

HOME BANCORP, INC.  
Form 10-Q  
May 09, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended: March 31, 2012

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: 001-34190

**HOME BANCORP, INC.**

(Exact name of Registrant as specified in its charter)

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**Louisiana**  
(State or Other Jurisdiction of

**71-1051785**  
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

**503 Kaliste Saloom Road, Lafayette, Louisiana**  
(Address of Principal Executive Offices)

**70508**  
(Zip Code)

Registrant's telephone number, including area code: (337) 237-1960

**Not Applicable**

(Former Name, Former Address and Former Fiscal Year, if changed since last report)

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 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 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. (Check one):

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

At May 4, 2012, the registrant had 7,756,039 shares of common stock, \$0.01 par value, outstanding.

**Table of Contents**

**HOME BANCORP, INC. and SUBSIDIARY**

**TABLE OF CONTENTS**

|  | Page |
|--|------|
| <b>PART I</b>  |      |
| Item 1. Financial Statements (unaudited)   |      |
| <u>Consolidated Statements of Financial Condition</u>  | 1    |
| <u>Consolidated Statements of Income</u>   | 2    |
| <u>Consolidated Statements of Comprehensive Income</u>   | 3    |
| <u>Consolidated Statements of Changes in Shareholders' Equity</u>                                    | 4    |
| <u>Consolidated Statements of Cash Flows</u>   | 5    |
| <u>Notes to Unaudited Consolidated Financial Statements</u>  | 6    |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 21   |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 31   |
| Item 4. <u>Controls and Procedures</u>   | 32   |
| <b>PART II</b>   |      |
| Item 1. <u>Legal Proceedings</u>   | 32   |
| Item 1A. <u>Risk Factors</u>   | 32   |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 32   |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 32   |
| Item 4. <u>Mine Safety Disclosure</u>  | 32   |
| Item 5. <u>Other Information</u>   | 32   |
| Item 6. <u>Exhibits</u>  | 33   |
| <u>SIGNATURES</u>  | 34   |

**Table of Contents****HOME BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

|  | (Unaudited)<br>March 31,<br>2012 | (Audited)<br>December 31,<br>2011 |
|--|----------------------------------|-----------------------------------|
| <b>Assets</b>  |                                  |                                   |
| Cash and cash equivalents  | \$ 33,800,736                    | \$ 31,272,508                     |
| Interest-bearing deposits in banks   | 4,754,000                        | 5,583,000                         |
| Investment securities available for sale, at fair value  | 161,000,461                      | 155,259,978                       |
| Investment securities held to maturity (fair values of \$3,167,538 and \$3,574,684, respectively)  | 3,064,866                        | 3,461,717                         |
| Mortgage loans held for sale   | 1,794,119                        | 1,672,597                         |
| Loans covered by loss sharing agreements   | 56,111,387                       | 61,070,360                        |
| Noncovered loans, net of unearned income   | 622,539,181                      | 605,301,127                       |
| <b>Total loans, net of unearned income</b>   | <b>678,650,568</b>               | <b>666,371,487</b>                |
| Allowance for loan losses  | (5,813,095)                      | (5,104,363)                       |
| <b>Total loans, net of unearned income and allowance for loan losses</b>   | <b>672,837,473</b>               | <b>661,267,124</b>                |
| Office properties and equipment, net   | 30,724,675                       | 31,763,692                        |
| Cash surrender value of bank-owned life insurance  | 16,902,453                       | 16,771,174                        |
| FDIC loss sharing receivable   | 24,399,699                       | 24,222,190                        |
| Accrued interest receivable and other assets   | 30,275,634                       | 32,515,158                        |
| <b>Total Assets</b>  | <b>\$ 979,554,116</b>            | <b>\$ 963,789,138</b>             |
| <b>Liabilities</b>   |                                  |                                   |
| Deposits:  |                                  |                                   |
| Noninterest-bearing  | \$ 135,599,674                   | \$ 127,827,509                    |
| Interest-bearing   | 600,557,556                      | 602,906,246                       |
| <b>Total deposits</b>  | <b>736,157,230</b>               | <b>730,733,755</b>                |
| Short-term Federal Home Loan Bank (FHLB) advances  | 61,041,726                       | 52,634,218                        |
| Long-term Federal Home Loan Bank (FHLB) advances   | 39,806,304                       | 40,988,736                        |
| Accrued interest payable and other liabilities   | 4,827,764                        | 5,147,595                         |
| <b>Total Liabilities</b>   | <b>841,833,024</b>               | <b>829,504,304</b>                |
| <b>Shareholders Equity</b>   |                                  |                                   |
| Preferred stock, \$0.01 par value - 10,000,000 shares authorized; none issued  |                                  |                                   |
| Common stock, \$0.01 par value - 40,000,000 shares authorized; 8,940,275 and 8,933,435 shares issued; 7,762,204 and 7,759,954 shares outstanding, respectively | 89,404                           | 89,335                            |
| Additional paid-in capital   | 90,230,748                       | 89,741,406                        |
| Treasury stock at cost -1,178,071 and 1,173,481 shares, respectively   | (15,965,319)                     | (15,892,315)                      |
| Unallocated common stock held by:  |                                  |                                   |
| Employee Stock Ownership Plan (ESOP)   | (5,891,720)                      | (5,980,990)                       |
| Recognition and Retention Plan (RRP)   | (2,639,799)                      | (2,644,523)                       |
| Retained earnings  | 69,305,807                       | 67,245,350                        |
| Accumulated other comprehensive income   | 2,591,971                        | 1,726,571                         |

