higher than normal level of delinquencies and non-accruals also had a material adverse effect on operating income as a result of foregone interest revenues, increased loan collection costs and carrying costs and valuation adjustments for REO. During fiscal 2013 and 2014, home and lot sales activity and real estate values have modestly improved along with general economic conditions resulting in materially lower loan charge-offs. At June 30, 2014, our non-accruing loans decreased to $47.0 million as compared to $68.6 million at June 30, 2013. At June 30, 2014, $23.9 million, or 50.9%, of our total non-accruing loans were current on their loan payments as compared to $39.6 million, or 57.7%, of total non-accruing loans at June 30, 2013. During fiscal 2014 classified assets decreased $22.9 million, or 19.5%, to $94.7 million and delinquent loans (loans delinquent 30 days or more) declined $7.5 million, or 21.3%, to $27.9 million at June 30, 2014. Our provision for loan losses decreased during fiscal 2014 primarily due to improving asset quality due to lower non-accruing and classified loans, as well as, lower loan charge-offs. Although we continue to actively engage our borrowers in resolving remaining problem assets, future additions to our allowance for loan losses will be meaningfully influenced by the course of recovery from the recent economic recession.

There were $2.3 million and $4.1 million in net loan charge-offs during the fiscal years ended June 30, 2014 and 2013, respectively. During the year ended June 30, 2012 we charged-off specific reserves totaling $16.7 million related to impaired loans in accordance with regulatory guidance. In addition, during fiscal 2012 we reclassified $25.7 million of impaired loans from impaired loans still accruing interest to non-accruing loans pursuant to regulatory guidance. Generally, these loans were paying as agreed, except that liquidation of the underlying collateral has been significantly delayed as compared to the schedule contemplated in our initial underwriting. We evaluated the decline in collateral value for each of these loans and recorded no additional reserves related to these loans during the year ended June 30, 2013.

At June 30, 2014, our allowance for loan losses was $23.4 million, or 1.56%, of our total loan portfolio, and 49.8% of total non-accruing loans. Excluding the loans acquired from Jefferson and BankGreenville, which have been recorded at fair value with an appropriate credit discount, the allowance for loan losses was 2.08% of total loans at June 30, 2014. Management's estimation of an appropriate allowance for loan losses is inherently subjective as it requires estimates and assumptions that are susceptible to significant revisions as more information becomes available or as future events change. The level of allowance is based on estimates and the ultimate losses may vary from these estimates. Large groups of smaller balance homogeneous loans, such as residential real estate, small commercial real estate, home equity and consumer loans, are evaluated in the aggregate using historical loss factors adjusted for current economic conditions. Assessing the allowance for loan losses is inherently subjective as it requires making material estimates, including the amount and timing of future cash flows expected to be received. In the opinion of management, the allowance, when taken as a whole, reflects estimated loan losses in our loan portfolio.

During the year ended June 30, 2012, we revised our calculation for the allowance for loan losses to better reflect the risks within each loan class. These enhancements included: (1) dividing the land loan category previously used by HomeTrust Bank into two classes: retail consumer construction and land/lots loans and commercial construction and development loans; (2) adding new concentration adjustments for Cherryville and Industrial pre-combination loans; and (3) adjusting the qualitative factors on most of the loan classes to better reflect the overall risk in each class as a result of changes in the quantitative factors based on net historical charge-offs. In addition, as noted above we charged-off $16.7 million of specific reserves related to impaired loans in accordance with regulatory guidance which decreased the allowance for loan losses for loans individually evaluated for impairment as of June 30, 2012.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Future additions to the allowance for loan losses may be necessary if economic and other conditions in the future differ substantially from the current operating environment. In addition, the OCC as an integral part of its examination process periodically reviews our loan and foreclosed real estate portfolios and the related allowance for loan losses and valuation allowance for foreclosed real estate. The OCC may require the allowance for loan losses or the valuation allowance for foreclosed real estate to be increased based on its review of information available at the time of the examination, which would negatively affect our earnings.

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

	At June 30,									
	2014		2013		2012		2011		2010	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
	(Dollars in thousands)									
Allocated at end of period to:										
Retail consumer loans:										
One- to four-family	$10,527	44.08 %	$15,098	51.69 %	$14,557	50.36 %	$14,108	45.88 %	$9,188	39.50 %
Home equity	2,487	9.91	3,827	10.77	3,531	11.61	3,710	11.78	3,251	12.18
Construction and land/lots	2,420	3.96	2,890	4.42	2,955	4.35	5,507	5.12	2,177	6.13
Consumer	297	1.01	138	0.29	129	0.31	213	0.32	132	0.29
Commercial loans:										
Commercial real estate	5,439	25.22	6,583	19.81	6,454	19.37	9,427	20.24	10,668	20.95
Construction and development	1,241	3.77	2,399	2.06	6,253	3.44	15,599	5.97	14,648	9.85
Commercial and industrial	249	4.97	156	0.98	315	1.18	453	1.45	411	1.56
Municipal leases	769	7.09	982	9.98	906	9.38	1,123	9.24	1,238	9.54
Total loans	$23,429	100.00%	$32,073	100.00%	$35,100	100.00%	$50,140	100.00%	$41,713	100.00%

28

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

	Years Ended June 30,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Balance at beginning of period:	$32,073	$35,100	$50,140	$41,713	$24,996
Provision for (recovery of) loan losses	(6,300)	1,100	15,600	42,800	38,600
Charge-offs:					
Retail consumer loans:					
One- to four-family	3,269	1,855	9,355	3,572	8,450
Home equity	330	1,023	3,573	743	1,473
Construction and land/lots	804	770	3,690	2,510	3,275
Consumer	33	67	131	10	71
Total retail consumer loans	4,436	3,715	16,749	6,835	13,269
Commercial loans:					
Commercial real estate	413	1,624	3,083	6,736	4,978
Construction and development	377	1,568	12,770	21,629	3,574
Commercial and industrial	110	84	210	130	299
Municipal leases	-	-	-	-	-
Total commercial loans	900	3,276	16,063	28,495	8,851
Total charge-offs	5,336	6,991	32,812	35,330	22,120
Recoveries:					
Retail consumer loans:					
One-to four-family	875	617	120	189	156
Home equity	153	95	59	31	-
Construction and land/lots	625	137	183	1	-
Consumer	10	5	-	-	27
Total retail consumer loans	1,663	854	362	221	183
Commercial loans:					
Commercial real estate	120	252	1,202	581	13
Construction and development	1,051	1,656	516	48	-
Commercial and industrial	159	102	92	107	41
Municipal leases	-	-	-	-	-
Total commercial loans	1,330	2,010	1,810	736	54
Total recoveries	2,993	2,864	2,172	957	237
Net charge-offs	2,343	4,127	30,640	34,373	21,883
Balance at end of period	$23,429	$32,073	$35,100	$50,140	$41,713
Net charge-offs during the period to average loans outstanding during the period	0.19 %	0.34 %	2.34 %(1)	2.59 %	1.71 %
Net charge-offs during the period to average non-performing assets	3.40 %	4.99 %	38.73 %(1)	54.59 %	46.33 %

Allowance as a percentage of non-performing assets	49.84	%	39.94	%	43.71	%	80.44	%	65.60	%
Allowance as a percentage of total loans (end of period)	1.56	%(2)	2.75	%	2.85	%	3.77	%	3.23	%

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(1)In accordance with regulatory guidance, we charged-off $16.7 million related to impaired loans for which we previously had recorded valuation allowances.
(2) Excluding the loans acquired from Jefferson and BankGreenville, which have been recorded at fair value with an appropriate credit discount, the allowance for loan losses was 2.08% of total loans at June 30, 2014.

Investment Activities

Federal savings banks have the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, including mortgage-backed securities, callable agency securities, certain certificates of deposit of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements and federal funds. Subject to various restrictions, federal savings banks may also invest their assets in investment grade commercial paper and corporate debt securities and mutual funds whose assets conform to the investments that the institution is otherwise authorized to make directly. See "How We Are Regulated - HomeTrust Bank" for a discussion of additional restrictions on our investment activities.

