

EAGLE BANCORP/MT
Form 10-K
September 21, 2009

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To Our Stockholders, Customers, and Friends:

The Board of Directors, management, and staff of Eagle Bancorp and its wholly owned subsidiary, American Federal Savings Bank, are pleased to present our annual report for our fiscal year ended June 30, 2009.

Throughout the year there has been extensive media coverage of the significant challenges facing the banking industry and the extraordinary measures taken by the Federal Reserve Bank and the U.S. Treasury Department to stabilize the financial markets. The coverage at times has been confusing, with the large national banks and Wall Street investment firms experiencing much of the problem as well as garnering much attention from the government. Community banks such as American Federal have at times been lumped in with the larger banks by the media coverage, yet have not been major contributors to the banking industry's problems. Still, credit quality problems and the housing related slowdown continue to be significant areas of concern in parts of the country. However, I am pleased to report that the Company has performed well notwithstanding these national developments. Montana in general, and our local markets specifically, have avoided much of the economic downturn experienced in other parts of the country. Our credit quality remains excellent, with low loan delinquency rates compared to institutions in other, more distressed markets.

The Company's performance marks another successful year, with an increase in net income of \$278,000, or 13.2% over the previous year. Basic earnings per share also increased from \$1.97 to \$2.23. Three main factors should be taken into consideration when reviewing this year's results.

Short-term interest rates continued to decline over the past year, with long-term interest rates also declining. Interest rates on mortgages fell significantly in early 2009, which sparked a significant increase in mortgage refinance activity. This in turn led to two reasons for the strong performance by the Company. First, the decline in short-term interest rates allowed the Company to lower its interest expense, leading to an increase in its net interest income of over 24% (before provision for loan losses). Secondly, the decline in mortgage rates, and corresponding increase in mortgage refinance activity, led to an increase in gain on sale of loans of \$1.415 million over the previous year.

As mentioned in last year's letter, the Company adopted SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, at the beginning of the 2008 fiscal year to account for its holdings of FNMA and FHLMC preferred stock. Changes in market value of these securities flow through the income statement. In September 2008, the federal government placed FNMA and FHLMC into conservatorship and eliminated the dividends on the preferred stock, which caused a dramatic reduction in the market value of the stock. The Company wrote down the value of the stock by \$1.296 million during the year, leaving only a small residual value (\$25,000). FNMA and FHLMC will be restructured in the future but it is unlikely that any significant recovery will be made of the value of the preferred stock.

The Company increased its loan loss provision by \$257,000 during the year, after taking \$175,000 of its reserve back into income in the previous year. While the Company's level of non-performing loans is lower than its peers, we have experienced a small increase in loan delinquencies. Delinquencies still remain relatively low, however the other quantitative and qualitative factors considered by management led to the decision to increase the provision. For example, national and state unemployment numbers have increased during the year and home sale activity has slowed. Also, the Company's level of non-performing loans as a percentage of assets

increased slightly, from 0.01% to 0.43%. Our continued conservative underwriting and strong local economies will serve us well during the coming year.

Growth in assets slowed to 3.50% (compared to last year's growth of 14.39%), with loans receivable decreasing slightly. The slower asset growth coupled with our strong earnings increased our core capital ratio from 9.16% to 9.59%. Deposit growth was stronger than in recent years, with an increase of 4.67%. The funding side of our business continues to be a challenge, with this year's success attributable to our increased marketing efforts and expanded deposit product line. We have many sources of additional liquidity available to us and have used these to manage our interest costs and to manage our balance sheet.

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Our plan for the coming year includes continuing to manage the growth in our balance sheet by funding growth in the loan portfolio with modest deposit growth and maturities and repayments from our investment portfolio. We continue to place an emphasis on growing the Company's commercial and commercial real estate loan portfolios.