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|  |                       |                       |
|--|-----------------------|-----------------------|
| <b>Total Shareholders Equity</b>                 | 137,721,092           | 134,284,834           |
| <b>Total Liabilities and Shareholders Equity</b> | <b>\$ 979,554,116</b> | <b>\$ 963,789,138</b> |

**The accompanying Notes are an integral part of these Consolidated Financial Statements.**

**Table of Contents****HOME BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

|  | For the Three Months Ended<br>March 31, |                  |
|--|---|------------------|
|  | 2012                                    | 2011             |
| <b>Interest Income</b>                                     |   |                  |
| Loans, including fees                                      | \$ 10,371,357                           | \$ 7,160,653     |
| Investment securities                                      | 859,482                                 | 960,821          |
| Other investments and deposits                             | 34,398                                  | 36,721           |
| <b>Total interest income</b>                               | <b>11,265,237</b>                       | <b>8,158,195</b> |
| <b>Interest Expense</b>                                    |   |                  |
| Deposits   | 1,131,848                               | 1,177,048        |
| Short-term FHLB advances                                   | 15,842                                  | 912              |
| Long-term FHLB advances                                    | 164,994                                 | 99,728           |
| <b>Total interest expense</b>                              | <b>1,312,684</b>                        | <b>1,277,688</b> |
| <b>Net interest income</b>                                 | <b>9,952,553</b>                        | <b>6,880,507</b> |
| Provision for loan losses                                  | 711,900                                 | 102,276          |
| <b>Net interest income after provision for loan losses</b> | <b>9,240,653</b>                        | <b>6,778,231</b> |
| <b>Noninterest Income</b>                                  |   |                  |
| Service fees and charges                                   | 569,941                                 | 474,824          |
| Bank card fees   | 468,284                                 | 398,094          |
| Gain on sale of loans, net                                 | 326,171                                 | 104,393          |
| Income from bank-owned life insurance                      | 131,279                                 | 145,419          |
| Gain/(loss) on sale of securities, net                     | 168                                     | (166,082)        |
| Discount accretion of FDIC loss sharing receivable         | 177,510                                 | 238,669          |
| Other income   | 26,562                                  | 26,583           |
| <b>Total noninterest income</b>                            | <b>1,699,915</b>                        | <b>1,221,900</b> |
| <b>Noninterest Expense</b>                                 |   |                  |
| Compensation and benefits                                  | 4,695,709                               | 3,998,408        |
| Occupancy  | 694,941                                 | 565,261          |
| Marketing and advertising                                  | 151,474                                 | 161,050          |
| Data processing and communication                          | 672,341                                 | 541,507          |
| Professional services                                      | 232,253                                 | 419,732          |
| Forms, printing and supplies                               | 126,266                                 | 113,980          |
| Franchise and shares tax                                   | 175,651                                 | 180,500          |
| Regulatory fees  | 198,158                                 | 229,739          |
| Foreclosed assets, net                                     | 267,998                                 | 48,134           |
| Other expenses   | 594,031                                 | 448,811          |
| <b>Total noninterest expense</b>                           | <b>7,808,822</b>                        | <b>6,707,122</b> |
| <b>Income before income tax expense</b>                    | <b>3,131,746</b>                        | <b>1,293,009</b> |