Our chief executive officer and chief financial officer have the basic responsibility for the management of our investment portfolio, subject to the direction and guidance of the board of directors. These officers consider various factors when making decisions, including the marketability, maturity and tax consequences of the proposed investment. The maturity structure of investments will be affected by various market conditions, including the current and anticipated slope of the yield curve, the level of interest rates, the trend of new deposit inflows, and the anticipated demand for funds via deposit withdrawals and loan originations and purchases.

The general objectives of our investment portfolio are to provide liquidity when loan demand is high, to assist in maintaining earnings when loan demand is low and to optimize earnings while satisfactorily managing risk, including credit risk, reinvestment risk, liquidity risk and interest rate risk. At June 30, 2014, our investment portfolio consisted primarily of U.S. government agency securities and mortgage-backed securities all held as available for sale. We currently do not have any investments held to maturity or for trading.

These securities are of high quality, possess minimal credit risk and have an aggregate market value in excess of total amortized cost as of June 30, 2014. For more information, please see Note 3 of the Notes to Consolidated Financial Statements contained in Item 8 and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset/Liability Management" in this report.

We do not currently participate in hedging programs, stand-alone contracts for interest rate caps, floors or swaps, or other activities involving the use of off-balance sheet derivative financial instruments and have no present intention to do so. Further, we do not invest in securities which are not rated investment grade.

As a member of the FHLB of Atlanta, we had $3.7 million in stock of the FHLB of Atlanta at June 30, 2014. For the years ended June 30, 2014 and 2013, we received $79,000 and $83,000, respectively, in dividends from the FHLB of Atlanta.

The following table sets forth the composition of our securities portfolio and other investments at the dates indicated. All securities at the dates indicated have been classified as available for sale. At June 30, 2014, our securities portfolio did not contain securities of any issuer with an aggregate book value in excess of 10% of our equity capital, excluding those issued by the United States government or its agencies or United States government sponsored entities.

	At June 30,					
	2014		2013		2012	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
	(In thousands)					
Securities available for sale:						
U.S. government and federal agency	$38,085	$38,093	$6,000	$6,002	$6,102	$6,102

Mortgage-backed securities	111,430	111,411	18,794	18,748	24,958	25,233
Municipal bonds	15,951	16,220	-	-	-	-
Corporate bonds	2,912	3,025	-	-	-	-
Total securities available for sale	168,378	168,749	24,794	24,750	31,060	31,335
Federal Home Loan Bank stock	3,697	3,697	1,854	1,854	6,300	6,300
Total securities	$172,075	$172,446	$26,648	$26,604	$37,360	$37,635

30

The composition and contractual maturities of the investment securities portfolio as of June 30, 2014, excluding Federal Home Loan Bank stock, are indicated in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur.

	June 30, 2014										
	1 year or less		Over 1 year to 5 years		Over 5 to 10 years		Over 10 years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Fair Value
	(Dollars in thousands)										
Securities available for sale:											
U.S. government and federal agency	$8,021	0.26%	$18,215	0.79%	$10,918	1.96%	$931	3.66%	$38,085	1.09%	$38,093
Mortgage-backed securities	-	- %	1,578	1.98%	9,732	1.45%	100,120	1.88%	111,430	1.85%	111,411
Municipal bonds	534	0.81%	2,358	1.70%	8,921	3.31%	4,138	3.18%	15,951	2.94%	16,220
Corporate bonds	-	- %	428	2.65%	2,484	3.35%	-	- %	2,912	3.25%	3,025
Total investment securities	$8,555	0.29%	$22,579	1.00%	$32,055	2.27%	$105,189	1.95%	$168,378	1.80%	$168,749

31

Sources of Funds

General. Our sources of funds are primarily deposits, borrowings, payments of principal and interest on loans and funds provided from operations.

Deposits. We offer a variety of deposit accounts with a wide range of interest rates and terms to both consumers and businesses. Our deposits consist of savings, money market and demand accounts and certificates of deposit. We solicit deposits primarily in our market areas. At June 30, 2014, 2013 and 2012, we had $14.9 million, $16.6 million, and $34.6 million in brokered deposits, respectively, which included certificates of deposit made under our participation in the Certificate of Deposit Account Registry Service® ("CDARS"). Through CDARS, we can provide a depositor the ability to place up to $50.0 million on deposit with us while receiving FDIC insurance on the entire deposit by placing customer funds in excess of the FDIC deposit limits with other financial institutions in the CDARS network. In return, these financial institutions place customer funds with us on a reciprocal basis. As of June 30, 2014, core deposits, which we define as our non-certificate or non-time deposit accounts, represented approximately 59.9% of total deposits.

We primarily rely on competitive pricing policies, marketing, and customer service to attract and retain deposits. The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates and competition. The variety of deposit accounts we offer has allowed us to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. We have become more susceptible to short-term fluctuations in deposit flows as customers have become more interest rate conscious. We try to manage the pricing of our deposits in keeping with our asset/liability management, liquidity and profitability objectives, subject to competitive factors. Based on our experience, we believe that our deposits are relatively stable sources of funds. Despite this stability, our ability to attract and maintain these deposits and the rates paid on them has been and will continue to be significantly affected by market conditions.

A large percentage of our deposits are in certificates of deposit. Our liquidity could be reduced if a significant amount of certificates of deposit, maturing within a short period of time, were not renewed. Historically, a significant portion of the certificates of deposit remain with us after they mature and we believe that this will continue. However, the need to retain these time deposits could result in an increase in our cost of funds.

The following table sets forth our deposit flows during the periods indicated.

	Years Ended June 30,		
	2014	2013	2012
Beginning balance	$ 1,154,750	$ 1,466,175	$ 1,264,585
Deposits acquired from business combination	466,463	-	-
Net deposits (withdrawals)	(43,430)	(318,392)	191,199
Interest credited	5,264	6,967	10,391
Ending balance	$ 1,583,047	$ 1,154,750	$ 1,466,175
Net increase (decrease)	$ 428,297	$ (311,425)	$ 201,590
Percent increase (decrease)	37.09%	(21.24)%	15.94%

The following table sets forth the dollar amount of savings deposits in the various types of deposit programs offered by us at the dates indicated.

	At June 30,					
	2014		2013		2012	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)					
Transactions and Savings Deposits:						
Interest-bearing checking	$ 295,386	18.66 %	$ 195,659	16.94 %	$ 173,574	11.84 %
Noninterest-bearing checking	123,285	7.79	60,828	5.27	57,109	3.90
Savings	175,974	11.12	82,158	7.11	347,669 (1)	23.71
Money market	354,247	22.38	275,718	23.88	257,865	17.59
Total non-certificates	$ 948,892	59.94 %	$ 614,363	53.20 %	$ 836,217	57.03 %
Certificates:						
0.00-0.99%	$ 480,437	30.35 %	$ 351,093	30.40 %	$ 320,476	21.86 %
1.00-1.99%	107,730	6.81	126,914	10.99	205,728	14.03
2.00-2.99%	33,660	2.13	44,245	3.83	75,766	5.17
3.00-3.99%	7,900	0.50	10,815	0.94	13,688	0.93
4.00-4.99%	4,428	0.28	6,498	0.56	13,263	0.90
5.00% and over	-	-	822	0.07	1,037	0.07
Total certificates	$ 634,155	40.06 %	$ 540,387	46.80 %	$ 629,958	42.97 %
Total deposits	$ 1,583,047	100.00 %	$ 1,154,750	100.00 %	$ 1,466,175	100.00 %

(1) Includes $264.2 million of deposits held in escrow pending the close of the Conversion.

33

The following table shows rate and maturity information for our certificates of deposit at June 30, 2014.

