

IF Bancorp, Inc.
Form 10-K
September 12, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 2018

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: 001-35226

IF BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	45-1834449 (I.R.S. Employer Identification No.)
201 East Cherry Street, Watseka, Illinois (Address of principal executive offices)	60970 (Zip Code)
(815) 432-2476	

(Registrant's telephone number, including area code)

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	Nasdaq Capital Market
Securities registered pursuant to Section 12(g) of the Act: None	

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 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.

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

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Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The aggregate market value of the voting and non-voting common equity held by nonaffiliates as of December 31, 2017 was \$60,233,522.

The number of shares outstanding of the registrant's common stock as of September 4, 2018 was 3,871,408.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the Registrant's Annual Meeting of Stockholders to be held on November 19, 2018 are incorporated by reference in Part III of this Form 10-K.

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This report contains certain forward-looking statements within the meaning of the federal securities laws. These statements are not historical facts; rather, they are statements based on IF Bancorp, Inc.'s current expectations regarding its business strategies, intended results and future performance. Forward-looking statements are preceded by terms such as expects, believes, anticipates, intends and similar expressions.

Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include interest rate trends, the general economic climate in the market area in which IF Bancorp, Inc. operates, as well as nationwide, IF Bancorp, Inc.'s ability to control costs and expenses, competitive products and pricing, loan delinquency rates and changes in federal and state legislation and regulation. For further discussion of factors that may affect the results, see Item 1A. Risk Factors in this Annual Report on

Form 10-K (Form 10-K). These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements.

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PART I

ITEM 1. BUSINESS

General

IF Bancorp, Inc. (IF Bancorp or the Company) is a Maryland corporation formed in March 2011 to become the holding company for Iroquois Federal Savings and Loan Association (Iroquois Federal or the Association).

The Company is primarily engaged in the business of directing, planning, and coordinating the business activities of Iroquois Federal. The Company's most significant asset is its investment in Iroquois Federal. At June 30, 2018 and 2017, we had consolidated assets of \$638.9 million and \$585.5 million, consolidated deposits of \$480.4 million and \$439.1 million and consolidated equity of \$81.7 million and \$84.0 million, respectively.

Iroquois Federal is a federally chartered savings association headquartered in Watseka, Illinois. The Association's business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in one- to four-family residential mortgage loans, multi-family mortgage loans, commercial real estate loans (including farm loans), home equity lines of credit, commercial business loans, consumer loans (consisting primarily of automobile loans), and, to a much lesser extent, construction loans and land development loans. We also invest in securities, which historically have consisted primarily of securities issued by the U.S. government, U.S. government agencies and U.S. government-sponsored enterprises, as well as mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises. To a lesser extent, we also invest in municipal obligations.

We offer a variety of deposit accounts, including savings accounts, certificates of deposit, money market accounts, commercial and personal checking accounts, individual retirement accounts and health savings accounts. We also offer alternative delivery channels, including ATMs, online banking and bill pay, mobile banking with mobile deposit and bill pay, ACH origination, remote deposit capture and telephone banking.

In addition to our traditional banking products and services, we offer a full line of property and casualty insurance products through Iroquois Federal's wholly-owned subsidiary, L.C.I. Service Corporation, an insurance agency with offices in Watseka and Danville, Illinois. We also offer annuities, mutual funds, individual and group retirement plans, life, disability and health insurance, individual securities, managed accounts and other financial services at all of our locations through Iroquois Financial, a division of Iroquois Federal. Raymond James Financial Services, Inc. serves as the broker-dealer for Iroquois Financial.

Available Information

IF Bancorp, Inc. is a public company, and files interim, quarterly and annual reports with the Securities and Exchange Commission. These respective reports are on file and a matter of public record with the Securities and Exchange Commission and may be read and copied at the Securities and Exchange Commission's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (<http://www.sec.gov>).

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IF Bancorp's executive offices are located at 201 East Cherry Street, Watseka, Illinois 60970. Our telephone number at this address is (815) 432-2476, and our website address is www.iroquoisfed.com. Information on our website should not be considered a part of this annual report.

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Market Area

We conduct our operations from our six full-service banking offices located in the municipalities of Watseka, Danville, Clifton, Hoopston, Savoy and Bourbonnais, Illinois and our loan production and wealth management office in Osage Beach, Missouri. In August 2018, we opened a new branch at 2411 Village Green Place, Champaign, Illinois. Our primary lending market includes the Illinois counties of Vermilion, Iroquois, Champaign and Kankakee, as well as the adjacent counties in Illinois and Indiana within 30 miles of a branch or loan production office. Our loan production and wealth management office in Osage Beach, Missouri, serves the Missouri counties of Camden, Miller and Morgan.

In recent years, Iroquois and Vermilion Counties, our traditional primary market areas, have experienced negative growth, reflecting in part, the economic downturn. However, Champaign County, where our Savoy branch is located, has experienced population growth. Future business and growth opportunities will be influenced by economic and demographic characteristics of our primary market area and of east central Illinois. According to data from the U.S. Census Bureau, Iroquois County had an estimated population of 28,000 in July 2017, a decrease of 6.1% since April 2010, Vermilion County had an estimated population of 78,000 in July 2017, a decrease of 4.6% since April 2010, and Kankakee County had an estimated population of 110,000 in July 2017, a decrease of 3.4% since April 2010, while Champaign County had an estimated population of 209,000 in July 2017, an increase of 3.9% since April 2010. Unemployment rates in our primary market have decreased over the last year. According to the Illinois Department of Employment Security, unemployment, on a non-seasonally adjusted basis, decreased from 4.1% to 3.8% in Iroquois County, from 6.8% to 6.0% in Vermilion County, from 4.8% to 4.7% in Champaign County, and from 5.4% to 4.9% in Kankakee County.

The economy in our primary market is fairly diversified, with employment in services, wholesale/retail trade, and government serving as the basis of the Iroquois County, Vermilion County, Champaign County and Kankakee economies. Manufacturing jobs, which tend to be higher paying jobs, are also a large source of employment in Vermilion, Champaign and Kankakee Counties, while Iroquois County is heavily influenced by agriculture and agriculture related businesses. Hospitals and other health care providers, local schools and trucking/distribution businesses also serve as major sources of employment.

Our Osage Beach, Missouri loan production and wealth management office is located in the Lake of the Ozarks region and serves the Missouri counties of Camden, Miller and Morgan. Once known primarily as a resort area, this market is becoming an area of permanent residences and a growing retirement community, providing an excellent market for mortgage loans and our wealth management and financial services business.

Competition

We face intense competition in our market area both in making loans and attracting deposits. We also compete with commercial banks, credit unions, savings institutions, mortgage brokerage firms, finance companies, mutual funds, insurance companies and investment banking firms. Some of our competitors have greater name recognition and market presence that benefit them in attracting customers, and offer certain services that we do not or cannot provide.

Our deposit sources are primarily concentrated in the communities surrounding our banking offices located in Iroquois and Vermilion Counties, Illinois. As of June 30, 2017, the latest date for which FDIC data is available, we ranked first of 12 bank and thrift institutions with offices in Iroquois County with a 25.32% deposit market share. As of the same date, we ranked first of 16 bank and thrift institutions with offices in Vermilion County with a 17.82% deposit market share, we ranked 22nd of 29 bank and thrift institutions with offices in Champaign County, with a 0.52% deposit market share and we ranked 18th of 18 bank and thrift institutions with offices in Kankakee County, with a 0.06%

deposit market share.

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Lending Activities

Our principal lending activity is the origination of one- to four-family residential mortgage loans, multi-family loans, commercial real estate loans (including farm loans), home equity loans and lines of credit, commercial business loans, consumer loans (consisting primarily of automobile loans), and, to a much lesser extent, construction loans and land development loans.

In addition to loans originated by Iroquois Federal, our loan portfolio includes loan purchases which are secured by single family homes located primarily in the Midwest. As of June 30, 2018 and 2017, the amount of such loans equaled \$5.9 million and \$7.6 million, respectively. See [Loan Originations, Purchases, Sales, Participations and Servicing](#).

Our loan portfolio also includes commercial loan participations which are secured by both real estate and other business assets, primarily within 100 miles of our primary lending market. As of June 30, 2018 and 2017, the amount of such loans equaled \$32.9 million and \$38.5 million, respectively. See [Loan Originations, Purchases, Sales, Participations and Servicing](#).

The Association's legal lending limit to any one borrower is 15% of unimpaired capital and surplus. On July 30, 2012 our bank received approval from the Comptroller of the Currency to participate in the Supplemental Lending Limits Program (SLLP). This program allows eligible savings associations to make additional residential real estate loans or extensions of credit to one borrower, small business loans or extensions of credit to one borrower, or small farm loans or extensions of credit to one borrower, in the lesser of the following two amounts: (1) 10% of its capital and surplus; or (2) the percentage of capital and surplus, in excess of 15%, that a state bank is permitted to lend under the state lending limit that is available for loans secured by one- to four-family residential real estate, small business loans, small farm loans or unsecured loans in the state where the main office of the savings association is located. For our association this additional limit (or supplemental limit(s)) for one- to four-family residential real estate, small business, or small farm loans is 10% of our Association's capital and surplus. In addition, the total outstanding amount of the Association's loans or extensions of credit or parts of loans and extensions of credit made to all of its borrowers under the SLLP may not exceed 100% of the Association's capital and surplus. By Association policy, participation of any credit facilities in the SLLP is to be infrequent and all credit facilities are to be with prior Board approval.

We originate a substantial portion of our fixed-rate one- to four-family residential mortgage loans for sale to the Federal Home Loan Bank of Chicago with servicing retained. Total loans sold under this program equaled approximately \$95.8 million and \$88.7 million as of June 30, 2018 and 2017, respectively. See [One- to Four-Family Residential Real Estate Lending](#) below for more information regarding the origination of loans for sale to the Federal Home Loan Bank of Chicago.

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Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, including loans held for sale, by type of loan at the dates indicated. Amounts shown for one- to four-family loans include loans held for sale of approximately \$206,000, \$186,000, \$0, \$93,000 and \$313,000 at June 30, 2018, 2017, 2016, 2015 and 2014, respectively.

	2018		2017		At June 30, 2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
Real estate loans:										
One- to four-family										
(1)	\$ 134,977	27.99%	\$ 140,647	31.47%	\$ 149,538	33.29%	\$ 144,887	40.18%	\$ 149,548	44.75%
Multi-family	107,436	22.28	87,228	19.52	84,200	18.15	58,399	16.20	61,603	18.45
Commercial	140,944	29.22	133,841	29.94	119,643	26.64	103,614	28.74	83,134	24.89
Home equity lines of credit	9,058	1.88	7,520	1.68	8,138	1.81	7,713	2.14	7,824	2.34
Construction	13,763	2.85	7,421	1.66	19,698	4.39	471	0.13	338	0.10
Commercial	68,720	14.25	62,392	13.96	57,826	12.87	37,151	10.30	23,120	6.92
Consumer	7,366	1.53	7,905	1.77	10,086	2.25	8,325	2.31	8,509	2.55
Total loans	482,264	100.00%	446,954	100.00%	449,129	100.00%	360,560	100.00%	333,986	100.00%
Less:										
Unearned fees and discounts, net	(161)		(203)		30		155		104	
Allowance for loan losses	5,945		6,835		5,351		4,211		3,958	
Total loans, net	\$ 476,480		\$ 440,322		\$ 443,748		\$ 356,194		\$ 329,924	

(1) Includes home equity loans.

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Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at June 30, 2018. We had no demand loans or loans having no stated repayment schedule or maturity at June 30, 2018.