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|                            |                     |                   |
|----------------------------|---------------------|-------------------|
| Income tax expense         | 1,071,289           | 498,325           |
| <b>Net Income</b>          | <b>\$ 2,060,457</b> | <b>\$ 794,684</b> |
| <b>Earnings per share:</b> |                     |                   |
| Basic                      | \$ 0.30             | \$ 0.11           |
| Diluted                    | \$ 0.29             | \$ 0.11           |

**The accompanying Notes are an integral part of these Consolidated Financial Statements.**

**Table of Contents****HOME BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

|  | <b>For the Three Months Ended<br/>March 31,</b> |              |
|--|---|--------------|
|  | <b>2012</b>                                     | <b>2011</b>  |
| <b>Net Income</b>  | \$ 2,060,457                                    | \$ 794,684   |
| <b>Other Comprehensive Income</b>  |   |              |
| Unrealized gains on investment securities (net of taxes, \$465,985 and \$203,198, respectively)                        | \$ 865,509                                      | \$ 284,830   |
| Reclassification adjustment for losses (gains) included in net income, (net of taxes, \$59 and \$56,468, respectively) | (109)   | 109,614      |
| Other comprehensive income, net of taxes   | \$ 865,400                                      | \$ 394,444   |
| <b>Comprehensive Income</b>  | \$ 2,925,857                                    | \$ 1,189,128 |

**The accompanying Notes are an integral part of these Consolidated Financial Statements.**



**Table of Contents****HOME BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)**

|  | Common<br>Stock | Additional<br>Paid-in<br>Capital | Treasury Stock  | Unallocated<br>Common Stock<br>Held by<br>ESOP | Unallocated<br>Common Stock<br>Held by RRP | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total          |
|--|-----------------|----------------------------------|-----------------|--|--|----------------------|---|----------------|
| <b>Balance,<br/>December 31,<br/>2010<sup>(1)</sup></b>                                      | \$ 89,270       | \$ 88,818,862                    | \$ (10,425,725) | \$ (6,338,070)                                 | \$ (3,432,486)                             | \$ 62,125,568        | \$ 692,523                                      | \$ 131,529,942 |
| Comprehensive<br>income:   |                 |                                  |                 |  |  |                      |   |                |
| Net income   |                 |                                  |                 |  |  | 794,684              |   | 794,684        |
| Change in unrealized<br>gain on securities<br>available for sale, net<br>of taxes            |                 |                                  |                 |  |  |                      | 284,830   | 284,830        |
| Reclassification<br>adjustment for<br>realized losses on<br>securities sold, net of<br>taxes |                 |                                  |                 |  |  |                      | 109,614   | 109,614        |
| Treasury stock<br>acquired at cost,<br>43,843 shares   |                 |                                  | (602,850)       |  |  |                      |   | (602,850)      |
| RRP shares released<br>for allocation  |                 | (4,434)                          |                 |  | 4,724                                      |                      |   | 290            |
| ESOP shares<br>released for<br>allocation  |                 | 36,077                           |                 | 89,270   |  |                      |   | 125,347        |
| Share-based<br>compensation cost   |                 | 332,642                          |                 |  |  |                      |   | 332,642        |
| <b>Balance, March 31,<br/>2011</b>   | \$ 89,270       | \$ 89,183,147                    | \$ (11,028,575) | \$ (6,248,800)                                 | \$ (3,427,762)                             | \$ 62,920,252        | \$ 1,086,967                                    | \$ 132,574,499 |
| <b>Balance,<br/>December 31,<br/>2011<sup>(1)</sup></b>                                      | \$ 89,335       | \$ 89,741,406                    | \$ (15,892,315) | \$ (5,980,990)                                 | \$ (2,644,523)                             | \$ 67,245,350        | \$ 1,726,571                                    | \$ 134,284,834 |
| Comprehensive<br>income:   |                 |                                  |                 |  |  |                      |   |                |
| Net income   |                 |                                  |                 |  |  | 2,060,457            |   | 2,060,457      |
| Change in unrealized<br>gain on securities<br>available for sale, net<br>of taxes            |                 |                                  |                 |  |  |                      | 865,509   | 865,509        |
| Reclassification<br>adjustment for<br>realized gains on<br>securities sold, net of<br>taxes  |                 |                                  |                 |  |  |                      | (109)   | (109)          |
| Treasury stock<br>acquired at cost,  |                 |                                  | (73,004)        |  |  |                      |   | (73,004)       |