	0.00-0.99%	1.00-1.99%	2.00-2.99%	3.00-3.99%	4.00-4.99%	5.00% or greater	Total	Percent of Total
	(Dollars in thousands)							
Certificate accounts maturing in quarter ending:								
September 30, 2014	$ 213,322	$ 18,993	$ 2,408	$ 102	$ 13	$ -	$ 234,838	37.03%
December 31, 2014	68,813	16,026	2,775	91	-	-	87,705	13.83
March 31, 2015	57,321	10,826	2,383	-	-	-	70,530	11.12
June 30, 2015	49,413	4,902	3,688	-	-	-	58,003	9.15
September 30, 2015	21,411	6,578	5,314	578	-	-	33,881	5.34
December 31, 2015	16,566	2,419	10,057	-	-	-	29,042	4.58
March 31, 2016	9,099	5,731	3,419	-	-	-	18,249	2.88
June 30, 2016	9,084	1,742	2,920	-	-	-	13,746	2.17
September 30, 2016	6,251	6,896	694	3,995	-	-	17,836	2.81
December 31, 2016	6,676	6,687	2	-	-	-	13,365	2.11
March 31, 2017	6,244	4,462	-	-	-	-	10,706	1.69
June 30, 2017	6,997	4,005	-	-	-	-	11,002	1.73
Thereafter	9,240	18,462	-	3,135	4,415	-	35,252	5.56
Total	$ 480,437	$ 107,729	$ 33,660	$ 7,901	$ 4,428	$ -	$ 634,155	100.00%
Percent of total	75.76%	16.99%	5.31%	1.25%	0.70%	-%	100.00%	

34

The following table indicates the amount of our certificates of deposit and other deposits by time remaining until maturity as of June 30, 2014.

	Maturity				
	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
			(In thousands)		
Certificates of deposit less than $100,000	$107,308	$36,457	$47,822	$91,920	$283,507
Certificates of deposit of $100,000 or more	109,519	44,565	67,279	83,797	305,160
Public funds(1)	18,012	6,684	13,432	7,360	45,488
Total certificates of deposit	$234,839	$87,706	$128,533	$183,077	$634,155

(1) Deposits from government and other public entities.

Borrowings. Although deposits are our primary source of funds, we may utilize borrowings to manage interest rate risk or as a cost-effective source of funds when they can be invested at a positive interest rate spread for additional capacity to fund loan demand according to our asset/liability management goals. Our borrowings consist primarily of advances from the FHLB of Atlanta and retail repurchase agreements.

We may obtain advances from the FHLB of Atlanta upon the security of certain of our mortgage loans and mortgage-backed and other securities. These advances may be made pursuant to several different credit programs, each of which has its own interest rate, range of maturities and call features, and all long-term advances are required to provide funds for residential home financing. As of June 30, 2014, we had $50.0 million in FHLB advances outstanding as part of the liabilities assumed from the Jefferson acquisition and the ability to borrow $253.4 million. In addition to FHLB advances, at June 30, 2014 we had a $140.2 million line of credit with the Federal Reserve Bank of Richmond, subject to qualifying collateral, and a $5.0 million line of credit with another unaffiliated bank. See Note 9 of the Notes to Consolidated Financial Statements contained in Item 8 of this report for more information about FHLB advances, and other borrowings.

The following tables set forth information regarding our borrowing at the end of and during the periods indicated. The tables include both long- and short-term borrowings.

	Years ended June 30,		
	2014	2013	2012
		(Dollars in thousands)	
Maximum balance:			
Federal Home Loan Bank advances	$55,939	$15,080	$111,082
Securities sold under agreements to repurchase	-	8,475	8,190
Federal Reserve Bank	-	-	5,000
Average balances:			
Federal Home Loan Bank advances	$6,109	$5,378	$85,521
Securities sold under agreements to repurchase	-	5,015	6,772
Federal Reserve Bank	-	-	13
Weighted average interest rate:			

Federal Home Loan Bank advances	0.20 %	4.93 %	1.77 %
Securities sold under agreements to repurchase	-	0.24	0.35
Federal Reserve Bank	-	-	0.75

35

	At June 30,		
	2014	2013	2012
	(Dollars in thousands)		
Balance outstanding at end of period:			
Federal Home Loan Bank advances	$50,000	$-	$15,080
Securities sold under agreements to repurchase	-	-	7,185
Federal Reserve Bank	-	-	-
Weighted average interest rate of:			
Federal Home Loan Bank advances	0.20 %	- %	4.94 %
Securities sold under agreements to repurchase	-	-	0.24
Federal Reserve Bank	-	-	-

Subsidiary and Other Activities

As a federally chartered savings bank, HomeTrust Bank is permitted by OCC regulations to invest up to 2% of its assets, or $41.0 million at June 30, 2014, in the stock of, or unsecured loans to, service corporation subsidiaries. We may invest an additional 1% of our assets in service corporations where such additional funds are used for inner-city or community development purposes. HomeTrust Bank has one operating subsidiary, Western North Carolina Service Corporation (“WNCSC”), whose primary purpose is to own several office buildings in Asheville, North Carolina which are leased to HomeTrust Bank and other tenants. Our capital investment in WNCSC as of June 30, 2014 was $1.1 million.

Employees

At June 30, 2014, we had a total of 441 full-time employees and 30 part-time employees. Our employees are not represented by any collective bargaining group. Management considers its employee relations to be good. Management also considers our employees to be a great team of highly engaged, competent and caring people who effectively deliver our brand promise to customers every day that "It's Just Better Here." Their performance creates word-of-mouth referrals that result in the growth of new customers and expanded customer relationships.

Internet Website

We maintain a website with the address www.hometrustbancshares.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

General. HomeTrust Bancshares is subject to examination and supervision by, and is required to file certain reports with, the Federal Reserve. HomeTrust Bancshares is also subject to the rules and regulations of the SEC under the federal securities laws.

HomeTrust Bank is subject to examination and regulation primarily by the OCC and, to a lesser extent, by the FDIC. This system of regulation and supervision establishes a comprehensive framework of activities in which HomeTrust Bank may engage and is intended primarily for the protection of depositors and the FDIC deposit insurance fund. HomeTrust Bank is periodically examined by the OCC to ensure that it satisfies applicable standards with respect to its capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. The OCC also regulates the branching authority of HomeTrust Bank, which generally permits nationwide branching de novo and branching by acquisition where allowed by applicable state law. HomeTrust Bank's relationship with its depositors and borrowers is regulated by federal consumer protection laws. The Consumer Financial Protection Bureau ("CFPB") issues regulations under those laws that HomeTrust Bank must comply with. HomeTrust Bank also is regulated to a lesser extent by the Federal Reserve, which governs the reserves to be maintained against deposits and other matters. HomeTrust Bank's relationship with its depositors and borrowers is regulated by state laws with respect to certain matters, including the enforceability of loan documents.

On August 25, 2014, HomeTrust Bank converted from a federal savings bank to a national bank with the title "HomeTrust Bank, National Association." In connection with the conversion of the Bank, HomeTrust Bancshares changed from a savings and loan holding company to a bank holding company, regulated under the Bank Holding Company Act.

The following is a brief description of certain laws and regulations applicable to HomeTrust Bancshares and HomeTrust Bank. Descriptions of laws and regulations here and elsewhere in this report do not purport to be complete and are qualified in their entirety by reference to the actual laws and regulations. Legislation is introduced from time to time in the United States Congress that may affect the operations of HomeTrust Bancshares and HomeTrust Bank. In addition, the regulations governing us may be amended from time to time. Any such legislation or regulatory changes in the future could adversely affect our operations and financial condition.

Financial Regulatory Reform. The Dodd-Frank Act, which was enacted in July 2010, imposed new restrictions and an expanded framework of regulatory oversight for financial entities, including depository institutions and their holding companies.

The following summarizes significant aspects of the Dodd-Frank Act that may materially affect the operations and condition of HomeTrust Bank and HomeTrust Bancshares:

- Dodd-Frank Act established the CFPB and empowered it to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. HomeTrust Bank is subject to consumer protection regulations issued by the CFPB, but as a smaller financial institution, HomeTrust Bank is generally subject to OCC supervision and enforcement with respect to its compliance with consumer financial protection laws and CFPB regulations.