	One- to four-family residential real estate (1)		Multi-family real estate		Commercial real estate		Home equity lines of credit	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due During the Years								
Ending June 30,								
2019	\$ 3,665	4.81%	\$ 5,000	4.61%	\$ 16,533	4.49%	\$ 661	5.19%
2020	7,748	6.37	5,982	3.99	22,175	3.83	370	4.84
2021 to 2022	11,878	4.80	34,705	3.92	44,203	4.28	1,655	4.62
2023 to 2027	23,002	4.79	52,072	4.28	44,302	4.51	1,606	4.97
2028 to 2032	10,128	4.46	3,327	4.42	8,528	4.23	2,938	4.50
2033 and beyond	78,556	4.11	6,350	4.45	5,203	4.50	1,828	4.35
Total	\$ 134,977	4.46%	\$ 107,436	4.18%	\$ 140,944	4.31%	\$ 9,058	4.64%

	Construction		Commercial		Consumer		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due During the Years								
Ending June 30,								
2019	\$ 1,476	4.72%	\$ 40,327	5.42%	\$ 1,255	4.52%	\$ 68,917	5.07%
2020			2,946	4.61	892	6.57	40,113	4.47
2021 to 2022	8,284	4.90	13,745	4.71	3,148	5.52	117,618	4.36
2023 to 2027	3,741	4.90	7,835	4.96	2,071	4.07	134,629	4.51
2028 to 2032			3,258	4.22			28,179	4.36
2033 and beyond	262	4.95	609	3.75			92,808	4.16
Total	\$ 13,763	4.88%	\$ 68,720	5.12%	\$ 7,366	5.07%	\$ 482,264	4.47%

(1) Includes home equity loans.

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at June 30, 2018 that are contractually due after June 30, 2019.

	Due After June 30, 2019		
	Fixed	Adjustable	Total
	(In thousands)		
Real estate loans:			
One- to four-family (1)	\$ 45,938	\$ 85,374	\$ 131,312
Multi-family	92,696	9,740	102,436
Commercial	107,759	16,652	124,411
Home equity lines of credit	3,198	5,199	8,397
Construction	3,324	8,963	12,287
Commercial	27,783	610	28,393
Consumer	6,111		6,111
Total loans	\$ 286,809	\$ 126,538	\$ 413,347

(1) Includes home equity loans.

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One- to Four-Family Residential Mortgage Loans. At June 30, 2018, \$135.0 million, or 28.0% of our total loan portfolio, consisted of one- to four-family residential mortgage loans. We offer residential mortgage loans that conform to Fannie Mae and Freddie Mac underwriting standards (conforming loans) as well as non-conforming loans. We generally underwrite our one- to four-family residential mortgage loans based on the applicant's employment and credit history and the appraised value of the subject property. We also offer loans through various agency programs, such as the Mortgage Partnership Finance Program of the Federal Home Loan Bank of Chicago, which are originated for sale.

We currently offer fixed-rate conventional mortgage loans with terms of up to 30 years that are fully amortizing with monthly loan payments. We also offer adjustable-rate mortgage loans that generally provide an initial fixed interest rate of five to seven years and annual interest rate adjustments thereafter. Our adjustable rate mortgage loans amortize over a period of up to 30 years. We offer one- to four-family residential mortgage loans with loan-to-value ratios up to 102%. Private mortgage insurance or participation in a government sponsored program is required for all one- to four-family residential mortgage loans with loan-to-value ratios exceeding 90%. One- to four-family residential mortgage loans with loan-to-value ratios above 80%, but below 90%, require private mortgage insurance unless waived by management. At June 30, 2018, fixed-rate one- to four-family residential mortgage loans totaled \$49.2 million, or 36.5% of our one- to four-family residential mortgage loans, and adjustable-rate one- to four-family residential mortgage loans totaled \$85.7 million, or 63.5% of our one- to four-family residential mortgage loans.

Our one- to four-family residential mortgage loans are generally conforming loans. We generally originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency for Fannie Mae and Freddie Mac, which for our primary market area is currently \$453,100 for single-family homes. At June 30, 2018, our average one- to four-family residential mortgage loan had a principal balance of \$84,000. We also originate loans above the lending limit for conforming loans, which we refer to as jumbo loans. At June 30, 2018, \$31.9 million, or 23.7%, of our total one- to four-family residential loans had principal balances in excess of \$453,100. Most of our jumbo loans are originated with a seven-year fixed-rate term and an annual adjustable rate thereafter, with up to a 30 year amortization schedule. Occasionally we will originate fixed-rate jumbo loans with terms of up to 15 years.

We actively monitor our interest rate risk position to determine the desirable level of investment in fixed-rate mortgage loans. In recent years there has been increased demand for long-term fixed-rate loans, as market rates have dropped and remained near historic lows. As a result, we have sold a substantial majority of our fixed-rate one- to four-family residential mortgage loans with terms of 15 years or greater. We sell fixed-rate residential mortgages to the Federal Home Loan Bank of Chicago, with servicing retained, under its Mortgage Partnership Finance Program. Since December 2008, we have sold loans to the Federal Home Loan Bank of Chicago under its Mortgage Partnership Finance Xtra Program. Total mortgages sold under this program were approximately \$3.6 million and \$6.5 million for the years ended June 30, 2018 and 2017, respectively. In October 2015, we began to also sell loans to FHLBC under its Mortgage Partnership Finance Original Program. Total loans sold under this program were approximately \$14.3 million and \$13.9 million for the years ended June 30, 2018 and 2017, respectively. Generally, however, we retain in our portfolio fixed-rate one- to four-family residential mortgage loans with terms of less than 15 years, although this has represented a small percentage of the fixed-rate loans that we have originated in recent years due to the favorable long-term rates for borrowers.

We currently offer several types of adjustable-rate mortgage loans secured by residential properties with interest rates that are fixed for an initial period of five to seven years. We offer adjustable-rate mortgage loans that are fully amortizing. After the initial fixed period, the interest rate on adjustable-rate mortgage loans generally resets every year based upon the weekly average of a one-year U.S. Treasury Securities rate plus an applicable margin, subject to periodic and lifetime limitations on interest rate changes. The adjustable rate mortgage loans we are currently offering

have a 2% maximum annual rate change up or down, and a 6% lifetime cap. In our portfolio are also adjustable rate mortgage loans with a 1% maximum annual rate change up or down, and a 5% lifetime cap up from the initial rate. Interest rate changes are further limited by floors. After the initial fixed period, the interest rate will generally have a floor that is equal to the initial rate, but no less than 4.0% on our five and seven year adjustable-rate mortgage loans.

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Adjustable-rate mortgage loans generally present different credit risks than fixed-rate mortgage loans, This is primarily because the underlying debt service payments of the borrowers increase as interest rates increase, thereby increasing the potential for default and higher rates of delinquency in a rising interest rate environment. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Since changes in the interest rates on adjustable-rate mortgages may be limited by an initial fixed-rate period or by the contractual limits on periodic interest rate adjustments, adjustable-rate loans may not adjust as quickly to increases in interest rates as our interest-bearing liabilities.

In addition to traditional one- to four-family residential mortgage loans, we offer home equity loans that are secured by a second mortgage on the borrower's primary or secondary residence. Home equity loans are generally underwritten using the same criteria that we use to underwrite one- to four-family residential mortgage loans. Home equity loans may be underwritten with a loan-to-value ratio of up to 90% when combined with the principal balance of the existing first mortgage loan. Our home equity loans are primarily originated with fixed rates of interest with terms of up to 10 years, fully amortized. At June 30, 2018, approximately \$1.7 million, or 1.2% of our one- to four-family mortgage loans were home equity loans secured by a second mortgage.

Home equity loans secured by second mortgages have greater risk than one- to four-family residential mortgage loans or home equity loans secured by first mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Particularly with respect to our home equity loans, decreases in real estate values could adversely affect the value of property used as collateral for our loans.

We do not offer or purchase loans that provide for negative amortization of principal, such as Option ARM loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan.

We require title insurance on all of our one- to four-family residential mortgage loans, and we also require that borrowers maintain fire and extended coverage casualty insurance in an amount at least equal to the lesser of the loan balance or the replacement cost of the improvements. We also require flood insurance, as applicable. We do not conduct environmental testing on residential mortgage loans unless specific concerns for hazards are identified by the appraiser used in connection with the origination of the loan.

Commercial Real Estate and Multi-family Real Estate Loans. At June 30, 2018, \$140.9 million, or 29.2% of our loan portfolio consisted of commercial real estate loans, and \$107.4 million, or 22.3% of our loan portfolio consisted of multi-family (which we consider to be five or more units) residential real estate loans. At June 30, 2018, substantially all of our commercial real estate and multi-family real estate loans were secured by properties located in Illinois, Indiana and Missouri.

Our commercial real estate mortgage loans are primarily secured by office buildings, owner-occupied businesses, retail rentals, churches, and farm loans secured by real estate. At June 30, 2018, loans secured by commercial real estate had an average loan balance of \$518,000. We originate commercial real estate loans with balloon and adjustable rates of up to seven years with amortization up to 25 years. At June 30, 2018, \$20.7 million or 14.7% of our commercial real estate loans had adjustable rates. The rates on our adjustable-rate commercial real estate loans are generally based on the prime rate of interest plus an applicable margin, and generally have a specified floor.

We originate multi-family loans with balloon and adjustable rates for terms of up to seven years with amortization up to 25 years. At June 30, 2018, \$10.1 million or 9.4% of our multi-family loans had adjustable rates. The rates on our adjustable-rate multi-family loans are generally tied to the prime rate of interest plus or minus an applicable margin and generally have a specified floor.

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In underwriting commercial real estate and multi-family real estate loans, we consider a number of factors, which include the projected net cash flow to the loan's debt service requirement (generally requiring a minimum ratio of 120%), the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. Commercial real estate and multi-family real estate loans are originated in amounts up to 80% of the appraised value or the purchase price of the property securing the loan, whichever is lower. Personal guarantees are typically obtained from commercial real estate and multi-family real estate borrowers. In addition, the borrower's financial information on such loans is monitored on an ongoing basis by requiring periodic financial statement updates.

Commercial real estate and multi-family real estate loans generally carry higher interest rates and have shorter terms than one- to four-family residential mortgage loans. Commercial real estate and multi-family real estate loans, however, entail greater credit risks compared to the one- to four-family residential mortgage loans we originate, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the property, as repayment of the loan generally is dependent, in large part, on sufficient income from the property to cover operating expenses and debt service. Changes in economic conditions that are not in the control of the borrower or lender could affect the value of the collateral for the loan or the future cash flow of the property. Additionally, any decline in real estate values may be more pronounced for commercial real estate and multi-family real estate than for one- to four-family residential properties.

At June 30, 2018, our largest commercial real estate loan had an outstanding balance of \$6.7 million, was secured by a commercial building, and was performing in accordance with its terms. At that date, our largest multi-family real estate loan had a balance of \$11.3 million, was secured by multiple apartment buildings with a total of 353 units, and was performing in accordance with its terms.

Home Equity Lines of Credit. In addition to traditional one- to four-family residential mortgage loans and home equity loans, we offer home equity lines of credit that are secured by the borrower's primary or secondary residence. Home equity lines of credit are generally underwritten using the same criteria that we use to underwrite one- to four-family residential mortgage loans. Our home equity lines of credit are originated with either fixed or adjustable rates and may be underwritten with a loan-to-value ratio of up to 90% when combined with the principal balance of an existing first mortgage loan. Fixed-rate lines of credit are generally based on the prime rate of interest plus an applicable margin and have monthly payments of 1.5% of the outstanding balance. Adjustable-rate home equity lines of credit are based on the prime rate of interest plus or minus an applicable margin and require interest paid monthly. Both fixed and adjustable rate home equity lines of credit have balloon terms of five years. At June 30, 2018 we had \$9.1 million, or 1.9% of our total loan portfolio in home equity lines of credit. At that date we had \$5.5 million of undisbursed funds related to home equity lines of credit.

Home equity lines of credit secured by second mortgages have greater risk than one- to four-family residential mortgage loans secured by first mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Particularly with respect to our home equity lines of credit, decreases in real estate values could adversely affect the value of property securing the loan.

