

HMN FINANCIAL INC  
Form 10-Q  
November 02, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

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

**For the quarterly period ended September 30, 2007**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 0-24100  
HMN FINANCIAL, INC.**

(Exact name of Registrant as specified in its Charter)

Delaware

41-1777397

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

1016 Civic Center Drive N.W., Rochester, MN

55901

(Address of principal executive offices)

(ZIP Code)

Registrant's telephone number, including area code: (507) 535-1200

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's common stock as of the latest practicable date.

Class

Outstanding at October 19, 2007

Common stock, \$0.01 par value

4,255,617

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## Item 1: Financial Statements

**HMN FINANCIAL, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**

	September 30, 2007 (unaudited)	December 31, 2006
<i>(dollars in thousands)</i>		
<b>Assets</b>		
Cash and cash equivalents	\$ 51,916	43,776
Securities available for sale:		
Mortgage-backed and related securities (amortized cost \$19,538 and \$6,671)	18,927	6,178
Other marketable securities (amortized cost \$190,185 and \$119,940)	191,251	119,962
	210,178	126,140
Loans held for sale	2,153	1,493
Loans receivable, net	846,201	768,232
Accrued interest receivable	7,350	5,061
Real estate, net	2,505	2,072
Federal Home Loan Bank stock, at cost	5,580	7,956
Mortgage servicing rights, net	1,431	1,958
Premises and equipment, net	12,082	11,372
Goodwill	3,801	3,801
Core deposit intangible	21	106
Prepaid expenses and other assets	1,473	2,943
Deferred tax asset	2,722	2,879
Total assets	\$ 1,147,413	977,789
<b>Liabilities and Stockholders Equity</b>		
Deposits	\$ 936,419	725,959
Federal Home Loan Bank advances	97,500	150,900
Accrued interest payable	7,827	1,176
Customer escrows	1,349	721
Accrued expenses and other liabilities	7,018	5,891
Total liabilities	1,050,113	884,647
Commitments and contingencies		
Stockholders' equity:		
Serial preferred stock: (\$.01 par value) authorized 500,000 shares; issued and outstanding none	0	0
Common stock (\$.01 par value): authorized 11,000,000; issued shares 9,128,662	91	91

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Additional paid-in capital	57,890	57,914
Retained earnings, subject to certain restrictions	109,079	103,643
Accumulated other comprehensive income (loss)	275	(284)
Unearned employee stock ownership plan shares	(4,012)	(4,158)
Treasury stock, at cost 4,873,045 and 4,813,232 shares	(66,023)	(64,064)
Total stockholders' equity	97,300	93,142
Total liabilities and stockholders' equity	\$ 1,147,413	977,789

See accompanying notes to consolidated financial statements.

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**HMN FINANCIAL, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Income**  
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
<i>(dollars in thousands, except per share amounts)</i>	2007	2006	2007	2006
Interest income:				
Loans receivable	\$ 17,258	14,962	49,632	44,747
Securities available for sale:				
Mortgage-backed and related	212	66	495	206
Other marketable	2,498	1,512	6,810	3,724
Cash equivalents	250	546	972	1,254
Other	60	89	276	238
<b>Total interest income</b>	<b>20,278</b>	<b>17,175</b>	<b>58,185</b>	<b>50,169</b>
Interest expense:				
Deposits	9,283	5,813	24,506	16,198
Federal Home Loan Bank advances	1,182	1,660	4,227	5,130
<b>Total interest expense</b>	<b>10,465</b>	<b>7,473</b>	<b>28,733</b>	<b>21,328</b>
Net interest income	9,813	9,702	29,452	28,841
Provision for loan losses	921	6,026	2,404	7,521
<b>Net interest income after provision for loan losses</b>	<b>8,892</b>	<b>3,676</b>	<b>27,048</b>	<b>21,320</b>
Non-interest income:				
Fees and service charges	828	820	2,306	2,331
Mortgage servicing fees	254	291	789	896
Securities gains, net	0	0	0	48
Gain on sales of loans	205	481	1,189	1,030
Other	362	143	724	683
<b>Total non-interest income</b>	<b>1,649</b>	<b>1,735</b>	<b>5,008</b>	<b>4,988</b>
Non-interest expense:				
Compensation and benefits	3,147	2,706	9,770	9,083
Occupancy	1,127	1,131	3,323	3,335
Advertising	123	108	424	346
Data processing	325	306	941	882
Amortization of mortgage servicing rights, net	169	208	540	661
Other	1,062	980	3,054	2,836

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Total non-interest expense	5,953	5,439	18,052	17,143
Income (loss) before income tax expense (benefit)	4,588	(28)	14,004	9,165
Income tax expense (benefit)	1,806	(102)	5,505	3,408
Net income	\$ 2,782	74	8,499	5,757