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|                                     |           |               |                 |                |                |               |              |                |         |
|-------------------------------------|-----------|---------------|-----------------|----------------|----------------|---------------|--------------|----------------|---------|
| 4,590 shares                        |           |               |                 |                |                |               |              |                |         |
| Exercise of stock options           | 69        | 78,250        |                 |                |                |               |              |                | 78,319  |
| RRP shares released for allocation  |           | (4,198)       |                 | 4,724          |                |               |              |                | 526     |
| ESOP shares released for allocation |           | 55,131        |                 | 89,270         |                |               |              |                | 144,401 |
| Share-based compensation cost       |           | 360,159       |                 |                |                |               |              |                | 360,159 |
| <b>Balance, March 31, 2012</b>      | \$ 89,404 | \$ 90,230,748 | \$ (15,965,319) | \$ (5,891,720) | \$ (2,639,799) | \$ 69,305,807 | \$ 2,591,971 | \$ 137,721,092 |         |

(1) Balances as of December 31, 2010 and December 31, 2011 are audited.

**The accompanying Notes are an integral part of these Consolidated Financial Statements.**

**Table of Contents****HOME BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

|   | <b>For the Three Months Ended<br/>March 31,</b> |                     |
|---|---|---------------------|
|   | <b>2012</b>                                     | <b>2011</b>         |
| <b>Cash flows from operating activities, net of effects of acquisition:</b>       |   |                     |
| Net income  | \$ 2,060,457                                    | \$ 794,684          |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |                     |
| Provision for loan losses   | 711,900   | 102,276             |
| Depreciation  | 365,689   | 307,415             |
| Amortization of purchase accounting valuations and intangibles                    | 3,284,055                                       | (1,193,170)         |
| Net amortization of mortgage servicing asset                                      | 39,195  | 7,365               |
| Federal Home Loan Bank stock dividends  | (5,000)   | (1,200)             |
| Net amortization of discount on investments                                       | (314,619)                                       | (204,622)           |
| Loss (gain) on sale of investment securities, net                                 | (168)   | 166,082             |
| Gain on loans sold, net   | (326,171)                                       | (104,393)           |
| Proceeds, including principal payments, from loans held for sale                  | 10,001,360                                      | 9,827,555           |
| Originations of loans held for sale   | (9,655,739)                                     | (6,615,532)         |
| Non-cash compensation   | 504,560   | 457,989             |
| Deferred income tax provision (benefit)   | 755,430   | (1,087,115)         |
| Decrease in interest receivable and other assets                                  | (281,497)                                       | 737,159             |
| Increase in cash surrender value of bank-owned life insurance                     | (131,279)                                       | (145,419)           |
| (Decrease) increase in accrued interest payable and other liabilities             | (332,088)                                       | 609,049             |
| <b>Net cash provided by operating activities</b>                                  | <b>6,676,085</b>                                | <b>3,658,123</b>    |
| <b>Cash flows from investing activities, net of effects of acquisition:</b>       |   |                     |
| Purchases of securities available for sale  | (13,615,599)                                    | (32,601,078)        |
| Purchases of securities held to maturity  |   | (3,000,000)         |
| Proceeds from maturities, prepayments and calls on securities available for sale  | 8,003,212                                       | 7,810,943           |
| Proceeds from maturities, prepayments and calls on securities held to maturity    | 396,660   | 10,455,897          |
| Proceeds from sales on securities available for sale                              | 1,558,514                                       | 3,455,913           |
| Net increase in loans   | (16,085,287)                                    | (1,903,653)         |
| Reimbursement from FDIC for covered assets  |   | 1,221,179           |
| (Increase) decrease in certificates of deposit in other institutions              | 829,000   | (990,000)           |
| Proceeds from sale of repossessed assets  | 1,363,701                                       | 324,001             |
| Purchases of office properties and equipment                                      | (288,222)                                       | (152,309)           |
| Proceeds from sale of properties and equipment                                    | 1,048,771                                       |                     |
| Purchases of Federal Home Loan Bank stock   |   | (478,100)           |
| <b>Net cash used in investing activities</b>                                      | <b>(16,789,250)</b>                             | <b>(15,857,207)</b> |
| <b>Cash flows from financing activities, net of effects of acquisition:</b>       |   |                     |
| Increase (decrease) in deposits   | 5,254,478                                       | (9,701,781)         |
| Increase (decrease) in Federal Home Loan Bank advances                            | 7,381,600                                       | 8,000,000           |
| Purchase of treasury stock  | (73,004)  | (602,850)           |
| Proceeds from exercise of stock options   | 78,319  |                     |
| <b>Net cash provided by (used in) financing activities</b>                        | <b>12,641,393</b>                               | <b>(2,304,631)</b>  |
| <b>Net change in cash and cash equivalents</b>                                    | <b>2,528,228</b>                                | <b>(14,503,715)</b> |