Our retail branch operations continue to grow and improve. We are pleased to announce that our new full service branch in the Skyway Mall in Helena opened in January and has been a very active location. Also, construction is nearly complete on our new Oak Street location in Bozeman, with the opening expected next month (October). We will maintain our current location on North 7th Avenue as a drive-up only facility. The remodel of our Townsend office was also completed this year and we have seen an increase in activity at our drive-up ATM there as well.

We sincerely appreciate the continuing trust and loyalty of our constituencies *Stockholders, Customers, Employees and Communities*. We will work to earn your continued confidence as we thank you for the privilege of serving you!

Very Sincerely,

Peter J. Johnson
President/CEO

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2009

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 0-29687

Eagle Bancorp

(Exact name of registrant as specified in its charter)

United States

81-0531318

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State or other jurisdiction of
incorporation or organization

(I.R.S.
Employer
Identification
No.)

1400 Prospect Avenue, Helena, MT
(Address of principal executive offices)

59601
(Zip Code)

Registrant's telephone number, including area code 406-442-3080

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

Title of each class	Name of each exchange on which registered
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Securities registered pursuant to section 12(g) of the Act:

Common stock, par value \$0.01 per share

(Title of Class)

(Title of Class)

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

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 Website, 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 (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Note. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in this Form.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. There were 1,074,507 shares outstanding as of August 31, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement involving the election of directors, which is expected to be filed within 120 days after the end of the registrant's fiscal year, are incorporated by reference in Part III of this Report.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

General

Eagle Bancorp (Eagle or the Company), a federally chartered stock holding company holds 100% of the Stock of American Federal Savings Bank (American Federal or the Bank). Its charter was approved on April 4, 2000, when it became the mid-tier stock holding company for the Bank, a federally chartered stock savings bank headquartered in Helena, Montana. Eagle Bancorp's principal business is to hold the capital stock of American Federal. Upon the reorganization and conversion to stock form of American Federal Savings Bank, Eagle Bancorp issued 575,079 shares of its common stock, par value \$.01 per share (the Common Stock) to the public at a price of \$8 per share. That represented approximately 47% of the issued and outstanding shares of the Common Stock. The remaining 648,493 shares of the Common Stock are held by Eagle Financial MHC, Eagle Bancorp's mutual holding company.

American Federal was founded in 1922 as a Montana chartered building and loan association and has conducted operations in Helena since that time. In 1975, the Bank adopted a federal thrift charter. The Bank currently has five full service offices and one satellite branch. We also have seven automated teller machines located in our market area and we participate in the CashCard® and Money Pass® ATM networks. The Bank's website can be found at www.americanfederalsavingsbank.com.

Business Strategy

Since our founding in Helena in 1922, we have operated in the southcentral portion of Montana. Since the advent of NOW accounts and low and no cost checking or other transaction accounts, we have sought to operate in a fashion similar to a commercial bank by offering these kinds of deposits and changing our emphasis on home mortgage lending by broadening and diversifying the kind of loans we offer. As a result of these efforts, we provide full retail banking services, including one- to four-family residential mortgage loans, home equity loans, lines of credit, consumer loans, commercial real estate loans and commercial loans for businesses as well as certificates of deposit, checking accounts, NOW accounts, savings accounts and money market accounts.

We attract deposits from the general public and use these deposits primarily to originate loans and to purchase investment securities. The principal sources of funds for lending and investing activities are deposits, Federal Home Loan Bank advances and other borrowings, the repayment, sale and maturity of loans and sale and maturity of securities. The principal sources of income are interest on loans and investments. The principal expense is interest paid on deposits and Federal Home Loan Bank advances and other borrowings.

Market Area

From our headquarters in Helena, Montana, we operate five full service retail banking offices, including our main office, and one satellite branch. Our satellite branch is located in Helena and our other full service branches are located in Helena Skyway (opened 2009), Bozeman (opened 1980), Butte (opened 1979) and Townsend (opened 1979), Montana. A seventh branch will be opening in Bozeman approximately during the second quarter of fiscal year 2010.