- Bank holding companies and savings and loan holding companies are required to serve as a source of strength for their banking subsidiaries.

- The federal banking agencies must promulgate new rules on regulatory capital, for both depository institutions and their holding companies. These are described below.

- The prohibition on payment of interest on demand deposits was repealed.

37

- State consumer financial protection laws are preempted only if they would have a discriminatory effect on a federal savings association or are specifically preempted by any federal law. The OCC must make a preemption determination with respect to a state consumer financial protection law on a case-by-case basis with respect to a particular state law or other state law with substantively equivalent terms.

- Deposit insurance was permanently increased to $250,000.

- The deposit insurance assessment base for FDIC insurance became the depository institution's total average assets minus the sum of its average tangible equity during the assessment period, rather than being based on the level of deposits.

- The minimum reserve ratio of the FDIC deposit insurance fund increased to 1.35% of estimated annual insured deposits or assessment base; however, the FDIC is directed to "offset the effect" of the increased reserve ratio for insured depository institutions with total consolidated assets of less than $10.0 billion.

Regulation of HomeTrust Bank

HomeTrust Bank is subject to regulation and oversight by the OCC extending to all aspects of its operations. HomeTrust Bank is required to maintain minimum levels of regulatory capital and is subject to some limitations on the payment of dividends to HomeTrust Bancshares. See "- Current Capital Requirements for HomeTrust Bank," "-Limitations on Dividends and Other Capital Distributions" and “-New Capital Rules.” HomeTrust Bank also is subject to some regulation and examination by the FDIC, which insures the deposits of HomeTrust Bank to the maximum extent permitted by law.

Office of the Comptroller of the Currency. The investment and lending authority of HomeTrust Bank is prescribed by federal laws and OCC regulations, and HomeTrust Bank is prohibited from engaging in any activities not permitted by such laws and regulations. As a federal savings bank, HomeTrust Bank was subject to a 35% of total assets limit on consumer loans, commercial paper and corporate debt securities, a 20% limit on commercial loans, a 10% limit on certain leases, and a 400% of total capital limit on non-residential real property loans. At June 30, 2014, HomeTrust Bank had 0.9% of its assets in consumer loans, commercial paper and corporate debt securities, 3.0% of its assets in commercial loans, 5.2% of its assets in leases subject to the 10% limit, and 146.0% of its total capital in non-residential real property loans. These limits do not apply to HomeTrust Bank as a national bank.

As a federal savings association, HomeTrust Bank was required to meet a qualified thrift lender (“QTL”) test. This test required HomeTrust Bank to have at least 65% of its portfolio 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 of June 30, 2014, HomeTrust Bank met the QTL test. The QTL test does not apply to HomeTrust Bank as a national bank.

HomeTrust Bank is subject to a statutory lending limit on aggregate loans to one person or a group of persons combined because of certain relationships and common interests. That limit is generally equal to 15% of HomeTrust Bank’s unimpaired capital and surplus, which was $43.1 million. The limit is increased to 25% for loans fully secured by readily marketable collateral. HomeTrust Bank has no lending relationships in excess of our lending limit.

HomeTrust Bank is subject to periodic examinations by the OCC. During these examinations, the examiners may require the Bank to provide for higher general or specific loan loss reserves, which can impact our capital and earnings. HomeTrust Bank is subject to a semi-annual assessment based upon its total assets and regulatory risk to fund the operations of the OCC.

The OCC 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 employee compensation and benefits. Any institution that fails to comply with these standards must submit a compliance plan.

The OCC has primary enforcement responsibility over HomeTrust Bank and has authority to bring actions against HomeTrust Bank and certain institution-affiliated parties, including officers, directors and employees, for violations of laws or regulations and for engaging in unsafe and unsound practices. Formal enforcement actions include the issuance of a capital directive or cease and desist order, civil money penalties, removal of officers and/or directors and receivership or conservatorship of the institution. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. The FDIC has the authority to recommend to the OCC that enforcement action be taken with respect to a particular institution. If action is not taken by the OCC, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations or improper conduct.

Pursuant to the Dodd-Frank Act, federal banking and securities regulators issued final rules to implement Section 619 of the Dodd-Frank Act (the “Volcker Rule”). These rules became effective April 15, 2014, with a conformance period for certain features lasting until July 21, 2015. Generally, subject to a transition period and certain exceptions, the Volcker Rule restricts insured depository institutions and their affiliated companies from engaging in short-term proprietary trading of certain securities, investing in funds with collateral comprised of less than 100% loans that are not registered with the SEC and from engaging in hedging activities that do not hedge a specific identified risk.

Insurance of Accounts and Regulation by the FDIC. The deposit insurance fund of the FDIC insures deposit accounts in HomeTrust Bank up to $250,000 per separately insured deposit ownership right or category. The FDIC may initiate an action for termination of deposit insurance, if it is deemed warranted based on violations or other unsafe and unsound conduct at the institution.

The Dodd-Frank Act requires that FDIC deposit insurance assessments be based on assets instead of deposits. The FDIC has issued rules for this purpose, under which the assessment base for an institution is average total assets minus Tier 1 capital. The FDIC assesses deposit insurance premiums on each FDIC-insured institution quarterly based on annualized rates for one of four risk categories applied to its deposits, subject to certain adjustments. Each institution is assigned to one of four risk categories based on its capital, supervisory ratings and other factors. Well capitalized institutions that are financially sound with only a few minor weaknesses are assigned to Risk Category I. Risk Categories II, III and IV involve progressively greater risks to the deposit insurance fund, due to weaknesses at the insured institution. For an institution with assets of less than $18 billion, assessments are as follows. For Risk Category I, initial base assessment rates are 5 to 9 basis points, and after adjustments for unsecured debt issued by an institution, total base assessment rates would be 2.5 to 9 basis points, subject to increases for institutions that hold unsecured debt of other FDIC-insured institutions. For Risk Categories II to IV, initial base assessment rates are 14 to 35 basis points, subject to adjustments for unsecured debt issued by an institution and brokered deposits, such that total base assessment rates are 9 to 45 basis points, subject to increases for institutions that hold unsecured debt of other FDIC-insured institutions. The FDIC may change assessment rates or revise its risk-based assessment system if deemed necessary to maintain an adequate reserve ratio for the fund.

Transactions with Related Parties. Transactions between HomeTrust Bank and its affiliates are required to be on terms as favorable to HomeTrust Bank as transactions with non-affiliates. Certain of these transactions, such as loans to an affiliate, are restricted to a percentage of HomeTrust Bank's capital, and loans to affiliates require eligible collateral in specified amounts. In addition, HomeTrust Bank may not lend to any affiliate engaged in activities not permissible for a bank holding company or acquire the securities of most affiliates. HomeTrust Bancshares is an affiliate of HomeTrust Bank.

Federal law generally prohibits loans by HomeTrust Bancshares to its executive officers and directors, but there is a specific exception for loans made by HomeTrust Bank to its executive officers and directors in compliance with federal banking laws. However, HomeTrust Bank’s authority to extend credit to its executive officers, directors and 10% shareholders (“insiders”), as well as entities those insiders control, is limited. The individual and aggregate amounts of loans that HomeTrust Bank may make to insiders are based, in part, on HomeTrust Bank's capital level and require that certain board approval procedures be followed. Such loans are required to 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. Loans to executive officers are subject to additional limitations based on the type of loan involved.

Current Capital Requirements for HomeTrust Bank. HomeTrust Bank is required to maintain specified levels of regulatory capital under regulations of the OCC. OCC regulations state that to be "adequately capitalized," HomeTrust Bank must have a leverage ratio of at least 4.0%, a Tier 1 capital ratio of at least 4.0% and a total capital ratio of at least 8.0%. To be "well capitalized" under current regulations, HomeTrust Bank must have a leverage ratio of at least 5.0%, a Tier 1 risk-based capital ratio of at least 6.0% and a total risk-based capital ratio of at least 10.0%. At June 30, 2014, HomeTrust Bank was considered a "well-capitalized" institution under OCC regulations.