Commercial Business Loans. We also originate commercial non-mortgage business (term) loans and adjustable lines of credit. At June 30, 2018, we had \$68.7 million of commercial business loans outstanding, representing 14.2% of our total loan portfolio. At that date, we also had \$18.5 million of unfunded commitments on such loans. These loans

are generally originated to small- and medium-sized companies in our primary market area. Our commercial business loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture, and are primarily secured by business assets other than real estate, such as business equipment and inventory, accounts receivable or stock. We also offer agriculture loans that are not secured by real estate.

In underwriting commercial business loans, we generally lend up to 80% of the appraised value or purchase price of the collateral securing the loan, whichever is lower. The commercial business loans that we offer have fixed interest rates or adjustable rates indexed to the prime rate of interest plus an applicable margin, and with terms

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ranging from one to seven years. Our commercial business loan portfolio consists primarily of secured loans. When making commercial business loans, we consider the financial statements, lending history and debt service capabilities of the borrower (generally requiring a minimum ratio of 120%), the projected cash flows of the business and the value of the collateral, if any. Virtually all of our loans are guaranteed by the principals of the borrower.

Commercial business loans generally have a greater credit risk than one- to four-family residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. We seek to minimize these risks through our underwriting standards.

At June 30, 2018, our largest commercial business loan outstanding was for \$5.5 million and was secured by business equipment and assets. At June 30, 2018, this loan was performing in accordance with its terms.

Construction Loans. We also originate construction loans for one- to four-family residential properties and commercial real estate properties, including multi-family properties. At June 30, 2018, \$13.8 million, or 2.9%, of our total loan portfolio, consisted of construction loans, which were secured by one- to four-family residential real estate, multi-family real estate properties and commercial real estate properties.

Construction loans for one- to four-family residential properties are originated with a maximum loan to value ratio of 85% and are generally interest-only loans during the construction period which typically does not exceed 12 months. After this time period, the loan converts to permanent, amortizing financing following the completion of construction. Construction loans for commercial real estate are made in accordance with a schedule reflecting the cost of construction, and are generally limited to an 80% loan-to-completed appraised value ratio. We generally require that a commitment for permanent financing be in place prior to closing the construction loan.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property.

Moreover, if the estimated value of the completed project is inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. Construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

At June 30, 2018, all of the construction loans that we originated were for one- to four-family residential properties, multi-family real estate properties and commercial real estate properties. The largest of such construction loans at June 30, 2018 was for a 93 unit apartment building and had a principal balance of \$5.5 million. This loan was performing in accordance with its terms at June 30, 2018.

Loan Originations, Purchases, Participations, Sales and Servicing. Lending activities are conducted primarily by our loan personnel operating in each office. All loans that we originate are underwritten pursuant to our standard policies and procedures. In addition, our one- to four-family residential mortgage loans generally incorporate Fannie

Mae, Freddie Mac or Federal Home Loan Bank of Chicago underwriting guidelines, as applicable. We originate both adjustable-rate and fixed-rate loans. Our ability to originate fixed- or adjustable-rate loans is dependent upon the relative customer demand for such loans, which is affected by current market interest rates as well as anticipated future market interest rates. Our loan origination and sales activity may be adversely affected by a rising interest rate environment which typically results in decreased loan demand. Most of our commercial real estate and commercial business loans are generated by our internal business development efforts and referrals from professional contacts. Most of our originations of one- to four-family residential mortgage loans, consumer loans and home equity loans and lines of credit are generated by existing customers, referrals from realtors, residential home builders, walk-in business and from our website.

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Consistent with our interest rate risk strategy, in the low interest rate environment that has existed in recent years, we have sold on a servicing-released basis a substantial majority of the conforming, fixed-rate one- to four-family residential mortgage loans with maturities of 15 years or greater that we have originated.

From time to time, we purchase loan participations in commercial loans in which we are not the lead lender secured by real estate and other business assets, primarily within 100 miles of our primary lending area. In these circumstances, we follow our customary loan underwriting and approval policies. We have sufficient capital to take advantage of these opportunities to purchase loan participations, as well as strong relationships with other community banks in our primary market area and throughout Illinois that may desire to sell participations, and we may increase our purchases of participations in the future as a growth strategy. At June 30, 2018 and 2017, the amount of commercial loan participations totaled \$32.9 million and \$38.5 million, respectively, of which \$11.0 million and \$10.3 million, at June 30, 2018 and 2017 were outside our primary market area.

We sell a portion of our fixed-rate residential mortgage loans to the Federal Home Loan Bank of Chicago under its Mortgage Partnership Finance Xtra Program and its Mortgage Partnership Finance Original Program. We retain servicing on all loans sold under these programs. During the years ended June 30, 2018 and 2017, we sold \$17.9 million and \$20.4 million of loans to the Federal Home Loan Bank of Chicago under the program. Prior to December 2008, we also retained some credit risk associated with loans sold to the Federal Home Loan Bank of Chicago. For additional information regarding retained risk associated with these loans, see Allowance for Loan Losses Other Credit Risk.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors. The loan approval process is intended to assess the borrower's ability to repay the loan and the value of the collateral that will secure the loan. To assess the borrower's ability to repay, we review the borrower's employment and credit history and information on the historical and projected income and expenses of the borrower. We will also evaluate a guarantor when a guarantee is provided as part of the loan.

Iroquois Federal's policies and loan approval limits are established by our Board of Directors. Our loan officers generally have authority to approve one- to four-family residential mortgage loans up to \$100,000, other secured loans up to \$50,000, and unsecured loans up to \$10,000. Managing Officers (those with designated loan approval authority) generally have authority to approve one- to four-family residential mortgage loans and other secured loans up to \$300,000, and unsecured loans up to \$100,000. In addition, any two individual officers may combine their loan authority limits to approve a loan. Our Loan Committee may approve one- to four-family residential mortgage loans, commercial real estate loans, multi-family real estate loans and land loans up to \$1,000,000 and unsecured loans up to \$300,000. All loans above these limits must be approved by the Operating Committee, consisting of the Chairman, and up to four other Board members.

We generally require appraisals from certified or licensed third party appraisers of all real property securing loans. When appraisals are ordered, they are done so through an agency independent of the Association or by staff independent of the loan approval process, in order to maintain a process free of any influence or pressure from any party that has an interest in the transaction.

Non-performing and Problem Assets

For all of our loans, once a loan is 15 days delinquent, a past due notice is mailed. Past due notices continue to be mailed monthly in the event the account is not brought current. Prior to the time a loan is 30 days past due, we attempt to contact the borrower by telephone. Thereafter we continue with follow-up calls. Generally, once a loan becomes

90-120 days delinquent, if no work-out efforts have been pursued, we commence the foreclosure or repossession process. A summary report of all loans 90 days or more past due and all criticized and classified loans is provided monthly to our Board of Directors.

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Loans are evaluated for non-accrual status when payment of principal and/or interest is 90 days or more past due. Loans are also placed on non-accrual status when it is determined collection of principal or interest is in doubt or if the collateral is in jeopardy. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received and only after the loan is returned to accrual status. The loans are typically returned to accrual status if unpaid principal and interest are repaid so that the loan is current.

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. At June 30, 2018, 2017, 2016, 2015 and 2014, we had troubled debt restructurings of approximately \$2.9 million, \$3.1 million, \$2.3 million, \$2.6 million and \$2.9 million, respectively. At the dates presented, we had one loan that was delinquent 120 days or greater and that were still accruing interest. This loan is a performing TDR with more than 3 years of payments as agreed, but it is still listed as delinquent more than 120 days.

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	2018	2017	At June 30,		
			2016	2015	2014
	(Dollars in thousands)				
Non-accrual loans:					
Real estate loans:					
One- to four-family (1)	\$ 6,339	\$ 9,105	\$ 1,604	\$ 2,724	\$ 2,146
Multi-family	116	146	185	240	296
Commercial	50	25	63	46	55
Home equity lines of credit		24	316		28
Construction					
Commercial	30	84	9	21	29
Consumer				14	30
Total non-accrual loans	6,535	9,384	2,177	3,045	2,584
Loans delinquent 90 days or greater and still accruing:					
Real estate loans:					
One- to four-family (1)	293	155	4	15	182
Multi-family					
Commercial					
Home equity line of credit					
Construction					
Commercial					
Consumer	1		8	7	
Total loans delinquent 90 days or greater and still accruing	294	155	12	22	182
Total non-performing loans	6,829	9,539	2,189	3,067	2,766
Performing troubled debt restructurings	2,675	2,211	2,084	1,855	1,959
Total non-performing loans and performing troubled debt restructurings	\$ 9,504	\$ 11,750	\$ 4,273	\$ 4,922	\$ 4,725
Other real estate owned and foreclosed assets:					
Real estate loans:					
One- to four-family (1)		210	338	50	416
Multi-family					
Commercial					20
Home equity lines of credit					
Construction					
Commercial	219	219			
Consumer					
Total other real estate owned and foreclosed assets	219	429	338	50	436
Total non-performing assets	\$ 7,048	\$ 9,968	\$ 2,527	\$ 3,117	\$ 3,202

Ratios:					
Non-performing loans to total loans	1.42%	2.13%	0.49%	0.85%	0.82%
Non-performing assets to total assets	1.10%	1.70%	0.42%	0.55%	0.58%

(1) Includes home equity loans.

For the years ended June 30, 2018 and 2017, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was \$554,000 and \$142,000, respectively. We recognized no interest income on such loans for the years ended June 30, 2018 and 2017.

At June 30, 2018, our non-accrual loans totaled \$6.5 million. These non-accrual loans consisted primarily of 6 one- to four-family residential loans with aggregate principal balances totaling \$6.3 million with no specific allowances, 3 commercial real estate loans with aggregate principal balances totaling \$50,000 and specific allowances of \$3,000, 2 multi-family loans with aggregate principal balances totaling \$116,000 with no specific allowances, and 1 commercial business loan with a principal balance of \$30,000 and no specific allowance.

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The \$6.3 million of non-accrual one- to four-family loans at June 30, 2018 was related to one credit relationship. In June 2017, a \$7.8 million loan secured by 45 one- to four-family properties was moved to non-performing when the borrower became involved in litigation, and subsequently filed for bankruptcy protection. The properties securing this loan are all existing homes that were acquired by the borrower to be renovated and resold. As of June 30, 2018, we have accrued real estate taxes of \$577,000 and we have charged off \$1.5 million of the credit to reflect the net realizable value of the properties. In July of 2018, we charged off the remaining \$6.3 million of this loan and the 45 properties with an aggregate value of \$6.3 million were moved to foreclosed assets held for sale.

Troubled Debt Restructurings. Troubled debt restructurings are defined under ASC 310-40 to include loans for which either a portion of interest or principal has been forgiven, or for loans modified at interest rates or on terms materially less favorable than current market rates. We periodically modify loans to extend the term or make other concessions to help borrowers stay current on their loans and to avoid foreclosure. At June 30, 2018 and 2017, we had \$2.9 million and \$3.1 million, respectively, of troubled debt restructurings. At June 30, 2018 our troubled debt restructurings consisted of \$1.6 million of residential one- to four-family mortgage loans, \$1.2 million of multi-family real estate loans, \$17,000 of commercial real estate loans, \$26,000 of home equity lines of credit loans, \$30,000 of commercial business loans, and \$3,000 of consumer loans, all of which were impaired.

For the years ended June 30, 2018 and 2017, gross interest income that would have been recorded had our troubled debt restructurings been performing in accordance with their original terms was \$176,000 and \$163,000, respectively. We recognized interest income of \$137,000 and \$136,000 on such modified loans for the years ended June 30, 2018 and 2017, respectively.

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Delinquent Loans. The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated.