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Montana is one of the largest states in terms of land mass but ranks as one of the least populated states. As of the 2000 census it had a population of 902,000. Helena, where we are headquartered, is the county seat of Lewis and Clark County, which has a population of approximately 59,300 and is located within 120 miles of four of Montana's other five largest cities: Missoula, Great Falls, Bozeman and Butte. It is approximately midway between Yellowstone and Glacier National Parks. Helena is also Montana's state capital. Its economy has shown moderate growth, in terms of both employment and income. State government and the numerous offices of the federal government comprise the largest employment sector. Helena also has significant employment in the service industries. Specifically, it has evolved into a central health care center with employment in the medical and the supporting professions as well as the medical insurance industry. The local economy is also dependent to a lesser extent upon ranching and agriculture. These have been more cyclical in nature and remain vulnerable to severe weather conditions, increased competition, both domestic and international, as well as commodity prices.

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Bozeman is approximately 95 miles southeast of Helena. It is located in Gallatin County, which has a population of approximately 80,900. Bozeman is home to Montana State University and has achieved its growth in part due to the growth of the University as well as the increased tourism for resort areas in and near Bozeman. Agriculture, however, remains an important part of Bozeman's economy. Bozeman has also become an attractive location for retirees, primarily from the West Coast, owing to its many winter and summer recreational opportunities and the presence of the University.

Butte, Montana is approximately 64 miles southwest of Helena. Butte and the surrounding Silver-Bow County have a population of approximately 32,800. Butte's economy is somewhat reliant on the mining industry. Butte's economy has been volatile from the fluctuations in metal and mineral commodity prices.

Townsend is the smallest community in which we operate. It has a population of about 2,000. Many of its residents commute to other Montana locations for work. Other employment in Townsend is primarily in agriculture and services. Townsend is approximately 32 miles southeast of Helena.

Competition

We face strong competition in our primary market area for the attraction of retail deposits and the origination of loans. Historically, Montana was a unit banking state. This means that the ability of Montana state banks to create branches was either prohibited or significantly restricted. As a result of unit banking, Montana has a significant number of independent financial institutions serving a single community in a single location. While the state's population is approximately 945,000 people, there are 59 credit unions in Montana as well as two federally chartered thrift institutions, and 77 commercial banks as of June 30, 2009. Our most direct competition for depositors has historically come from locally owned and out-of-state commercial banks, thrift institutions and credit unions operating in our primary market area. The number of such competitor locations has increased significantly in recent years. Our competition for loans also comes from banks, thrifts and credit unions in addition to mortgage bankers and brokers. Our principal market areas can be characterized as markets with moderately increasing incomes, relatively low unemployment, increasing wealth (particularly in the growing resort areas such as Bozeman), and moderate population growth.

Lending Activities

General.

American Federal Savings Bank primarily originates one- to four-family residential real estate loans and, to a lesser extent, commercial real estate loans, real estate construction loans, home equity loans, consumer loans and commercial loans. Commercial real estate loans include loans on multi-family dwellings, loans on nonresidential property and loans on developed and undeveloped land. Home equity loans include loans secured by the borrower's primary residence. Typically, the property securing such loans is subject to a prior lien. Consumer loans consist of loans secured by collateral other than real estate, such as automobiles, recreational vehicles and boats. Personal loans and lines of credit are made on deposits held by the Bank and on an unsecured basis. Commercial loans consist of business loans and lines of credit on a secured and unsecured basis.

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Loan Portfolio Composition.

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The following table analyzes the composition of the Bank's loan portfolio by loan category at the dates indicated.