The term "leverage ratio" means the ratio of Tier 1 capital to adjusted total assets. The term "Tier 1 capital ratio" means the ratio of Tier 1 capital to risk-weighted assets. The term "total capital ratio" means the ratio of total capital to risk-weighted assets.

The term "Tier 1 capital" generally consists of common shareholders' equity and retained earnings and certain noncumulative perpetual preferred stock and related earnings, excluding most intangible assets. At June 30, 2014, HomeTrust Bank had $13.8 million of intangible assets, $58.4 million of deferred tax assets and $1.1 million of other assets excluded from Tier 1 capital.

"Total capital" consists of the sum of an institution's Tier 1 capital and the amount of its Tier 2 capital up to the amount of its Tier 1 capital. Tier 2 capital consists generally of certain cumulative and other perpetual preferred stock, certain subordinated debt and other maturing capital instruments, the amount of the institution's allowance for loan and lease losses up to 1.25% of risk-weighted assets and certain unrealized gains on equity securities.

Risk-weighted assets are determined under the OCC capital regulations that assign to every asset, including certain off-balance sheet items, a risk weight generally ranging from 0% to 100% based on the inherent risk of the asset. The OCC is authorized to require HomeTrust Bank to maintain an additional amount of total capital to account for concentrations of credit risk, levels of interest rate risk, equity investments in non-financial companies and the risks of non-traditional activities or other supervisory concerns.

Institutions that are not well capitalized are subject to certain restrictions on brokered deposits and interest rates on deposits. The OCC is authorized and, under certain circumstances, required to take certain actions against savings associations that fail to meet the minimum ratios for an "adequately capitalized institution." Any such institution must submit a capital restoration plan and, until such plan is approved by the OCC, may not increase its assets, acquire another depository institution, establish a branch or engage in any new activities, or make capital distributions. The OCC is authorized to impose the additional restrictions on savings associations that are less than adequately capitalized.

OCC regulations state that an institution that fails to comply with its capital plan or has Tier 1 or leverage ratio of less than 3.0% or a total capital ratio of less than 6.0% is considered "significantly undercapitalized" and must be made subject to one or more additional specified actions and operating restrictions that may cover all aspects of its operations and may include a forced merger or acquisition of the institution. An institution with tangible equity to total assets of less than 2.0% is "critically undercapitalized" and becomes subject to further mandatory restrictions on its operations. The OCC generally is authorized to reclassify an institution into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition. The imposition by the OCC of any of these measures on HomeTrust Bank may have a substantial adverse effect on our operations and profitability. In general, the FDIC must be appointed receiver for a critically undercapitalized institution whose capital is not restored within the time provided. When the FDIC as receiver liquidates an insured institution, the claims of depositors and the FDIC as their successor (for deposits covered by FDIC insurance) have priority over other unsecured claims against the institution.

New Capital Rules. Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), HomeTrust Bank will be subject to new capital requirements adopted by the OCC, which create a new required ratio for common equity Tier 1 ("CET1") capital, increases the leverage and Tier 1 capital ratios, changes the risk-weightings of certain assets for purposes of the risk-based capital ratios, creates an additional capital conservation buffer over the required capital ratios and changes what qualifies as capital for purposes of meeting these various capital requirements. HomeTrust Bank will be required to maintain additional levels of Tier 1 common equity over the minimum risk-based capital levels before it may pay dividends, repurchase shares or pay discretionary bonuses.

When these new requirements become effective, to meet its minimum capital requirements, HomeTrust Bank must have a ratio of common equity Tier 1 capital (CET1 capital) to total risk-weighted assets the ("CET1 risk-based ratio") of 4.5%, a Tier 1 capital ratio of 6.0%, a total capital ratio of 8.0% and a leverage ratio of 4.0%.

For all of these capital requirements, there are a number of changes in what constitutes regulatory capital, subject to a two-year transition period. These changes include the phasing-out of certain instruments as qualifying capital. HomeTrust Bank does not have any of these instruments. Mortgage servicing and deferred tax assets over designated percentages of CET1 will be deducted from capital, subject to a two-year transition period. CET1 will consist of Tier 1 capital less all capital components that are not considered common equity. In addition, Tier 1 capital will include accumulated other comprehensive income, which includes all unrealized gains and losses on available for sale debt and equity securities, subject to a two-year transition period. Because of its asset size, HomeTrust Bank has the one-time option of deciding in the first quarter of 2015 whether to permanently opt-out of the inclusion of unrealized gains and losses on available for sale debt and equity securities in its capital calculations. HomeTrust Bank is considering whether to take advantage of this opt-out to reduce the impact of market volatility on its regulatory capital levels.

The new requirements also include changes in the risk-weighting of assets to better reflect credit risk and other risk exposure. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%); and a 250% risk weight (up from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital.

In addition to the minimum CET1, Tier 1 and total capital ratios, HomeTrust Bank will have to maintain a capital conservation buffer consisting of additional CET1 capital equal to 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement is to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented in January 2019.

The OCC's prompt corrective action framework changes when these new capital ratios become effective. Under the new standards, in order to be considered well-capitalized, HomeTrust Bank would have to have a CET1 risk-based ratio of 6.5% (new), a Tier 1 risk-based ratio of 8% (increased from 6%), a total risk-based capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

HomeTrust Bank has conducted a pro forma analysis of the application of these new capital requirements as of June 30, 2014. We have determined that HomeTrust Bank meets all these new requirements, including the full 2.5% capital conservation buffer, and remains well-capitalized, if these new requirements had been in effect on that date.

Community Reinvestment and Consumer Protection Laws. In connection with its deposit-taking, lending and other activities, HomeTrust Bank is subject to a number of federal laws designed to protect consumers and promote lending to various sectors of the economy and population. The CFPB issues regulations and standards under these federal consumer protection laws, which include the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act and the Real Estate Settlement Procedures Act. Through its rulemaking authority, the CFPB has promulgated a number of proposed and final regulations under these laws that will affect our consumer businesses. Among these regulatory initiatives, are final regulations setting "ability to repay" and "qualified mortgage" standards for residential mortgage loans and establishing new mortgage loan servicing and loan originator compensation standards. HomeTrust Bank is evaluating these recent CFPB regulations and proposals and devotes substantial compliance, legal and operational business resources to ensure compliance with these consumer protection standards. In addition, the OCC has enacted customer privacy regulations that limit the ability of HomeTrust Bank to disclose nonpublic consumer information to non-affiliated third parties. The

41

regulations require disclosure of privacy policies and allow consumers to prevent certain personal information from being shared with non-affiliated parties.

The Community Reinvestment Act ("CRA") requires that the OCC assess HomeTrust Bank's record in meeting the credit needs of the communities it serves, especially low and moderate income neighborhoods. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "substantial non-compliance." HomeTrust Bank received an "outstanding" rating in its most recent CRA evaluation.

Bank Secrecy Act / Anti-Money Laundering Laws. HomeTrust Bank is subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. These laws and regulations require HomeTrust Bank to implement policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity of their customers. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing mergers and acquisitions.

Limitations on Dividends. OCC regulations impose various restrictions on the ability of HomeTrust Bank to pay dividends. HomeTrust Bank generally may pay dividends during any calendar year in an amount up to 100% of net income for the year-to-date plus retained net income for the two preceding years, so long as it is well-capitalized after the distribution. If HomeTrust Bank proposes to pay a dividend when it does not meet its capital requirements or that will exceed these limitations, it must obtain the OCC's prior approval prior. The OCC may object to a proposed dividend based on safety and soundness concerns. No insured depository institution may pay a dividend if, after paying the dividend, the institution would be undercapitalized. In addition, as noted above, beginning in 2016, if HomeTrust Bank does not have the required capital conservation buffer, its ability to pay dividends to HomeTrust Bancshares will be limited.