Loans Delinquent For
90 Days or
60 to 89 Days Greater Total
Number Amount Number Amount Number Amount
(Dollars in thousands)

At June 30, 2018

Real estate loans:

One- to four-family (1)	4	207	10	6,633	14	6,840
Multi-family			1	2	1	2
Commercial	1	13	2	37	3	50
Home equity lines of credit	1	23			1	23
Construction						
Commercial			1	30	1	30
Consumer	2	29	1	1	3	30
Total loans	8	\$ 272	15	\$ 6,703	23	\$ 6,975

At June 30, 2017

Real estate loans:

One- to four-family (1)	4	158	5	540	9	698
Multi-family						
Commercial	1	84			1	84
Home equity lines of credit			1	24	1	24
Construction						
Commercial						
Consumer	3	6			3	6
Total loans	8	\$ 248	6	\$ 564	14	\$ 812

At June 30, 2016

Real estate loans:

One- to four-family (1)	6	148	9	1,489	15	1,637
Multi-family						
Commercial	2	97	1	27	3	124
Home equity lines of credit			1	316	1	316
Construction						
Commercial	1	100			1	100
Consumer	1	5	1	8	2	13
Total loans	10	\$ 350	12	\$ 1,840	22	\$ 2,190

At June 30, 2015

Real estate loans:

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One- to four-family (1)	14	724	17	2,279	31	3,003
Multi-family	1	31			1	31
Commercial	3	137			3	137
Home equity lines of credit						
Construction						
Commercial	1	21			1	21
Consumer			3	21	3	21
Total loans	19	\$ 913	20	\$ 2,300	39	\$ 3,213
At June 30, 2014						
Real estate loans:						
One- to four-family (1)	14	876	14	1,500	28	2,379
Multi-family						
Commercial	1	349			1	349
Home equity lines of credit	2	36			2	36
Construction						
Commercial						
Consumer	4	33			4	33
Total loans	21	\$ 1,294	14	\$ 1,500	35	\$ 2,794

(1) Includes home equity loans.

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Total delinquent loans increased by \$6.2 million to \$7.0 million at June 30, 2018 from \$812,000 at June 30, 2017. The increase in delinquent loans was due primarily to an increase of \$6.1 million in one- to four-family loans, an increase of \$30,000 in commercial business loans, and an increase of \$24,000 in consumer loans, partially offset by a decrease of \$34,000 in commercial real estate loans.

Real Estate Owned and Foreclosed Assets. Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned. When property is acquired it is recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Estimated fair value generally represents the sale price a buyer would be willing to pay on the basis of current market conditions, including normal terms from other financial institutions, less the estimated costs to sell the property. Holding costs and declines in fair value result in charges to expense after acquisition. In addition, we could repossess certain collateral, including automobiles and other titled vehicles, called other repossessed assets. At June 30, 2018, we had \$219,000 in foreclosed assets compared to \$429,000 as of June 30, 2017. Foreclosed assets at June 30, 2018, consisted of \$219,000 in commercial nonoccupied property, while foreclosed assets at June 30, 2017, consisted of \$210,000 in residential real estate property and \$219,000 in commercial nonoccupied property.

Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. 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 assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent 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 (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve our close attention, are required to be designated as watch.

When we classify assets as either substandard or doubtful, we undertake an impairment analysis which may result in allocating a portion of our general loss allowances to a specific allowance for such assets as we deem prudent. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. When we classify a problem asset as loss, we charge off the asset. For other classified assets, we provide a specific allowance for that portion of the asset that is considered uncollectible. Our determination as to the classification of our assets and the amount of our loss allowances are subject to review by our principal federal regulator, the Office of the Comptroller of the Currency, which can require that we establish additional loss allowances. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations.

The following table sets forth our amounts of classified assets, assets designated as watch and total criticized assets (classified assets and loans designated as watch) as of the date indicated. Amounts shown at June 30, 2018 and 2017, include approximately \$6.8 million and \$9.5 million of nonperforming loans, respectfully. The related specific valuation allowance in the allowance for loan losses for such nonperforming loans was \$3,000 and \$1.5 million at June 30, 2018 and 2017, respectively. Substandard assets shown include foreclosed assets.

At June 30,	
2018	2017

	(In thousands)	
Classified assets:		
Substandard	\$ 2,617	\$ 10,887
Doubtful	6,332	
Loss		
Total classified assets	8,949	10,887
Watch	2,294	4,323
Total criticized assets	\$ 11,243	\$ 15,210

At June 30, 2018, substandard assets consisted of \$1.3 million of one- to four-family residential mortgage loans, \$116,000 in multi-family loans, \$50,000 in commercial real estate loans, \$23,000 in home equity lines of credit, \$941,000 in commercial business loans, \$3,000 in consumer loans, and \$219,000 of foreclosed assets held for sale. At June 30, 2018, watch assets consisted of \$1.1 million of commercial real estate loans, and \$1.2 million of commercial business loans, while doubtful assets consisted of \$6.3 million in one- to four-family residential

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mortgage loans and \$30,000 in commercial business loans. In July 2018, the \$6.3 million of one- to four-family loans classified as doubtful were moved to foreclosed assets held for sale in July 2018. The remaining \$6.3 million of value of these loans was charged off upon the transfer to foreclosed assets. At June 30, 2018, no assets were classified as loss.

Other Loans of Concern. At June 30, 2018, there were no other loans or other assets that are not disclosed in the text or tables above where known information about the possible credit problems of borrowers caused us to have serious doubts as to the ability of the borrowers to comply with present loan repayment terms and which may result in disclosure of such loans in the future.

Other Credit Risk. We also have some credit risk associated with fixed-rate residential loans that we sold to the Federal Home Loan Bank of Chicago between 2000 and December 2008, and again starting in October 2015, under its Mortgage Partnership Finance (MPF) Original Program. However, while we retain the servicing of these loans and receive both service fees and credit enhancement fees, they are not our assets. We sold \$14.3 million in loans under this program in the year ended June 30, 2018, and we continue to service approximately \$34.3 million of these loans, for which our maximum potential credit risk is approximately \$1.6 million. From June 2000 to June 30, 2018, we experienced only \$170,000 in actual losses under the MPF Original Program. We have also sold loans to the Federal Home Loan Bank of Chicago since December 2008 under its Mortgage Partnership Finance Xtra Program. Unlike loans sold under the MPF Original Program, we do not retain any credit risk with respect to loans sold under the MPF Xtra Program.

Allowance for Loan Losses

The allowance for loan losses represents one of the most significant estimates within our financial statements and regulatory reporting. Because of this, we have developed, maintained, and documented a comprehensive, systematic, and consistently applied process for determining the allowance for loan losses, in accordance with GAAP, our stated policies and procedures, management's best judgment and relevant supervisory guidance.

Our allowance for loan losses is the amount considered necessary to reflect probable incurred losses in our loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis, and more frequently if warranted. We analyze the collectability of loans held for investment and maintain an allowance that is appropriate and determined in accordance with GAAP. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of two key elements: (1) specific allowances for estimated credit losses on individual loans that are determined to be impaired through our review for identified problem loans; and (2) a general allowance based on estimated credit losses inherent in the remainder of the loan portfolio.

In performing the allowance for loan loss review, we have divided our credit portfolio into several separate homogeneous and non-homogeneous categories within the following groups:

Mortgage Loans: one- to four-family residential first lien loans originated by Iroquois Federal; one- to four-family residential first lien loans purchased from a separate origination company; one- to four-family residential junior lien loans; home equity lines of credit; multi-family residential loans on properties with five or more units; non-residential real estate loans; and loans on land under current development or for

future development.

Consumer Loans (unsecured or secured by other than real estate): loans secured by deposit accounts; loans for home improvement; educational loans; automobile loans; mobile home loans; loans on other security; and unsecured loans.

Commercial Loans (unsecured or secured by other than real estate): secured loans and unsecured loans.

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Determination of Specific Allowances for Identified Problem Loans. We establish a specific allowance when loans are determined to be impaired. Loss is measured by determining the present value of expected future cash flows, the loan's observable market value, or, for collateral-dependant loans, the fair value of the collateral adjusted for market conditions and selling expenses. Factors used in identifying a specific problem loan include: (1) the strength of the customer's personal or business cash flows; (2) the availability of other sources of repayment; (3) the amount due or past due; (4) the type and value of collateral; (5) the strength of our collateral position; (6) the estimated cost to sell the collateral; and (7) the borrower's effort to cure the delinquency. In addition, for loans secured by real estate, we consider the extent of any past due and unpaid property taxes applicable to the property serving as collateral on the mortgage.

Determination of General Allowance for Remainder of the Loan Portfolio. We establish a general allowance for loans that are not deemed impaired to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience, delinquency trends and management's evaluation of the collectability of the loan portfolio. The allowance is then adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors may include: (1) Management's assumptions regarding the minimal level of risk for a given loan category and includes amounts for anticipated losses which may not be reflected in our current loss history experience; (2) changes in lending policies and procedures, including changes in underwriting standards, and charge-off and recovery practices not considered elsewhere in estimating credit losses; (3) changes in international, national, regional and local economics and business conditions and developments that affect the collectability of the portfolio, including the conditions of various market segments; (4) changes in the nature and volume of the portfolio and in the terms of loans; (5) changes in the experience, ability, and depth of the lending officers and other relevant staff; (6) changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified loans; (7) changes in the quality of the loan review system; (8) changes in the value of the underlying collateral for collateral-dependant loans; (9) the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and (10) the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio. The applied loss factors are re-evaluated quarterly to ensure their relevance in the current environment.

Although our policy allows for a general valuation allowance on certain smaller-balance, homogenous pools of loans classified as substandard, we have historically evaluated every loan classified as substandard, regardless of size, for impairment as part of our review for establishing specific allowances. Our policy also allows for a general valuation allowance on certain smaller-balance, homogenous pools of loans which are loans criticized as special mention or watch. A separate general allowance calculation is made on these loans based on historical measured weakness, and which is no less than twice the amount of general allowances calculated on our non-classified loans.

In addition, as an integral part of their examination process, the Office of the Comptroller of the Currency will periodically review our allowance for loan losses. Such agency may require that we recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

We periodically evaluate the carrying value of loans and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. Loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans, including troubled debt restructurings, that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Generally, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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The allowance for loan losses decreased \$890,000 to \$5.9 million at June 30, 2018, from \$6.8 million at June 30, 2017. The decrease was a result of net charge-offs of \$1.7 million, partially offset by an increase in outstanding loans and corresponding provision expense, and was necessary in order to bring the allowance for loan losses to a level that reflects management's estimate of the probable loss in the Company's loan portfolio at June 30, 2018.

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

The following table sets forth the Company's weighted average historical net charge-offs as of June 30, 2018 and June 30, 2017:

Portfolio segment	June 30, 2018 Net charge-offs 12 quarter weighted historical	June 30, 2017 Net charge-offs 12 quarter weighted historical
Real Estate:		
One- to four-family	0.65%	0.12%
Multi-family	%	%
Commercial	%	%
HELOC	0.23%	0.17%
Construction	%	%
Commercial business	0.02%	%
Consumer	0.04%	0.05%
Entire portfolio total	0.20%	0.05%

Additionally, in its quarterly evaluation of the adequacy of the allowance for loan losses, the Company evaluates changes in financial conditions of individual borrowers; changes in local, regional, and national economic conditions; the Company's historical loss experience; and changes in market conditions for property pledged to the Company as collateral. As noted above, the Company has identified specific qualitative factors that address these issues and assigns a percentage to each factor based on management's judgement. The qualitative factors are applied to the allowance for loan losses based upon the following percentages by loan type:

Portfolio segment	Qualitative factor applied at June 30, 2018	Qualitative factor applied at June 30, 2017
Real Estate:		
One- to four-family	0.13%	0.64%
Multi-family	1.56%	1.56%
Commercial	1.21%	1.20%

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HELOC	0.77%	0.84%
Construction	1.22%	1.01%
Commercial business	1.98%	1.99%
Consumer	0.74%	0.76%
Entire portfolio total	1.05%	1.17%

At June 30, 2018, the amount of our allowance for loan losses attributable to these qualitative factors was approximately \$5.1 million, as compared to \$5.2 million at June 30, 2017. The general decrease in qualitative factors was attributable primarily to actual losses versus minimum expected losses already factored.