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|  |               |               |
|--|---------------|---------------|
| Cash and cash equivalents at beginning of year | 31,272,508    | 36,970,638    |
| Cash and cash equivalents at end of period     | \$ 33,800,736 | \$ 22,466,923 |

**The accompanying Notes are an integral part of these Consolidated Financial Statements.**

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**Table of Contents**

**HOME BANCORP, INC. AND SUBSIDIARY**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The accompanying unaudited financial statements of the Company were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the three-month period ended March 31, 2012 are not necessarily indicative of the results which may be expected for the entire fiscal year. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) for the year ended December 31, 2011.

In preparing the financial statements, the Company is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the Company's financial condition, results of operations, changes in equity and cash flows for the interim periods presented. These adjustments are of a normal recurring nature and include appropriate estimated provisions.

Certain amounts reported in prior periods have been reclassified to conform to the current period presentation. Such reclassifications had no effect on previously reported equity or net income.

**2. Accounting Developments**

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement*. ASU 2011-04 amends the fair value measurement and disclosure requirements in order to gain consistency between the generally accepted accounting principles in the United States and the International Financial Reporting Standards. The guidance, which became effective on January 1, 2012, did not have a material impact on the Company's results of operations, financial position or disclosures.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income*. ASU 2011-05 requires entities to present the total of comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement of comprehensive income or in two separate consecutive statements. The revised financial statement presentation for comprehensive income became effective on January 1, 2012 and has been incorporated into this quarterly report on Form 10-Q.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles - Goodwill and Other*. ASU 2011-08 amends the accounting guidance on goodwill impairment testing. The amendments in this accounting standard update are intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The amendments also improve previous guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The adoption of ASU 2011-08 became effective on January 1, 2012. The adoption of the guidance did not have a material impact on the Company's results of operations, financial position or disclosures.

**3. Acquisition Activity**

As previously reported, the Company completed the acquisition of GS Financial Corp. (GSFC), the former holding company of Guaranty Savings Bank of Metairie, Louisiana, on July 15, 2011. As a result of the transaction, the Company acquired \$256.7 million of assets, including loans of \$182.4 million, and \$230.6 million in deposits and other liabilities.