Holding Company Regulation

HomeTrust Bancshares was a savings and loan holding company until August 25, 2014, and is now a bank holding company, subject to regulation, supervision and examination by the Federal Reserve. The Federal Reserve has enforcement authority with respect to HomeTrust Bancshares similar to that of the OCC over HomeTrust Bank. Applicable federal law and regulations limit the activities of HomeTrust Bancshares and require the approval of the Federal Reserve for any acquisition of a subsidiary, including another financial institution or holding company thereof, or a merger or acquisition of HomeTrust Bancshares. HomeTrust Bancshares must serve as a source of strength for HomeTrust Bank, maintaining the ability to provide financial assistance if HomeTrust Bank suffers financial distress. These and other Federal Reserve policies may restrict HomeTrust Bancshares' ability to pay dividends. In addition, dividends from HomeTrust Bancshares may depend, in part, upon its receipt of dividends from HomeTrust Bank. As noted below, beginning in 2016, if HomeTrust Bancshares does not have the required capital conservation buffer or otherwise meet its new capital requirements, its ability to pay dividends to its stockholders will be limited.

A bank holding company is required to give the Federal Reserve prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemption during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve order, or any condition imposed by, or written agreement with, the Federal Reserve. This notification requirement does not apply to any company that meets the well-capitalized standard for bank holding companies, is well-managed, and is not subject to any unresolved supervisory issues.

Permissible Activities. The business activities of HomeTrust Bancshares are generally limited to those activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act and certain additional activities authorized by the Federal Reserve regulations. The Bank Holding Company Act generally prohibits a bank holding company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company. A bank holding company must obtain Federal Reserve Board approval before acquiring directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares (unless it already owns or controls the majority of such shares).

Capital Requirements for HomeTrust Bancshares. Effective with its conversion to a bank holding company on August 25, 2014, HomeTrust Bancshares is subject to the minimum regulatory capital requirements established by the Federal Reserve, and meets the standards for a well-capitalized bank holding company, which require a ratio of total capital ratio of at least 10.0% and a ratio of Tier 1 capital ratio of at least 6.0%, on a consolidated basis. Effective January 1, 2015, HomeTrust Bancshares will be subject to new regulatory capital requirements adopted by the Federal Reserve, which are the same as the new capital requirements for HomeTrust Bank. These new capital requirements include provisions such as the capital conservation buffer requirement that can limit the ability of HomeTrust Bancshares to pay dividends to its stockholders or repurchase its shares. For a description of these capital requirements, see “Regulation of HomeTrust Bank – New Capital Rules.” HomeTrust Bancshares will be subject to the same capital conservation buffer requirement as described above for HomeTrust Bank.

HomeTrust Bancshares has conducted a pro forma analysis of the application of these new capital requirements as of June 30, 2014. We have determined that HomeTrust Bancshares, Inc. meets all these new requirements, including the full 2.5% capital conservation buffer, and remains well-capitalized, as if these new requirements had been effect on that date.

Federal Securities Law. The stock of HomeTrust Bancshares is registered with the SEC under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). HomeTrust Bancshares is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the SEC under the Exchange Act.

The SEC has adopted regulations and policies applicable to a registered company under the Exchange Act that seek to increase corporate responsibility, provide for enhanced penalties for accounting and auditing improprieties and protect investors by improving the accuracy and reliability of corporate disclosures in SEC filings. These regulations and policies include very specific additional disclosure requirements and mandate new corporate governance practices.

On April 5, 2012, the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”) was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. We are an “emerging growth company,” as defined in Section 2(a) of the Securities Act of 1933, (the “Securities Act”), as modified by the JOBS Act. We are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, an exemption from the requirement of holding a non-binding advisory vote on executive compensation. In addition, we will not be subject to certain requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes Oxley Act”), including the additional level of review of our internal control over financial reporting as may occur when outside auditors attest as to our internal control over financial reporting. As a result, our stockholders may not have access to certain information they may deem important. Further, we are eligible to delay adoption of new or revised accounting standards applicable to public companies and we may take advantage of the benefits of this extended transition period, although to date we have not done so. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards. These exemptions will apply for a period of five years following the completion of our initial public offering or until we are no longer an “emerging growth company,” whichever is earlier.

Federal Taxation

General. HomeTrust Bancshares and HomeTrust 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 material federal income tax matters and is not a comprehensive description of the tax rules applicable to HomeTrust Bancshares and HomeTrust.

Method of Accounting. For federal income tax purposes, HomeTrust Bank currently reports its income and expenses on the accrual method of accounting and uses a fiscal year ending on June 30th for filing its federal

43

income tax return. The Small Business Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions, effective for taxable years beginning after 1995.

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 the regular tax. 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. At June 30, 2014, HomeTrust had alternative minimum tax credit carryforwards of approximately $3.8 million.

Net Operating Loss Carryovers. A financial institution may carryback 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. In 2009, Internal Revenue Code Section 172 (b) (1) was amended to allow businesses to carry back losses incurred in 2008 and 2009 for up to five years to offset 50% of the available income from the fifth year and 100% of the available income for the other four years. At June 30, 2014, we had $64.2 million of net operating loss carryforwards for federal income tax purposes.

Corporate Dividends-Received Deduction. HomeTrust Bancshares will elect to file a consolidated return with HomeTrust Bank. As a result, any dividends HomeTrust Bancshares receives from HomeTrust Bank will not be included as income to HomeTrust Bancshares. 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.

State Taxation

North Carolina. On July 24, 2013, The Tax Simplification and Reduction Act of 2013 was signed into law. With this act, corporate income tax rates in North Carolina will be reduced. For tax years beginning on or after January 1, 2014, the tax rate will decrease from 6.9% to 6%. For tax years beginning on or after January 1, 2015, the tax rate will decrease to 5%. The statutory tax rate will continue to decrease in 1% increments to 4% in 2016 and 3% in 2017, if declared net General Fund tax collection revenue goals are met based on projected economic growth. Therefore, the decrease in the North Carolina corporate tax rate reduced the deferred tax assets currently recorded on our balance sheet with a corresponding increase to our income tax provision, as temporary tax differences are reversed at lower state tax rates.

If a corporation in North Carolina does business in North Carolina and in one or more other states, North Carolina taxes a fraction of the corporation's income based on the amount of sales, payroll and property it maintains within North Carolina. North Carolina franchise tax is levied on business corporations at the rate of $1.50 per $1,000 of the largest of the following three alternate bases: (i) the amount of the corporation's capital stock, surplus and undivided profits apportionable to the state; (ii) 55% of the appraised value of the corporation's property in the state subject to local taxation; or (iii) the book value of the corporation's real and tangible personal property in the state less any outstanding debt that was created to acquire or improve real property in the state.

Any cash dividends, in excess of a certain exempt amount, that would be paid with respect to HomeTrust Bancshares common stock to a shareholder (including a partnership and certain other entities) who is a resident of North Carolina will be subject to the North Carolina income tax. Any distribution by a corporation from earnings according to percentage ownership is considered a dividend, and the definition of a dividend for North Carolina income tax purposes may not be the same as the definition of a dividend for federal income tax purposes. A corporate distribution may be treated as a dividend for North Carolina income tax purposes if it is paid from funds that exceed the corporation's earned surplus and profits under certain circumstances.

EXECUTIVE OFFICERS

The following individuals are executive officers of HomeTrust Bancshares and HomeTrust Bank and hold the offices set forth below opposite their names.

Name	Age(1)	Position
Dana L. Stonestreet	60	Chairman, President and Chief Executive Officer
Tony J. VunCannon	49	Senior Vice President, Chief Financial Officer and Treasurer
Howard L. Sellinger	61	Senior Vice President and Chief Information Officer
C. Hunter Westbrook	51	Senior Vice President and Chief Banking Officer
Teresa White	57	Senior Vice President, Chief Administration Officer and Corporate Secretary
Keith Houghton	52	Senior Vice President and Chief Credit Officer

(1) As of June 30, 2014.

Biographical Information. Set forth below is certain information regarding the executive officers of HomeTrust Bancshares and HomeTrust Bank. There are no family relationships among or between the executive officers.