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

The following table sets forth activity in our allowance for loan losses at and for the periods indicated.

	At or For the Fiscal Years Ended June 30,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Balance at beginning of period	\$ 6,835	\$ 5,351	\$ 4,211	\$ 3,958	\$ 3,938
Charge-offs:					
Real estate loans:					
One- to four-family (1)	(1,608)	(232)	(188)	(231)	(418)
Multi-family					
Commercial		(8)	(3)		(28)
Home equity lines of credit	(24)		(32)	(35)	(16)
Construction					
Commercial	(30)				(38)
Consumer	(14)	(35)	(10)	(12)	(38)
Total charge-offs	(1,676)	(275)	(233)	(278)	(538)
Recoveries:					
Real estate loans:					
One- to four-family (1)	1	32	5	29	50
Multi-family					
Commercial					
Home equity lines of credit				13	
Construction					
Commercial					
Consumer	8	6	2	29	6
Total recoveries	9	38	7	71	56
Net charge-offs	(1,667)	(237)	(226)	(207)	(482)
Provision for loan losses	777	1,721	1,366	460	502
Balance at end of period	\$ 5,945	\$ 6,835	\$ 5,351	\$ 4,211	\$ 3,958
Ratios:					
Net charge-offs to average loans outstanding	0.35%	0.05%	0.05%	0.01%	0.15%
Allowance for loan losses to non-performing loans at end of period	87.06%	71.66%	244.39%	137.30%	143.10%
	1.23%	1.53%	1.19%	1.17%	1.18%

Allowance for loan losses to total loans at end of
period

(1) Includes home equity loans.

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Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	2018		At June 30, 2017		2016	
	Percent of Loans in Each Category	Percent of Loans in Each Category	Percent of Loans in Each Category	Percent of Loans in Each Category	Percent of Loans in Each Category	Percent of Loans in Each Category
	Allowance for Loan Losses	to Total Loans	Allowance for Loan Losses	to Total Loans	Allowance for Loan Losses	to Total Loans
(Dollars in thousands)						
Real estate loans:						
One- to four-family (1)	\$ 997	28.0%	\$ 2,519	31.5%	\$ 1,198	33.3%
Multi-family	1,650	22.3	1,336	19.5	1,202	18.8
Commercial	1,604	29.2	1,520	29.9	1,399	26.6
Home equity lines of credit	91	1.9	76	1.7	94	1.8
Construction	168	2.9	75	1.6	227	4.4
Commercial	1,373	14.2	1,242	14.0	1,140	12.9
Consumer	62	1.5	67	1.8	91	2.2
Total allocated allowance	5,945		6,835		5,351	
Unallocated						
Total	\$ 5,945	100.0%	\$ 6,835	100.0%	\$ 5,351	100.0%

(1) Includes home equity loans.

	2015		At June 30, 2014	
	Percent of Loans in Each Category	Percent of Loans in Each Category	Percent of Loans in Each Category	Percent of Loans in Each Category
	Allowance for Loan Losses	to Total Loans	Allowance for Loan Losses	to Total Loans
(Dollars in thousands)				
Real estate loans:				
One- to four-family (1)	\$ 1,216	40.2%	\$ 1,391	44.6%
Multi-family	827	16.2	842	18.4
Commercial	1,246	28.8	968	24.8

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Home equity lines of credit	85	2.1	111	2.3
Construction	6	0.1	10	0.5
Commercial	744	10.3	543	6.9
Consumer	87	2.3	93	2.5
Total allocated allowance	4,211		3,958	
Unallocated				
Total	\$ 4,211	100.0%	\$ 3,958	100.0%

(1) Includes home equity loans.

Net charge-offs increased from \$237,000 for the year ended June 30, 2017 to \$1.7 million for the year ended June 30, 2018, with most of the charge-offs during both periods involving one- to four-family residential real estate loans. In addition, non-performing loans decreased by \$2.7 million during the year ended June 30, 2018.

The allowance for loan losses decreased \$890,000, or 13.0%, to \$5.9 million at June 30, 2018 from \$6.8 million at June 30, 2017. The decrease was based on the amount in charge-offs, partially offset by an increase in the loan portfolio and the change in loan portfolio composition. At June 30, 2018, the allowance for loan losses represented 1.23% of total loans compared to 1.53% of total loans at June 30, 2017.

Investments

We conduct investment transactions in accordance with our Board-approved investment policy. The investment policy is reviewed at least annually by the Budget and Investment Committee of the Board, and any changes to the policy are subject to ratification by the full Board of Directors. This policy dictates that investment decisions give consideration to the safety of the investment, liquidity requirements, potential returns, the ability to provide collateral for pledging requirements, minimizing exposure to credit risk, potential returns and consistency

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with our interest rate risk management strategy. Authority to make investments under approved guidelines is delegated to our Investment Committee, comprised of our President and Chief Executive Officer, our Senior Executive Vice President and Chief Financial Officer, our Executive Vice President and Community President, and our Senior Vice President and Controller. All investments are reported to the Board of Directors for ratification at the next regular Board meeting.

Our current investment policy permits us to invest only in investment quality securities permitted by Office of the Comptroller of the Currency regulations, including U.S. Treasury or Government guaranteed securities, U.S. Government agency securities, securities issued or guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae, bank-qualified municipal securities, bank-qualified money market instruments, and bank-qualified corporate bonds. We do not engage in speculative trading. As of June 30, 2018, we held no asset-backed securities other than mortgage-backed securities. As a federal savings and loan association, Iroquois Federal is generally not permitted to invest in equity securities, although this general restriction will not apply to IF Bancorp, which may acquire up to 5% of voting securities of any company without regulatory approval.

ASC 320-10, Investment Debt and Equity Securities requires that, at the time of purchase, we designate a security as held to maturity, available-for-sale, or trading, depending on our ability and intent. Securities available for sale are reported at fair value, while securities held to maturity are reported at amortized cost. All of our securities are available for sale. We do not maintain a trading portfolio.

U.S. Government and Agency Debt Securities. While U.S. Government and federal agency securities generally provide lower yields than other investments, including mortgage-backed securities and interest-earning certificates of deposit, we maintain these investments, to the extent appropriate, for liquidity purposes and as collateral for borrowings.

Mortgage-Backed Securities. We invest in mortgage-backed securities insured or guaranteed by the U.S. Government or government sponsored enterprises. Mortgage-backed securities are created by pooling mortgages and issuing a security with an interest rate that is less than the interest rate on the underlying mortgages. Some securities pools are guaranteed as to payment of principal and interest to investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are more liquid than individual mortgage loans since there is an active trading market for such securities. In addition, mortgage-backed securities may be used to collateralize our specific liabilities and obligations. Finally, mortgage-backed securities are assigned lower risk weightings for purposes of calculating our risk-based capital level. Investments in mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or acceleration of any discount relating to such interests, thereby affecting the net yield on our securities. We periodically review current prepayment speeds to determine whether prepayment estimates require modification that could cause amortization or accretion adjustments. Also classified as agency mortgage-backed securities, are securities backed by debentures/loans for working capital to small businesses with limited or no access to private venture capital, and regulated by the Small Business Administration (SBA). Like other agency mortgage-backed securities, they are backed by the full faith and credit of the United States Government. They have zero risk weighting for purposes of calculating our risk-based capital level. With ten year maturities, these fixed rate bullet debentures pay interest semi-annually and principal at maturity. Prepayments are required to be in whole on any semi-annual payment date, and there are no prepayments penalties for deals issued since 2007. Therefore, the two sources of prepayment risk are voluntary prepays and defaults. In the event of default, the SBA may accelerate the payment equal to 100% of the outstanding principal balance, or the SBA will make the principal and interest payments.

Municipal Obligations. Iroquois Federal's investment policy allows it to purchase municipal securities of credit-worthy issuers, and does not permit it to invest more than 10% of Iroquois Federal's capital in the bonds of any single issuer. At June 30, 2018, we held \$3.1 million of municipal securities, all of which were issued by local governments and school districts within our market area.

Federal Home Loan Bank Stock. At June 30, 2018, we held \$3.3 million of Federal Home Loan Bank of Chicago common stock in connection with our borrowing activities totaling \$67.5 million. The common stock of the Federal Home Loan Bank is carried at cost and classified as a restricted equity security.

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Bank-Owned Life Insurance. We invest in bank-owned life insurance to provide us with a funding source for our benefit plan obligations. Bank-owned life insurance also generally provides us noninterest income that is non-taxable. Federal regulations generally limit our investment in bank-owned life insurance to 25% of our Tier 1 capital plus our allowance for loan losses. At June 30, 2018, we had \$8.8 million invested in bank-owned life insurance, which was 11.1% of our Tier 1 capital plus our allowance for loan losses.

Investment Securities Portfolio. The following table sets forth the composition of our investment securities portfolio at the dates indicated, excluding Federal Home Loan Bank of Chicago stock, federally insured interest-earning time deposits and bank-owned life insurance. As of June 30, 2018, 2017 and 2016 all of such securities were classified as available for sale.

	2018		At June 30, 2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In thousands)						
Securities available for sale:						
U.S. government, federal agency and government-sponsored enterprises	\$ 24,757	\$ 23,922	\$ 25,230	\$ 25,035	\$ 87,193	\$ 90,105
U.S. government sponsored mortgage-backed securities	100,534	97,059	81,088	80,962	26,418	27,245
Small Business Administration	1,965	1,891	2,048	2,032		
State and political subdivisions	2,980	3,124	3,274	3,582	3,431	3,978
Total	\$ 130,236	\$ 125,996	\$ 111,640	\$ 111,611	\$ 117,042	\$ 121,328

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Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at June 30, 2018 are summarized in the following table. At such date, all of our securities were available for sale. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. The yields on municipal securities have not been adjusted to a tax-equivalent basis.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
(Dollars in thousands)											
U.S. government, federal agency and government-sponsored enterprises	\$		%\$ 8,778	2.09%	\$ 15,979	2.75%	\$		%\$ 24,757	\$ 23,922	2.52%
U.S. government sponsored mortgage-backed securities			1,914	2.50	40,608	2.59	58,012	2.60	100,534	97,059	2.60
Small Business Administration					1,965	2.65			1,965	1,891	2.65
State and political subdivisions	134	3.32	1,150	6.11	63	4.83	1,633	3.25	2,980	3,124	4.39
Total	\$ 134	3.32%	\$ 11,842	3.04%	\$ 58,615	2.64%	\$ 59,645	2.62%	\$ 130,236	\$ 125,996	2.62%

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General. Deposits traditionally have been our primary source of funds for our lending and investment activities. We also borrow from the Federal Home Loan Bank of Chicago, to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management purposes and to manage our cost of funds. Our additional sources of funds are the proceeds from the sale of loans originated for sale, scheduled loan payments, maturing investments, loan prepayments, retained earnings and income on other earning assets.

Deposits. We generate deposits primarily from the areas in which our branch offices are located. We rely on our competitive pricing, convenient locations and customer service to attract and retain both retail and commercial deposits.

We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of statement savings accounts, certificates of deposit, money market accounts, commercial and regular checking accounts, individual retirement accounts and health savings accounts. From time to time we utilize brokered certificates of deposit or non-brokered certificates of deposit obtained through an internet listing service. At June 30, 2018, we had \$34.3 million in brokered certificates of deposit and \$12.9 million in non-brokered certificates of deposit obtained through an internet listing service.

Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies, including the cost of alternate sources of funds, and market interest rates, liquidity requirements, interest rates paid by competitors and our deposit growth goals.

The following tables set forth the distribution of our average total deposit accounts, by account type, for the periods indicated.