**Table of Contents****4. Investment Securities**

Summary information regarding investment securities classified as available for sale and held to maturity as of March 31, 2012 and December 31, 2011 is as follows.

| <i>(dollars in thousands)</i>   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |                | Fair<br>Value     |
|---------------------------------|-------------------|------------------------------|-------------------------------|----------------|-------------------|
|                                 |                   |                              | Less Than                     |                |                   |
|                                 |                   |                              | 1<br>Year                     | Over<br>1 Year |                   |
| <b>March 31, 2012</b>           |                   |                              |                               |                |                   |
| Available for sale:             |                   |                              |                               |                |                   |
| U.S. agency mortgage-backed     | \$ 118,719        | \$ 3,199                     | \$ 12                         | \$ 24          | \$ 121,882        |
| Non-U.S. agency mortgage-backed | 14,323            | 123                          | 57                            | 150            | 14,239            |
| Municipal bonds                 | 11,570            | 560                          |                               |                | 12,130            |
| U.S. government agency          | 12,401            | 348                          |                               |                | 12,749            |
| <b>Total available for sale</b> | <b>\$ 157,013</b> | <b>\$ 4,230</b>              | <b>\$ 69</b>                  | <b>\$ 174</b>  | <b>\$ 161,000</b> |
| Held to maturity:               |                   |                              |                               |                |                   |
| U.S. agency mortgage-backed     | \$ 1,893          | \$ 35                        | \$                            | \$             | \$ 1,928          |
| Municipal bonds                 | 1,172             | 68                           |                               |                | 1,240             |
| <b>Total held to maturity</b>   | <b>\$ 3,065</b>   | <b>\$ 103</b>                | <b>\$</b>                     | <b>\$</b>      | <b>\$ 3,168</b>   |

| <i>(dollars in thousands)</i>   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |                | Fair<br>Value     |
|---------------------------------|-------------------|------------------------------|-------------------------------|----------------|-------------------|
|                                 |                   |                              | Less Than                     |                |                   |
|                                 |                   |                              | 1<br>Year                     | Over<br>1 Year |                   |
| <b>December 31, 2011</b>        |                   |                              |                               |                |                   |
| Available for sale:             |                   |                              |                               |                |                   |
| U.S. agency mortgage-backed     | \$ 113,692        | \$ 2,879                     | \$ 42                         | \$             | \$ 116,529        |
| Non-U.S. agency mortgage-backed | 14,833            | 37                           | 766                           | 425            | 13,679            |
| Municipal bonds                 | 11,598            | 623                          |                               |                | 12,221            |
| U.S. government agency          | 12,521            | 310                          |                               |                | 12,831            |
| <b>Total available for sale</b> | <b>\$ 152,644</b> | <b>\$ 3,849</b>              | <b>\$ 808</b>                 | <b>\$ 425</b>  | <b>\$ 155,260</b> |
| Held to maturity:               |                   |                              |                               |                |                   |
| U.S. agency mortgage-backed     | \$ 2,289          | \$ 49                        | \$                            | \$             | \$ 2,338          |
| Municipal bonds                 | 1,173             | 64                           |                               |                | 1,237             |
| <b>Total held to maturity</b>   | <b>\$ 3,462</b>   | <b>\$ 113</b>                | <b>\$</b>                     | <b>\$</b>      | <b>\$ 3,575</b>   |



**Table of Contents**

The amortized cost and estimated fair value by maturity of the Company's investment securities as of March 31, 2012 are shown in the following table. Securities are classified according to their contractual maturities without consideration of principal amortization, potential prepayments or call options. The expected maturity of a security, in particular mortgage-backed securities, certain U.S. government agency securities and municipal bonds, may differ from its contractual maturity because of the exercise of call options. Accordingly, actual maturities may differ from contractual maturities.