Dana L. Stonestreet. As part of the CEO succession plan for HomeTrust Bancshares and HomeTrust Bank, Mr. Stonestreet, who had been serving as President and Chief Operating Officer and as a director of HomeTrust Bank since 2008 and as President and Chief Operating Officer of HomeTrust Bancshares since HomeTrust Bank's mutual-to-stock conversion, became co-Chief Executive Officer of HomeTrust Bancshares and HomeTrust Bank in 2013. Mr. Stonestreet became President, Chairman and Chief Executive Officer of HomeTrust Bancshares and HomeTrust Bank effective at the annual meeting in November 2013. Mr. Stonestreet joined HomeTrust Bank in 1989 as its Chief Financial Officer and was promoted to Chief Operating Officer in 2003. Mr. Stonestreet began his career with Hurdman & Cranston (an accounting firm that was later merged into KPMG) as a certified public accountant. Mr. Stonestreet also serves as a director and chairman for the Asheville Area Chamber of Commerce, a director of United Way and a director of the HUB Community Economic Development Alliance Board. In addition, Mr. Stonestreet has served as a director for RiverLink, the YMCA, the North Carolina Bankers Association and other community organizations. Mr. Stonestreet's 24 years of service with HomeTrust Bank gives him in-depth knowledge of nearly all aspects of its operations. Mr. Stonestreet's accounting background and prior service as HomeTrust Bank's Chief Financial Officer also provide him with a strong understanding of the various financial matters brought before the Board.

Tony J. VunCannon. Mr. VunCannon is a certified public accountant and has served as Senior Vice President, Chief Financial Officer, and Treasurer of HomeTrust Bank since July 2006. From March 1997 to June 2006, Mr. VunCannon served as Vice President and Treasurer of HomeTrust Bank and from April 1992 to February 1997, Mr. VunCannon served as Controller of HomeTrust Bank. In addition, Mr. VunCannon has served as Senior Vice President, Chief Financial Officer and Treasurer of HomeTrust Bancshares since HomeTrust Bank's mutual-to-stock conversion. Previously, Mr. VunCannon was employed by KPMG in Charlotte, North Carolina.

Howard L. Sellinger. Mr. Sellinger has served as Senior Vice President and Chief Information Officer of HomeTrust Bank since July 2006. Mr. Sellinger joined HomeTrust Bank in 1975 as a management trainee. Mr. Sellinger became the Office Manager of the Skyland office from 1976 till 1978. His experience also includes being the Head of Mortgage Loan Operations with loan approval authority, the Head of Loan Servicing with workout approval authority, and was responsible for regulatory compliance in Lending and deposit Operations for many years. In 1988, he was named Operations Manager and was promoted to Vice President and Chief Information Officer in 1997.

C. Hunter Westbrook. Mr. Westbrook joined HomeTrust Bank in June 2012 as Senior Vice President and Chief Banking Officer. Mr. Westbrook also holds these positions with HomeTrust Bancshares. He began his career in banking with TCF Bank in Minneapolis and later joined TCF National Bank Illinois as Senior Vice President of Finance. In 2004 he was promoted to Executive Vice President of Retail Banking for Illinois, Wisconsin and Indiana markets that included 250 branches and $4 billion in deposits. He also served as President and Chief Executive Officer of First Community Bancshares in Texas, from 2006 to 2008, where he was responsible for repositioning the bank's retail operating model and implemented the bank's retail and corporate lending product offerings. In his most recent role, Mr. Westbrook served as President and Chief Executive Officer of Second Federal Savings and Loan Association of Chicago, from 2010 to 2012, where he significantly grew core operating revenue, net checking account balances, and repositioned the bank's entire product line.

Teresa White. Ms. White joined HomeTrust Bank in May 2011 as Senior Vice President and Chief Administration Officer. Ms. White was also appointed as Corporate Secretary of HomeTrust Bank in December 2011. In addition, Ms. White has served as Senior Vice President, Chief Administration Officer and Corporate Secretary of HomeTrust Bancshares since HomeTrust Bank's mutual-to-stock conversion. Prior to joining HomeTrust Bank, since 2006, Ms. White served as Senior Vice President, Chief of Human Resources and Training Officer for Capital Bank, Raleigh, North Carolina, a publicly held community bank with approximately $1.7 billion in assets. From 2005 to 2006, Ms. White served as Director, Corporate Human Resources, for Nash Finch Company, Edina, Minnesota, a leading food retail and distribution company. From 2002 to 2005, Ms. White served as Director of Human Resources for ConAgra Foods Snack Foods Group, Edina, Minnesota, a division of ConAgra Foods.

Keith Houghton. Mr. Houghton joined HomeTrust Bank in March of 2014 as Senior Vice President and Chief Credit Officer. Mr. Houghton has more than 25 years of experience in the banking industry. For nearly 17 years, he held a variety of senior positions in the credit and lending areas with StellarOne Corporation, a Charlottesville, VA-based bank holding company with approximately $3 billion in assets, and its predecessors, until the sale of StellarOne to another bank in January of this year. The most recent of those positions was Chief Credit Risk Officer, which Mr. Houghton held since 2007.

Item 1A. Risk Factors

An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment.

Risks Related to Our Business

Changes in economic conditions, particularly a further economic slowdown in our primary market areas, could hurt our business.

Our primary market areas are concentrated in North Carolina (including the Asheville metropolitan area, the "Piedmont" region, and Charlotte), South Carolina (Greenville), East Tennessee (including Kingsport/Johnson City, Knoxville, and Morristown) and the Roanoke Valley area of Virginia. Adverse economic conditions in our market areas can reduce our rate of growth, affect our customers' ability to repay loans and adversely impact our financial condition and earnings. General economic conditions, including inflation, unemployment and money supply fluctuations, also may affect our profitability adversely. Weak economic conditions and ongoing strains in the financial and housing markets have resulted in higher levels of loan and lease delinquencies, problem assets and foreclosures and a decline in the values of the collateral securing our loans.

Although the U.S. economy and housing market, including in our market areas, appears to be improving, further deterioration in economic conditions, particularly within our primary market areas could result in the following consequences, among others, any of which could materially hurt our business:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decline;
- collateral for our loans may decline in value, in turn reducing a customer's borrowing power and reducing the value of collateral securing our loans; and
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

A continued weak economic recovery or a return to recessionary conditions could increase our level of nonperforming assets, lower real estate values in our market and reduce demand for loans, which would result in increased loan losses and lower earnings.

Our markets have been adversely impacted by the severe national economic recession of 2008 and 2009, and the weak economic recovery has resulted in continued uncertainty in the financial markets and the expectation of weak general economic conditions continuing through calendar year 2014. Furthermore, the Board of Governors of the Federal Reserve System, in an attempt to help the overall economy, has, among other things, kept interest rates low through its targeted federal funds rate and the purchase of mortgage-backed securities. If the Federal Reserve increases the federal funds rate, overall interest rates will likely rise, which may negatively impact the housing markets and the U.S. economic recovery. While it is impossible to predict how long these conditions may exist, the current economic weaknesses could present substantial risks for some time for the banking industry and for us. A continued weak recovery or a return to recessionary conditions would result in higher than expected nonperforming assets, decreased real estate values in our market, and a decrease in demand for our products and services. These negative events would lead to higher loan losses and lower earnings, and could adversely impact our capital, liquidity and financial condition.

Declines in property values have increased loan-to-value ratios on a significant portion of our one- to four-family loans and home equity lines of credit, which exposes us to greater risk of loss.

Many of our one- to four-family loans and home equity lines of credit are secured by liens on mortgage properties in which the borrowers have little or no equity because of these declines in home values in our market areas. Residential loans with high combined loan-to-value ratios will be more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, they may be unable to repay their loans in full from the sale. Further, the majority of our home equity lines of credit consist of second mortgage loans. For those home equity lines secured by a second mortgage, it is unlikely that we will be successful in recovering all or a portion of our loan proceeds in the event of default unless we are prepared to repay the first mortgage loan and such repayment and the costs associated with a foreclosure are justified by the value of the property. For these reasons, we may experience higher rates of delinquencies, defaults and losses.