	At June 30,			
	2009		2008	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
First mortgage loans:				
Residential mortgage (1-4 family) ⁽¹⁾	\$ 79,216	47.26%	\$ 86,751	51.53%
Commercial real estate	36,713	21.90%	28,197	16.75%
Real estate construction	4,642	2.77%	7,317	4.35%
Total first mortgage loans	120,571	71.93%	122,265	72.62%
Other loans:				
Home equity	28,676	17.11%	28,034	16.65%
Consumer	10,835	6.46%	11,558	6.87%
Commercial	7,541	4.50%	6,502	3.86%
Total other loans	47,052	28.07%	46,094	27.38%
Total loans	167,623	100.00%	168,359	100.00%
Less:				
Deferred loan fees	(99)		(90)	
Allowance for loan losses	525		300	
Total loans, net	\$ 167,197		\$ 168,149	

⁽¹⁾ Excludes loans held for sale.

Fee Income.

American Federal Savings Bank receives lending related fee income from a variety of sources. Its principal source of this income is from the origination and servicing of sold mortgage loans. Fees generated from mortgage loan servicing, which generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing for loans held by others, were \$628,000 and \$542,000 for the years ended June 30, 2009 and 2008, respectively. Other loan related fee income for contract collections, late charges, credit life commissions and credit card fees were \$78,000 and \$61,000 for the years ended June 30, 2009 and 2008, respectively.

Loan Maturity Schedule.

The following table sets forth the estimated maturity of the loan portfolio of the Bank at June 30, 2009. Scheduled principal repayments of loans do not necessarily reflect the actual life of such assets. The average life of a loan is typically substantially less than its contractual terms because of prepayments. In addition, due on sale clauses on loans generally give American Federal Savings Bank the right to declare loans immediately due and payable in the event, among other things, that the borrower sells the real property, subject to the mortgage, and the loan is not paid off. All mortgage loans are shown to be maturing based on the date of the last payment required by the loan agreement, except as noted.

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Loans having no stated maturity, those without a scheduled payment, demand loans and matured loans, are shown as due within six months.

	Within 6 Months	6 to 12 Months	More than 1 year to 2 years	More than 2 years to 5 years	Over 5 years	Total
	(Dollars in thousands)					
Residential mortgage (1-4 family) ⁽¹⁾	\$ 206	\$ 22	\$ 181	\$ 2,933	\$ 81,406	\$ 84,748
Commercial real estate and land	1,942	1,156	5,206	6,382	22,397	37,083

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	Within 6 Months	6 to 12 Months	More than 1 year to 2 years	More than 2 years to 5 years	Over 5 years	Total
Real estate construction	3,608	954				4,562
Home equity	1,112	1,975	4,278	9,362	11,896	28,623
Consumer	1,302	397	824	6,153	2,210	10,886
Commercial	2,607	983	311	1,857	1,312	7,070
Total loans ⁽¹⁾	\$ 10,777	\$ 5,487	\$ 10,800	\$ 26,687	\$ 119,221	\$ 172,972

⁽¹⁾ Includes loans held for sale.

The following table sets forth the dollar amount of all loans, at June 30, 2009, due after June 30, 2010, which have fixed interest rates and which have floating or adjustable interest rates:

	Fixed	Adjustable	Total
	(Dollars in thousands)		
Residential mortgage (1-4 family)	\$ 63,918	\$ 20,602	\$ 84,520
Commercial real estate and land	31,096	2,889	33,985
Real estate construction			
Home equity	22,434	3,102	25,536
Consumer	8,640	547	9,187
Commercial	3,030	450	3,480
Total loans ⁽¹⁾	\$ 129,118	\$ 27,590	\$ 156,708
Percent of total	82.39%	17.61%	100.00%

⁽¹⁾ Due after June 30, 2010.

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The following table sets forth information with respect to our loan originations, purchases and sales activity for the periods indicated.

	Ended June 30,	
	2009	2008
	(In thousands)	
Net loans receivable at beginning of period ⁽¹⁾ :	\$ 175,519	\$ 159,315
Loans originated:		
Residential mortgage (1-4 family)	164,657	72,385
Commercial real estate and land	21,500	