	For the Fiscal Year Ended June 30, 2018			For the Fiscal Year Ended June 30, 2017		
	Average Balance	Percent	Weighted Average Rate (Dollars in thousands)	Average Balance	Percent	Weighted Average Rate
Deposit type:						
Noninterest bearing demand	\$ 21,029	4.53%	0.00%	\$ 19,011	4.43%	0.00%
Interest-bearing checking or NOW	46,299	9.98	0.14	44,080	10.28	0.09
Savings accounts	43,159	9.31	0.24	40,191	9.38	0.12
Money market accounts	96,984	20.92	0.88	75,736	17.67	0.26
Certificates of deposit	256,250	55.26	1.34	249,689	58.24	1.04
Total deposits	\$ 453,721	100.00%	0.96%	\$ 428,707	100.00%	0.67%

**For the Fiscal Year Ended
June 30, 2016
Percent**

	Average Balance	Weighted Average Rate	
		(Dollars in thousands)	
Deposit type:			
Noninterest bearing demand	\$ 18,760	4.51%	0.00%
Interest-bearing checking or NOW	40,852	9.82	0.09
Savings accounts	38,399	9.24	0.13
Money market accounts	72,118	17.34	0.19
Certificates of deposit	245,699	59.09	0.88
Total deposits	\$ 415,828	100.00%	0.57%

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As of June 30, 2018, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to \$100,000 was approximately \$110.5 million. The following table sets forth the maturity of those certificates as of June 30, 2018.

	At June 30, 2018 (In thousands)
Three months or less	\$ 20,869
Over three months through six months	13,994
Over six months through one year	39,220
Over one year to three years	30,672
Over three years	5,714
Total	\$ 110,469

The following table sets forth the amount of our certificates of deposit classified by interest rate as of the dates indicated.

	2018	At June 30, 2017	2016
	(In thousands)		
Interest Rate:			
Less than 2.00%	\$ 216,275	\$ 242,262	\$ 257,237
2.00% to 2.99%	45,565	5,531	747
3.00% to 3.99%	1,740		
4.00% to 4.99%			
5.00% to 5.99%			
Total	\$ 263,580	\$ 247,793	\$ 257,984

Borrowings. Our borrowings consist of advances from the Federal Home Loan Bank of Chicago and repurchase agreements. At June 30, 2018, we had access to additional Federal Home Loan Bank of Chicago advances of up to \$142.3 million based on our collateral. The following table sets forth information concerning balances and interest rates on our borrowings and repurchase agreements at the dates and for the periods indicated.

	At or For the Fiscal Years Ended June 30, 2018	2017	2016
	(Dollars in thousands)		
<u>Federal Home Loan Bank of Chicago</u>			
Balance at end of period	\$ 67,500	\$ 53,500	\$ 67,000
Average balance during period	61,374	64,622	64,000
Maximum outstanding at any month end	67,500	74,000	75,500

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Weighted average interest rate at end of period	1.88%	1.02%	1.57%
Average interest rate during period	1.34%	1.10%	1.43%
<u>Repurchase Agreements</u>			
Balance at end of period	\$ 2,281	\$ 2,183	\$ 4,392
Average balance during period	2,623	3,277	5,111
Maximum outstanding at any month end	2,980	4,817	5,776
Weighted average interest rate at end of period	0.94%	0.38%	0.45%
Average interest rate during period	0.63%	0.42%	0.42%

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Personnel

At June 30, 2018, the Association had 102 full-time employees and 3 part-time employees, none of whom is represented by a collective bargaining unit. Iroquois Federal believes that its relationship with its employees is good.

Subsidiaries

IF Bancorp conducts its principal business activities through its wholly-owned subsidiary, Iroquois Federal Savings and Loan Association. The Iroquois Federal Savings and Loan Association has one wholly-owned subsidiary, L.C.I. Service Corporation, an insurance agency with offices in Watseka and Danville, Illinois.

REGULATION AND SUPERVISION

General

Iroquois Federal is subject to examination and regulation by the OCC, and is also subject to examination by the FDIC. This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the FDIC's deposit insurance fund and depositors, and not for the protection of stockholders. Iroquois Federal also is a member of and owns stock in the FHLB-Chicago, which is one of the 11 regional banks in the Federal Home Loan Bank System.

Under this system of regulation, the regulatory authorities have extensive discretion in connection with their supervisory, enforcement, rulemaking and examination activities and policies, including rules or policies that: establish minimum capital levels; restrict the timing and amount of dividend payments; govern the classification of assets; determine the adequacy of loan loss reserves for regulatory purposes; and establish the timing and amounts of assessments and fees. Moreover, as part of their examination authority, the banking regulators assign numerical ratings to banks and savings institutions relating to capital, asset quality, management, liquidity, earnings and other factors. The receipt of a less than satisfactory rating in one or more categories may result in enforcement action by the banking regulators against a financial institution. A less than satisfactory rating may also prevent a financial institution, such as Iroquois Federal or its holding company, from obtaining necessary regulatory approvals to access the capital markets, pay dividends, acquire other financial institutions or establish new branches.

In addition, we must comply with significant anti-money laundering and anti-terrorism laws and regulations, Community Reinvestment Act laws and regulations, and fair lending laws and regulations. Government agencies have the authority to impose monetary penalties and other sanctions on institutions that fail to comply with these laws and regulations, which could significantly affect our business activities, including our ability to acquire other financial institutions or expand our branch network.

As a savings and loan holding company, IF Bancorp is required to comply with the rules and regulations of the Federal Reserve Board and to file certain reports with and is subject to examination by the Federal Reserve Board. IF Bancorp is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Any change in applicable laws or regulations, whether by the OCC, the FDIC, the Federal Reserve Board or Congress, could have a material adverse impact on the operations and financial performance of IF Bancorp and Iroquois.

Set forth below is a brief description of material regulatory requirements that are applicable to Iroquois Federal and IF Bancorp. The description is limited to certain material aspects of the statutes and regulations addressed, and is not

intended to be a complete description of such statutes and regulations and their effects on Irquois Federal and IF Bancorp.

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Federal Banking Regulation

Business Activities. A federal savings bank derives its lending and investment powers from the Home Owners Loan Act, as amended, and applicable federal regulations. Under these laws and regulations, Iroquois Federal may invest in mortgage loans secured by residential and commercial real estate, commercial business and consumer loans, certain types of debt securities and certain other assets, subject to applicable limits. Iroquois Federal may also establish subsidiaries that may engage in certain activities not otherwise permissible for Iroquois Federal, including real estate investment and securities and insurance brokerage.

Capital Requirements. Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8%, and a 4% Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of regulations implementing recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

As noted, the risk-based capital standards for savings associations require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated other comprehensive income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution's capital adequacy, the OCC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual associations where necessary.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a capital conservation buffer consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019.

Legislation enacted in May 2018 requires the federal banking agencies, including the OCC, to establish for institutions with assets of less than \$10 billion of assets a community bank leverage ratio of between 8 to 10%. Institutions with capital meeting the specified requirement will be considered to comply with the applicable regulatory capital requirements, including the risk-based requirements. The establishment of the community bank leverage ratio is subject to notice and comment rulemaking by the federal regulators.

At June 30, 2018, Iroquois Federal's capital exceeded all applicable requirements.

Loans to One Borrower. Generally, a federal savings bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate.

On July 30, 2012 Iroquois Federal received approval from the OCC to participate in the Supplemental Lending Limits Program (SLLP). This program allows eligible savings associations to make additional residential real estate loans or extensions of credit to one borrower, small business loans or extensions of credit to one borrower, or small farm loans or extensions of credit to one borrower, in the lesser of the following two amounts: (1)

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10% of its capital and surplus; or (2) the percentage of capital and surplus, in excess of 15%, that a state bank is permitted to lend under the state lending limit that is available for loans secured by one- to four-family residential real estate, small business loans, small farm loans or unsecured loans in the state where the main office of the savings association is located. For Iroquois Federal, this additional limit (or supplemental limit) for one- to four-family residential real estate, small business, or small farm loans is 10% of its capital and surplus. In addition, the total outstanding amount of Iroquois Federal's loans or extensions of credit or parts of loans and extensions of credit made to all of Iroquois Federal's borrowers under the SLLP may not exceed 100% of Iroquois Federal's capital and surplus. Iroquois Federal uses the supplemental limit for its loans to one borrower infrequently, and all such credit facilities must receive prior approval by the Board of Directors.

As of June 30, 2018, Iroquois Federal was in compliance with its loans-to-one borrower limitations.

Qualified Thrift Lender Test. As a federal savings bank, Iroquois Federal must satisfy the qualified thrift lender, or QTL, test. Under the QTL test, Iroquois Federal must maintain at least 65% of its portfolio assets in qualified thrift investments in at least nine months of the most recent 12 months. Portfolio assets generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings institution's business. A savings bank that fails the qualified thrift lender test must operate under specified restrictions specified in the Home Owners Loan Act. The Dodd-Frank Act made noncompliance with the QTL Test potentially subject to agency enforcement action for a violation of law. At June 30, 2018, Iroquois Federal held 72.95% of its portfolio assets in qualified thrift investments, and satisfied the QTL Test.

Capital Distributions. Federal regulations govern capital distributions by a federal savings bank, which include cash dividends, stock repurchases and other transactions charged to the capital account. A savings bank must file an application for approval of a capital distribution if:

the total capital distributions for the applicable calendar year exceed the sum of the savings bank's net income for that year to date plus the savings bank's retained net income for the preceding two years;

the savings bank would not be at least adequately capitalized (as defined in the prompt corrective action regulations discussed below) following the distribution;

the distribution would violate any applicable statute, regulation, agreement or regulatory condition; or

the savings bank is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings bank that is a subsidiary of a holding company, such as Iroquois Federal, must still file a notice with the Federal Reserve Board (with a copy to the OCC) at least 30 days before the Board of Directors declares a dividend or approves a capital distribution. The Federal Reserve Board, upon consultation with OCC, may disapprove a notice or application if:

the savings bank would be undercapitalized following the distribution;

the proposed capital distribution raises safety and soundness concerns; or

the capital distribution would violate a prohibition contained in any statute, regulation, agreement with a federal banking regulatory agency or condition, imposed in connection with an application or notice.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution may not make any capital distribution if, after making such distribution, the institution would fail to satisfy any applicable regulatory capital requirement. A federal savings bank also may not make a capital distribution that would reduce its regulatory capital below the amount required for the liquidation account established in connection with its

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conversion to stock form. In addition, Iroquois Federal's ability to pay dividends is now limited if Iroquois Federal does not have the capital conservation buffer required by the new capital rules, which may limit the ability of IF Bancorp to pay dividends to its stockholders. See Capital Requirements.

Community Reinvestment Act and Fair Lending Laws. All federal savings banks have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income borrowers. In connection with its examination of a federal savings bank, the OCC is required to assess the association's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings bank's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice. Iroquois Federal received a satisfactory Community Reinvestment Act rating in its most recent federal examination.

Transactions with Related Parties. A federal savings bank's authority to engage in transactions with its affiliates is limited by federal regulations and by Sections 23A and 23B of the Federal Reserve Act and its implementing Regulation W. An affiliate is a company that controls, is controlled by, or is under common control with an insured depository institution such as Iroquois Federal. IF Bancorp is an affiliate of Iroquois Federal because of its control of Iroquois Federal. In general, transactions between an insured depository institution and its affiliate are subject to certain quantitative and collateral requirements. In addition, federal regulations prohibit a savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve the purchase of low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates. Federal regulations require savings banks to maintain detailed records of all transactions with affiliates.

Iroquois Federal's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions generally require that extensions of credit to insiders

be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features (subject to an exception for bank-wide lending programs available to all employees); and

not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Iroquois Federal's capital.

In addition, extensions of credit in excess of certain limits must be approved by Iroquois Federal's Board of Directors. Extensions of credit to executive officers are subject to additional restrictions, including limits on various types of loans.

Enforcement. The OCC has primary enforcement responsibility over federal savings institutions and has the authority to bring enforcement action against all institution-affiliated parties, including stockholders, and attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action by the OCC may range from the issuance of a capital directive or cease and desist order, to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to \$25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as \$1 million per day. The FDIC also has the authority to terminate deposit insurance or to recommend to the OCC that enforcement action be taken with respect to a particular savings institution. If action is not taken by the OCC, the FDIC has authority to take action under specified circumstances.