Our non-owner-occupied real estate loans may expose us to increased credit risk.

At June 30, 2014, $78.0 million, or 11.8%, of our one-to four-family loans and 5.2% of our total loan portfolio, consisted of loans secured by non-owner-occupied residential properties. Loans secured by non-owner-occupied properties generally expose a lender to greater risk of non-payment and loss than loans secured by owner-occupied properties because repayment of such loans depend primarily on the tenant's continuing ability to pay rent to the property owner, who is our borrower, or, if the property owner is unable to find a tenant, the property owner's ability to repay the loan without the benefit of a rental income stream. In addition, the physical condition of non-owner-occupied properties is often below that of owner-occupied properties due to lax property maintenance standards, which has a negative impact on the value of the collateral properties. Furthermore, some of our non-owner-occupied residential loan borrowers have more than one loan outstanding with HomeTrust Bank which may expose us to a greater risk of loss compared to an adverse development with respect to an owner-occupied residential mortgage loan.

Our construction and development loans and construction and land/lot loans have a higher risk of loss than residential or commercial real estate loans.

At June 30, 2014, construction and land/lot loans in our retail consumer loan portfolio was $59.2 million, or 4.0%, of our total loan portfolio. At that date, construction and development loans in our commercial loan portfolio totaled $56.5 million, or 3.8%, of our total loan portfolio. Construction and development lending includes the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost (including interest) of the project. If the estimate of construction cost proves to be inaccurate, we may advance funds beyond the amount originally committed to permit completion of the project. If the estimate of value upon completion proves to be inaccurate, we may be confronted at, or prior to, the maturity of the loan with a project the value of which is insufficient to assure full repayment. In addition, speculative construction loans to a builder are for homes that are not pre-sold, and thus pose a greater potential risk to us than construction loans to individuals on their personal residences. Loans on land under development or held for future construction as well as lot loans made to individuals for the future construction of a residence also pose additional risk because of the lack of income being produced by the property and the potential illiquid nature of the collateral. These risks can be significantly impacted by supply and demand conditions. As a result, this type of lending often involves the disbursement of substantial funds with repayment dependent on the success of the ultimate project and the ability of the borrower to sell the property, rather than the ability of the borrower or guarantor to independently repay principal and interest. While our origination of construction and development loans has decreased significantly over the last four years, we continue to have significant levels of construction and development loan balances as a result of recent merger activity. Most of our construction loans are for the construction of single family residences. Reflecting the current slowdown in the residential market, the secondary market for construction and development loans is depressed, so we have less opportunity to mitigate our credit risk by selling part or all of our interest in these loans. If we foreclose on a construction and development loan, our holding period for the collateral typically may be longer than we have historically experienced because there are fewer potential purchasers of the collateral. The decline in the number of potential purchasers has contributed to the decline in the value of these loans. Accordingly, charge-offs on construction and development loans have recently been and may continue to be larger than those incurred by other segments of our loan portfolio. At June 30, 2014, $5.1 million of our construction and development loans were for speculative construction loans. Also at June 30, 2014, $688,000 or 1.2%, of our total construction and land/lot loans and $6.3 million or 11.1%, of our construction and development loans were non-accruing.

Our commercial 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.

At June 30, 2014, commercial real estate loans were $377.8 million, or 25.2% of our total loan portfolio. These loans typically involve higher principal amounts than other types of loans. Repayment is dependent upon income being generated from the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. Commercial real estate loans may expose us to greater credit risk than loans secured by residential real estate because the collateral securing these loans may not be sold as easily as residential real estate. In addition, many of our commercial real estate loans are not fully amortizing and contain large balloon payments upon maturity. Balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non-payment.

Repayment of our municipal leases is dependent on the fire department receiving tax revenues from the county/municipality.

At June 30, 2014, municipal leases were $106.2 million, or 7.1%, of our total loan portfolio. We offer ground and equipment lease financing to fire departments located throughout North Carolina and, to a lesser extent, South Carolina. Repayment of our municipal leases is often dependent on the tax revenues collected by the county/municipality on behalf of the fire department. Although a municipal lease does not constitute a general obligation of the county/municipality for which the county/municipality's taxing power is pledged, a municipal lease is ordinarily backed by the county/municipality's covenant to budget for, appropriate and pay the tax revenues to the fire department. However, certain municipal leases contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for that purpose on a yearly basis. In the case of a "non-appropriation" lease, our ability to recover under the lease in the event of non-appropriation or default will be limited solely to the repossession of the leased property, without recourse to the general credit of the lessee, and disposition or releasing of the property might prove difficult. At June 30, 2014, $3.0 million of our municipal leases contained a non-appropriation clause.

Our provision for loan losses and net loan charge-offs increased significantly in 2012 and we may be required to make further increases in our provision for loan losses and to charge-off additional loans in the future, which could adversely affect our results of operations.

For the year ended June 30, 2014, we recorded a provision for (recovery of) loan losses of ($6.3) million, as compared to $1.1 million and $15.6 million for the years ended June 30, 2013 and 2012, respectively. We also recorded net loan charge-offs of $2.3 million for the year ended June 30, 2014 compared to net loan charge-offs of $4.1 million and $30.6 million, for the years ended June 30, 2013 and 2012, respectively. We are still experiencing elevated levels of loan delinquencies and credit losses as compared to historical standards. At June 30, 2014, our non-performing assets totaled $62.7 million compared to $80.3 million at June 30, 2013. If current weak conditions in the housing and real estate markets continue, we expect that we will continue to experience further delinquencies and credit losses. As a result, we may be required to make further increases in our provision for loan losses and to charge off additional loans in the future, which could materially adversely affect our financial condition and results of operations.

Our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio.

Lending money is a substantial part of our business and each loan carries a certain risk that it will not be repaid in accordance with its terms, or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- cash flow of the borrower and/or the project being financed;
- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the duration of the loan;
- the character and creditworthiness of a particular borrower; and

- changes in economic and industry conditions.

We maintain an allowance for loan losses, which we believe is an appropriate reserve to provide for probable losses in our loan portfolio. The allowance is funded by provisions for loan losses charged to expense. The amount of this allowance is determined by our management through periodic reviews and consideration of several factors, including, but not limited to:

- our general reserve, based on our historical default and loss experience, certain macroeconomic factors, and management's expectations of future events;
- our specific reserve, based on our evaluation of non-accruing loans and their underlying collateral; and
- an unallocated reserve to provide for other credit losses inherent in our portfolio that may not have been contemplated in the other loss factors.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses we will need additional provisions to replenish the allowance for loan losses. Any additional provisions will result in a decrease in net income and possibly capital, and may have a material adverse effect on our financial condition and results of operations.

If our nonperforming assets increase, our earnings will be adversely affected.

Our nonperforming assets (which consist of non-accruing loans and REO) were $62.7 million, or 3.02%, of total assets at June 30, 2014, while remaining unchanged at $80.3 million, or 5.1% and 4.7% of total assets, at June 30, 2013 and 2012, respectively. Our nonperforming assets adversely affect our net income in various ways:

- we record interest income only on a cash basis for nonaccrual loans and any nonperforming investment securities; and do not record interest income for REO;
- we must provide for probable loan losses through a current period charge to the provision for loan losses;
- non-interest expense increases when we write down the value of properties in our REO portfolio to reflect changing market values or recognize other-than-temporary impairment ("OTTI") on nonperforming investment securities;
- there are legal fees associated with the resolution of problem assets, as well as, carrying costs, such as taxes, insurance, and maintenance fees related to our REO; and
- the resolution of nonperforming assets requires the active involvement of management, which can distract them from more profitable activity.

If additional borrowers become delinquent and do not pay their loans and we are unable to successfully manage our nonperforming assets, our losses and troubled assets could increase significantly, which could have a material adverse effect on our financial condition and results of operations. We have also classified $22.2 million in loans as performing troubled debt restructurings at June 30, 2014.