| <i>(dollars in thousands)</i>      | <b>One Year<br/>or Less</b> | <b>One Year<br/>to Five<br/>Years</b> | <b>Five to<br/>Ten Years</b> | <b>Over Ten<br/>Years</b> | <b>Total</b>      |
|------------------------------------|-----------------------------|---------------------------------------|------------------------------|---------------------------|-------------------|
| <b>Fair Value</b>                  |                             |                                       |                              |                           |                   |
| Securities available for sale:     |                             |                                       |                              |                           |                   |
| U.S. agency mortgage-backed        | \$                          | \$ 1,490                              | \$ 12,321                    | \$ 108,071                | \$ 121,882        |
| Non-U.S. agency mortgage-backed    |                             |                                       |                              | 14,239                    | 14,239            |
| Municipal bonds                    |                             | 3,237                                 | 5,983                        | 2,910                     | 12,130            |
| U.S. government agency             |                             | 5,058                                 | 2,101                        | 5,590                     | 12,749            |
| <b>Total available for sale</b>    | <b>\$</b>                   | <b>\$ 9,785</b>                       | <b>\$ 20,405</b>             | <b>\$ 130,810</b>         | <b>\$ 161,000</b> |
| Securities held to maturity:       |                             |                                       |                              |                           |                   |
| U.S. agency mortgage-backed        | \$                          | \$ 1,231                              | \$ 697                       | \$                        | \$ 1,928          |
| Municipal bonds                    |                             | 200                                   | 1,040                        |                           | 1,240             |
| <b>Total held to maturity</b>      |                             | <b>200</b>                            | <b>2,271</b>                 | <b>697</b>                | <b>3,168</b>      |
| <b>Total investment securities</b> | <b>\$</b>                   | <b>\$ 200</b>                         | <b>\$ 12,056</b>             | <b>\$ 21,102</b>          | <b>\$ 130,810</b> |

| <i>(dollars in thousands)</i>      | <b>One Year<br/>or Less</b> | <b>One Year<br/>to Five<br/>Years</b> | <b>Five to<br/>Ten Years</b> | <b>Over Ten<br/>Years</b> | <b>Total</b>      |
|------------------------------------|-----------------------------|---------------------------------------|------------------------------|---------------------------|-------------------|
| <b>Amortized Cost</b>              |                             |                                       |                              |                           |                   |
| Securities available for sale:     |                             |                                       |                              |                           |                   |
| U.S. agency mortgage-backed        | \$                          | \$ 1,410                              | \$ 12,211                    | \$ 105,098                | \$ 118,719        |
| Non-U.S. agency mortgage-backed    |                             |                                       |                              | 14,323                    | 14,323            |
| Municipal bonds                    |                             | 3,162                                 | 5,660                        | 2,748                     | 11,570            |
| U.S. government agency             |                             | 5,000                                 | 1,988                        | 5,413                     | 12,401            |
| <b>Total available for sale</b>    | <b>\$</b>                   | <b>\$ 9,572</b>                       | <b>\$ 19,859</b>             | <b>\$ 127,582</b>         | <b>\$ 157,013</b> |
| Securities held to maturity:       |                             |                                       |                              |                           |                   |
| U.S. agency mortgage-backed        | \$                          | \$ 1,206                              | \$ 687                       | \$                        | \$ 1,893          |
| Municipal bonds                    |                             | 200                                   | 972                          |                           | 1,172             |
| <b>Total held to maturity</b>      |                             | <b>200</b>                            | <b>2,178</b>                 | <b>687</b>                | <b>3,065</b>      |
| <b>Total investment securities</b> | <b>\$</b>                   | <b>\$ 200</b>                         | <b>\$ 11,750</b>             | <b>\$ 20,546</b>          | <b>\$ 127,582</b> |

Management evaluates securities for other-than-temporary impairment at least quarterly, and more frequently when economic and market conditions warrant such evaluations. Consideration is given to (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; and (3) the Company's intent to sell a security or whether it is more likely than not the Company will be required to sell the security before the recovery of its amortized cost, which may extend to maturity.



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The Company has developed a process to identify securities that could potentially have a credit impairment that is other-than-temporary. This process involves evaluating each security for impairment by monitoring credit performance, collateral type, collateral geography, bond credit support, loan-to-value ratios, credit scores, loss severity levels, pricing levels, downgrades by rating agencies, cash flow projections and other factors as indicators of potential credit issues. The Company performs a credit analysis based on different credit scenarios at least quarterly to detect impairment on its investment securities. When the Company determines that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized.

