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

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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.

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

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

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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

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.

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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.

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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:						Total Loans Delinquent		
	30-89 Days			90 Days and Over			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 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%

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	