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Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to implement an acceptable compliance plan. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

Interstate Banking and Branching. Federal law permits well capitalized and well managed holding companies to acquire banks in any state, subject to Federal Reserve Board approval, certain concentration limits and other specified conditions. Interstate mergers of banks are also authorized, subject to regulatory approval and other specified conditions. In addition, among other things, recent amendments made by the Dodd-Frank Act permit banks to establish *de novo* branches on an interstate basis provided that branching is authorized by the law of the host state for the banks chartered by that state.

Prompt Corrective Action Regulations. Federal law requires, among other things, that federal bank regulatory authorities take prompt corrective action with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The Federal Deposit Insurance Corporation has adopted regulations to implement the prompt corrective action legislation. For this purpose, a savings bank is placed in one of the five categories based on the savings bank's capital:

Well Capitalized a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater.

Adequately Capitalized a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater.

Undercapitalized a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%.

Significantly Undercapitalized a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%.

Critically Undercapitalized a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

At June 30, 2018, Iroquois Federal met the criteria for being considered well-capitalized.

Insurance of Deposit Accounts. The Deposit Insurance Fund of the FDIC insures deposits at FDIC-insured financial institutions such as Iroquois Federal. Deposit accounts in Iroquois Federal are insured by the FDIC generally up to a maximum of \$250,000 per separately insured depositor and up to a maximum of \$250,000 for self-directed retirement accounts. The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund.

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Assessments for institutions with less than \$10 billion of assets, such as Iroquois Federal, are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of an institution's failure within three years, with institutions deemed less risky paying lower assessments. That system, effective July 1, 2016, replaced a previous system under which institutions were placed into risk categories.

The Dodd-Frank Act required the FDIC to revise its procedures to base assessments upon each insured institution's total assets less tangible equity instead of deposits. The FDIC finalized a rule, effective April 1, 2011, that set the risk-based assessment range (inclusive of possible adjustments) at 2.5 to 45 basis points of total assets less tangible equity. In conjunction with the Deposit Insurance Fund's reserve ratio achieving 1.15%, the assessment range was reduced for insured institutions of less than \$10 billion of total assets to 1.5 basis points to 30 basis points, effective July 1, 2016. The FDIC may increase or decrease the scale uniformly, except that no adjustment can deviate more than two basis points from the base scale without notice and comment rulemaking. The FDIC's current system represents a change, required by the Dodd-Frank Act, from its prior practice of basing the assessment on an institution's deposits.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of \$10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC, which has exercised that discretion by establishing a long range fund ratio of 2%.

In addition to the FDIC assessments, the Financing Corporation (FICO) is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature by 2019. For the quarter ended June 30, 2018, the annualized FICO assessment was equal to 0.44 of a basis point of total assets less tangible capital.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of Iroquois Federal. Management cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

USA Patriot Act. Iroquois Federal is subject to the USA PATRIOT Act, which gives federal agencies additional powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. The USA PATRIOT Act contains provisions intended to encourage information sharing among bank regulatory agencies and law enforcement bodies and imposes affirmative obligations on financial institutions, such as enhanced recordkeeping and customer identification requirements.

Prohibitions Against Tying Arrangements. Federal savings banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Federal Home Loan Bank System. Iroquois Federal is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the Federal Home Loan Bank of Chicago, Iroquois Federal is required to acquire and hold shares of capital stock in the Federal Home Loan Bank. As of June 30, 2018, Iroquois Federal was in compliance with this requirement.

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Federal Reserve System

Federal Reserve Board regulations require savings banks to maintain noninterest-earning reserves against their transaction accounts, such as negotiable order of withdrawal and regular checking accounts. At June 30, 2018, Iroquois Federal was in compliance with these reserve requirements.

Other Regulations

Interest and other charges collected or contracted for by Iroquois Federal are subject to state usury laws and federal laws concerning interest rates. Iroquois Federal's operations are also subject to federal laws applicable to credit transactions, such as the:

Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;

Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one- to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;

Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;

fair lending laws;

Unfair or Deceptive Acts or Practices laws and regulations;

Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;

Truth in Savings Act; and

Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

In addition, the Consumer Financial Protection Bureau issues regulations and standards under these federal consumer protection laws that affect our consumer businesses. These include regulations setting ability to repay and qualified mortgage standards for residential mortgage loans and mortgage loan servicing and originator compensation standards. Iroquois Federal is evaluating recent regulations and proposals, and devotes significant compliance, legal and operational resources to compliance with consumer protection regulations and standards.

The operations of Iroquois Federal also are subject to the:

Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

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Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;

Check Clearing for the 21st Century Act (also known as Check 21), which gives substitute checks, such as digital check images and copies made from that image, the same legal standing as the original paper check;

The USA PATRIOT Act, which requires savings banks to, among other things, establish broadened anti-money laundering compliance programs, and due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements that also apply to financial institutions under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and

The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to opt out of the sharing of certain personal financial information with unaffiliated third parties.

Holding Company Regulation

General. IF Bancorp is a unitary savings and loan holding company within the meaning of Home Owners' Loan Act. As such, IF Bancorp is registered with the Federal Reserve Board and is subject to regulations, examinations, supervision and reporting requirements applicable to savings and loan holding companies. In addition, the Federal Reserve Board has enforcement authority over IF Bancorp and any future non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution.

Permissible Activities. Under present law, the business activities of IF Bancorp are generally limited to those activities permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act of 1956, as amended, provided certain conditions are met (including electing such status), or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance as well as activities that are incidental to financial activities or complementary to a financial activity. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to regulatory approval, and certain additional activities authorized by federal regulations. As of June 30, 2018, IF Bancorp, Inc. has not elected financial holding company status.

Federal law prohibits a savings and loan holding company, including IF Bancorp, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or holding company thereof, without prior regulatory approval. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a non-subsidiary company engaged in activities that are not closely related to banking or financial in nature, or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions:

the approval of interstate supervisory acquisitions by savings and loan holding companies; and

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the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisition.

The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Capital. Savings and loan holding companies historically have not been subject to consolidated regulatory capital requirements. The Dodd-Frank Act required the Federal Reserve Board to establish for all depository institution holding companies minimum consolidated capital requirements that are as stringent as those required for the insured depository subsidiaries. However, pursuant to legislation passed in December 2014, the FRB has extended the applicability of the Small Bank Holding Company exception to its consolidated capital requirements to savings and loan holding companies and increased the threshold for the exception to \$1.0 billion, effective May 15, 2015. As a result, savings and loan holding companies with less than \$1.0 billion in consolidated assets are generally not subject to the capital requirements unless otherwise advised by the FRB. Legislation enacted in 2018 directed the Federal Reserve Board to expand the applicability of the exception to holding companies of up to \$3.0 billion of consolidated assets.

Source of Strength. The Dodd-Frank Act extended the source of strength doctrine to savings and loan holding companies. The Federal Reserve Board has issued regulations requiring that all bank and savings and loan holding companies serve as a source of managerial and financial strength to their subsidiary savings and loan associations by providing capital, liquidity and other support in times of financial stress.

Dividends. The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies and savings and loan holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate or earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a savings and loan holding company to pay dividends may be restricted if a subsidiary savings and loan association becomes undercapitalized. The policy statement also states that a savings and loan holding company should inform the Federal Reserve Board supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the savings and loan holding company is experiencing financial weaknesses or if the repurchase or redemption would result in a net reduction, as of the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies may affect the ability of IF Bancorp to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Acquisition. Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect control of a savings and loan holding company. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of the company's outstanding voting stock, unless the Federal Reserve Board has found that the acquisition will not result in control of the company. A change in control definitively occurs upon the acquisition of 25% or more of the company's outstanding voting stock. Under the Change in Bank Control Act, the Federal Reserve Board generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition.

Federal Securities Laws

IF Bancorp common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. IF Bancorp is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

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The registration under the Securities Act of 1933 of shares of common stock issued in the stock offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not our affiliates may be resold without registration. Shares purchased by our affiliates are subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If we meet the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate of ours that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of our outstanding shares, or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, we may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: (i) they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; (ii) they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal control over financial reporting; and (iii) they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

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ITEM 1A. RISK FACTORS

We intend to continue to grow our commercial real estate, multi-family and commercial business loans and increase these loans as a percentage of our total loan portfolio. As a result, our credit risk will continue to increase, and downturns in the local real estate market or economy could have a more severe adverse effect on our earnings.

We intend to continue growing our portfolio of commercial real estate, multi-family and commercial business loans. Historically, we operated as a traditional thrift institution. At June 30, 2007, 78.8% of our loan portfolio, consisted of longer-term, one- to four-family residential real estate loans. Since then we have emphasized the origination of our commercial loans. At June 30, 2018, \$140.9 million, or 29.2%, of our total loan portfolio consisted of commercial real estate loans, \$107.4 million, or 22.3%, of our total loan portfolio consisted of multi-family loans, and \$68.7 million, or 14.2%, of our total loan portfolio consisted of commercial business loans. We expect each of these loan categories to continue to increase as a percentage of our total loan portfolio. Commercial real estate, multi-family and commercial business loans generally have more risk than the one- to four-family residential real estate loans that we originate. Because the repayment of commercial real estate, multi-family and commercial business loans depends on the successful management and operation of the borrower's properties or businesses, repayment of such loans can be affected by adverse conditions in the local real estate market or economy. Commercial real estate, multi-family and commercial business loans may also involve relatively large loan balances to individual borrowers or groups of related borrowers. In addition, a downturn in the real estate market or the local economy could adversely affect the value of properties securing the loan or the revenues from the borrower's business, thereby increasing the risk of nonperforming loans. As our commercial real estate, multi-family and commercial business loan portfolios increase, the corresponding risks and potential for losses from these loans may also increase.

Future changes in interest rates could reduce our profits.

Our profitability largely depends on our net interest income, which can be negatively affected by changes in interest rates. Net interest income is the difference between:

the interest income we earn on our interest-earning assets, such as loans and securities; and

the interest expense we incur on our interest-bearing liabilities, such as deposits and borrowings.

The interest rates on our loans are generally fixed for a longer period of time than the interest rates on our deposits. Like many savings institutions, our focus on deposits as a source of funds, which either have no stated maturity or shorter contractual maturities than mortgage loans, results in our liabilities having a shorter average duration than our assets. For example, as of June 30, 2018, 11.3% of our loans had remaining maturities of, or reprice after, 5 years or longer, while 59.9% of our certificates of deposit had remaining maturities of, or reprice in, one year or less. This imbalance can create significant earnings volatility because market interest rates change over time. In a period of rising interest rates, the interest we earn on our assets, such as loans and investments, may not increase as rapidly as the interest we pay on our liabilities, such as deposits. In a period of declining market interest rates, the interest income we earn on our assets may decrease more rapidly than the interest expense we incur on our liabilities, as borrowers prepay mortgage loans and mortgage-backed securities and callable investment securities are called or prepaid, thereby requiring us to reinvest these cash flows at lower interest rates. See Management's Discussion and Analysis of Financial Condition and Results of Operations Management of Market Risk.

In addition, changes in interest rates can affect the average life of loans and mortgage-backed and related securities. A decline in interest rates generally results in increased prepayments of loans and mortgage-backed and related securities, as borrowers refinance their debt in order to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Additionally, increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable-rate loans.

We evaluate interest rate sensitivity using a model that estimates the change in our net portfolio value over a range of interest rate scenarios, also known as a rate shock analysis. Net portfolio value is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts. See Management's Discussion and Analysis of Financial Condition and Results of Operations Management of Market Risk.

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Increased interest rates and changes in secondary mortgage market conditions could reduce our earnings from our mortgage banking operations.

Our mortgage banking income varies with movements in interest rates, and increases in interest rates could negatively affect our ability to originate loans in the same volume as we have in past years. In addition to being affected by interest rates, the secondary mortgage markets are also subject to investor demand for residential mortgage loans and increased investor yield requirements for these loans. These conditions may fluctuate or worsen in the future. In light of current conditions, there is greater risk in retaining mortgage loans pending their sale to investors. As a result, a prolonged period of secondary market illiquidity may reduce our loan mortgage production volume and could have a material adverse effect on our financial condition and results of operations.

The State of Illinois has significant financial difficulties, and this could adversely impact certain of our borrowers and the economic vitality of the state, which would have a negative impact on our business.

The State of Illinois has significant financial difficulties, including material pension funding shortfalls. The State of Illinois debt rating has been downgraded and its executive and legislative branches of government have been unable to reach agreement on a budget for the current fiscal year. These issues could impact the economic vitality of the state and the businesses operating there, encourage businesses to leave the State of Illinois, discourage new employers from starting or moving businesses to the state, and could result in an increase in the Illinois state income tax rate. In addition, population outflow from the State of Illinois could affect our ability to attract and retain customers.

Some of the markets we are in include significant university and healthcare presence, which rely heavily on state funding and contracts. Payment delays by the State of Illinois to its vendors and government sponsored entities may have significant, negative effects on our markets, which could in turn adversely affect our financial condition and results of operations. In addition, adverse changes in agribusiness and capital goods exports could materially adversely affect downstate Illinois markets, which are heavily reliant upon these industries. Delays in the payment of accounts receivable owed to borrowers that are employed by or who do business with these industries or the State of Illinois could impair their ability to repay their loans when due and negatively impact our business.

A new accounting standard may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board has adopted Accounting Standard Update 2016-13, which will be effective for IF Bancorp and Iroquois Federal for the first quarter of the fiscal year ending June 30, 2020. This standard, often referred to as CECL (reflecting a current expected credit loss model), will require companies to recognize an allowance for credit losses based on estimates of losses expected to be realized over the contractual lives of the loans. Under current U.S. GAAP, companies generally recognize credit losses only when it is probable that a loss has been incurred as of the balance sheet date. This new standard will require us to collect and review increased types and amounts of data for us to determine the appropriate level of the allowance for loan losses, and may require us to increase our allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

We may be adversely affected by recent changes in U.S. tax laws.

Changes in tax laws contained in the Tax Cuts and Jobs Act, which was enacted in December 2017, include a number of provisions that will have an impact on the banking industry, borrowers and the market for single-family residential

real estate. Changes include (i) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans and for home equity loans, (ii) a limitation on the deductibility of business interest expense and (iii) a limitation on the deductibility of property taxes and state and local income taxes.

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The recent changes in the tax laws may have an adverse effect on the market for, and valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in our loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations.

Monetary policies and regulations of the Federal Reserve Board could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open market purchases and sales of U.S. government securities, adjustments of the discount rate and changes in banks reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve Board have had a significant effect on the operating results of financial institutions in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

Strong traditional and non-traditional competition within our market areas may limit our growth and profitability.

We face intense competition in making loans and attracting deposits. Price competition from other financial institutions, credit unions, money market and mutual funds, insurance companies, and other non-traditional competitors such as financial technology companies for loans and deposits sometimes results in us charging lower interest rates on our loans and paying higher interest rates on our deposits and may reduce our net interest income. Competition also makes it more difficult and costly to attract and retain qualified employees. Many of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. Our competitors also may price loan and deposit products aggressively when they enter into new lines of business or new market areas. We expect competition to increase in the future as a result of legislative, regulatory, and technological changes and the continuing trend of consolidation in the financial services industry. If we are not able to compete effectively in our market area, our profitability may be negatively affected. The greater resources and broader offering of deposit and loan products of some of our competitors may also limit our ability to increase our interest-earning assets.

Our funding sources may prove insufficient to replace deposits and support our future growth.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These additional sources consist primarily of FHLB advances, certificates of deposit and brokered certificates of deposit and, to a lesser extent, repurchase agreements. As we continue to grow, we are likely to become more dependent on these sources. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these additional funding sources. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive

funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected.

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A portion of our loan portfolio consists of loan participations secured by properties outside of our primary market area. Loan participations may have a higher risk of loss than loans we originate because we are not the lead lender and we have limited control over credit monitoring.

We occasionally purchase loan participations secured by properties outside of our primary market area in which we are not the lead lender. Although we underwrite these loan participations consistent with our general underwriting criteria, loan participations may have a higher risk of loss than loans we originate because we rely on the lead lender to monitor the performance of the loan. Moreover, our decision regarding the classification of a loan participation and loan loss provisions associated with a loan participation is made in part based upon information provided by the lead lender. A lead lender also may not monitor a participation loan in the same manner as we would for loans that we originate. At June 30, 2018, our loan participations totaled \$32.9 million, or 6.8% of our gross loans, most of which are within 100 miles of our primary lending market and consist primarily of multi-family, commercial real estate and commercial loans.

Additionally, we expect to continue to use loan participations as a way to effectively deploy our capital. If our underwriting of these participation loans is not sufficient, our non-performing loans may increase and our earnings may decrease.

If our non-performing loans and other non-performing assets increase, or the value of our foreclosed assets decreases our earnings will decrease.

At June 30, 2018, our non-performing assets (which consist of non-accrual loans, loans 90 days or more delinquent and still accruing, and real estate owned) totaled \$7.0 million. Our non-performing assets adversely affect our net income in various ways. We do not record interest income on non-accrual loans, and we must establish reserves or take charge-offs for probable losses on non-performing loans. Reserves are established through a current period charge to income in the provision for loan losses. There are also legal fees associated with the resolution of problem assets. In July of 2018, we charged off \$6.3 million of these loans and the 45 properties with an aggregate value of \$6.3 million were moved to foreclosed assets held for sale. The fair value of these foreclosed assets is the estimated sale price a buyer would be willing to pay on the basis of current market conditions, including normal terms from other financial institutions, less the estimated costs to sell the property. Holding costs and declines in fair value result in charges to expense after acquisition. If we have overestimated the fair value of these assets, or if we are unable to quickly sell the properties, our earnings will be negatively impacted.

Further, the resolution of non-performing assets requires the active involvement of management, which can distract us from the overall supervision of operations and other income-producing activities of Iroquois Federal. Finally, if our estimate of the allowance for loan losses is inadequate, we will have to increase the allowance accordingly by recording a provision for loan losses.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.

Our customers may not repay their loans according to the original terms, and the collateral, if any, securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which may have a material adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable losses in our loan portfolio, requiring us to make additions to our allowance for loan losses. Our

allowance for loan losses was 1.23% of total loans at June 30, 2018. Additions to our allowance could materially decrease our net income.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our financial condition and results of operations.

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Government responses to economic conditions may adversely affect our operations, financial condition and earnings.

The Dodd-Frank Wall Street Reform and Consumer Protection Act has changed the bank regulatory framework, created an independent consumer protection bureau that has assumed the consumer protection responsibilities of the various federal banking agencies, and established more stringent capital standards for savings associations and savings and loan holding companies, subject to a transition period. Bank regulatory agencies also have been responding aggressively to concerns and adverse trends identified in examinations. Ongoing uncertainty and adverse developments in the financial services industry and the domestic and international credit markets, and the effect of the Dodd-Frank Act and regulatory actions, may adversely affect our operations by restricting our business activities, including our ability to originate or sell loans, modify loan terms, or foreclose on property securing loans. These risks could affect the performance and value of our loan and investment securities portfolios, which also would negatively affect our financial performance.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision, and examination by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. Federal regulations govern the activities in which we may engage, and are primarily for the protection of depositors and the Deposit Insurance Fund. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operations of a savings association, the classification of assets by a savings association, and the adequacy of a savings association's allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations or legislation, could have a material impact on our results of operations. Because our business is highly regulated, the laws, rules and applicable regulations are subject to regular modification and change. Any legislative, regulatory or policy changes adopted in the future could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects. Further, we expect any such new laws, rules or regulations will add to our compliance costs and place additional demands on our management team.

The short-term and long-term impact of the changing regulatory capital requirements and capital rules is uncertain.

In July, 2013, the federal banking agencies approved a rule that substantially amended the regulatory risk-based capital rules applicable to Iroquois Federal and IF Bancorp. The rule implements the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The application of more stringent capital requirements for Iroquois Federal and IF Bancorp could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions such as the inability to pay dividends or repurchase shares if we were to be unable to comply with such requirements.

We face significant operational risks because the financial services business involves a high volume of transactions.

We operate in diverse markets and rely on the ability of our employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of our internal control systems and compliance requirements, and business continuation and disaster recovery. Insurance coverage may not be available for such

losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of operational deficiencies or as a result of non-compliance with applicable regulatory standards or customer attrition due to potential negative publicity. In the event of a breakdown in our internal control systems, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action, and/or suffer damage to our reputation.

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Cyber-attacks or other security breaches could adversely affect our operations, net income or reputation.

We regularly collect, process, transmit and store significant amounts of confidential information regarding our customers, employees and others and concerning our own business, operations, plans and strategies. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf.

Information security risks have generally increased in recent years because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial and other transactions and the increased sophistication and activities of perpetrators of cyber-attacks and mobile phishing. Mobile phishing, a means for identity thieves to obtain sensitive personal information through fraudulent e-mail, text or voice mail, is an emerging threat targeting the customers of popular financial entities. A failure in or breach of our operational or information security systems, or those of our third-party service providers, as a result of cyber-attacks or information security breaches or due to employee error, malfeasance or other disruptions could adversely affect our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and/or cause losses.

If this confidential or proprietary information were to be mishandled, misused or lost, we could be exposed to significant regulatory consequences, reputational damage, civil litigation and financial loss.

Although we employ a variety of physical, procedural and technological safeguards to protect this confidential and proprietary information from mishandling, misuse or loss, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, and that if mishandling, misuse or loss of information does occur, those events will be promptly detected and addressed. Similarly, when confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf, our policies and procedures require that the third party agree to maintain the confidentiality of the information, establish and maintain policies and procedures designed to preserve the confidentiality of the information, and permit us to confirm the third party's compliance with the terms of the agreement. As information security risks and cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities.

Risks associated with system failures, interruptions, or breaches of security could negatively affect our earnings.

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches, but such events may still occur and may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security.

In addition, we outsource some of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any systems failures, interruptions, or breach of security could damage our reputation and result in a loss of customers and business thereby subjecting us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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We operate from our main office, five branch offices, an administrative office, and a data center located in Iroquois, Vermilion, Champaign and Kankakee Counties, Illinois, and our loan production and wealth management office in Osage Beach, Missouri. In the year ended June 30, 2018, we purchased a building at 2411 Village Green Place, Champaign, Illinois, which served as a satellite office until opening as a branch in August, 2018. The net book value of our premises, land and equipment was \$10.2 million at June 30, 2018. The following tables set forth information with respect to our banking offices, including the expiration date of leases with respect to leased facilities.

Location	Year Opened	Owned/ Leased
Main Office:		
201 East Cherry Street		
Watseka, Illinois 60970	1964	Owned
Branches:		
619 North Gilbert Street		
Danville, Illinois 61832	1973	Owned
175 East Fourth Street		
Clifton, Illinois 60927	1977	Owned
511 South Chicago Road		
Hoopeston, Illinois 60942	1979	Owned
108 Arbours Drive		
Savoy, Illinois 61874	2014	Owned
421 Brown Boulevard		
Bourbonnais, Illinois 60914	2017	Owned
Loan Production Office:		
3535 Highway 54		
Osage Beach, Missouri 65065	2006	Owned
Administrative Office:		
204 East Cherry Street		
Watseka, Illinois 60970	2001	Owned
Data Center:		
819 East 4000 South Road	2012	Leased
Kankakee, Illinois 60901		

(expires
April 30,
2019)

Champaign Satellite Office:
2411 Village Green Place

Champaign, Illinois 61822

2018 Owned

ITEM 3. LEGAL PROCEEDINGS

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS
AND ISSUER PURCHASES OF EQUITY SECURITIES**

Market and Dividend Information.