**Table of Contents****5. Earnings Per Share**

Earnings per common share were computed based on the following:

| <i>(in thousands, except per share data)</i>                 | Three Months Ended |         |
|--|--------------------|---------|
|  | 2012               | 2011    |
| <b>Numerator:</b>  |                    |         |
| Operating income available to common shareholders            | \$ 2,060           | \$ 795  |
| <b>Denominator:</b>  |                    |         |
| Weighted average common shares outstanding                   | 6,953              | 7,177   |
| <b>Effect of dilutive securities:</b>                        |                    |         |
| Restricted stock   | 96                 | 92      |
| Stock options  | 147                | 8       |
| Weighted average common shares outstanding assuming dilution | 7,196              | 7,277   |
| Earnings per common share                                    | \$ 0.30            | \$ 0.11 |
| Earnings per common share assuming dilution                  | \$ 0.29            | \$ 0.11 |

Options on 828,919 and 812,675 shares of common stock were not included in computing diluted earnings per share for the three months ended March 31, 2012 and March 31, 2011, respectively, because the effect of these shares was anti-dilutive.

**6. Credit Quality and Allowance for Loan Losses**

The allowance for loan losses and recorded investment in loans as of the dates indicated are as follows.

| <i>(dollars in thousands)</i>      | As of March 31, 2012                        |   |  | Total    |
|------------------------------------|---|---|--|----------|
|                                    | Collectively<br>Evaluated for<br>Impairment | Individually<br>Evaluated for<br>Impairment | Loans Acquired<br>with Deteriorated<br>Credit<br>Quality |          |
| Allowance for loan losses:         |   |   |  |          |
| One- to four-family first mortgage | \$ 747                                      | \$ 72                                       | \$   | \$ 819   |
| Home equity loans and lines        | 318   |   |  | 318      |
| Commercial real estate             | 2,010                                       | 182   |  | 2,192    |
| Construction and land              | 843   | 316   |  | 1,159    |
| Multi-family residential           | 82  |   |  | 82       |
| Commercial and industrial          | 775   | 57  | 50   | 882      |
| Consumer                           | 361   |   |  | 361      |
| Total allowance for loan losses    | \$ 5,136                                    | \$ 627                                      | \$ 50  | \$ 5,813 |

**Table of Contents**

| <i>(dollars in thousands)</i>      | As of March 31, 2012                  |                                       |   | Total             |
|------------------------------------|---------------------------------------|---------------------------------------|---|-------------------|
|                                    | Collectively Evaluated for Impairment | Individually Evaluated for Impairment | Loans Acquired with Deteriorated Credit Quality |                   |
| Loans:                             |                                       |                                       |   |                   |
| One- to four-family first mortgage | \$ 164,735                            | \$ 1,473                              | \$ 12,618                                       | \$ 178,826        |
| Home equity loans and lines        | 36,922                                | 78                                    | 4,337   | 41,337            |
| Commercial real estate             | 203,354                               | 1,798                                 | 32,867  | 238,019           |
| Construction and land              | 79,720                                | 1,913                                 | 4,475   | 86,108            |
| Multi-family residential           | 16,947                                | 529                                   | 2,373   | 19,849            |
| Commercial and industrial          | 78,063                                | 127                                   | 3,740   | 81,930            |
| Consumer                           | 31,626                                |                                       | 956   | 32,582            |
| <b>Total loans</b>                 | <b>\$ 611,367</b>                     | <b>\$ 5,918</b>                       | <b>\$ 61,366</b>                                | <b>\$ 678,651</b> |

| <i>(dollars in thousands)</i>          | As of December 31, 2011               |                                       |   | Total           |
|--|---------------------------------------|---------------------------------------|---|-----------------|
|  | Collectively Evaluated for Impairment | Individually Evaluated for Impairment | Loans Acquired with Deteriorated Credit Quality |                 |
| Allowance for loan losses:             |                                       |                                       |   |                 |
| One- to four-family first mortgage     | \$ 706                                | \$ 72                                 | \$  | \$ 778          |
| Home equity loans and lines            | 321                                   | 15                                    |   | 336             |
| Commercial real estate                 | 1,626                                 | 129                                   |   | 1,755           |
| Construction and land                  | 708                                   | 196                                   |   | 904             |
| Multi-family residential               | 64                                    |                                       |   | 64              |
| Commercial and industrial              | 806                                   | 66                                    | 50  | 922             |
| Consumer                               | 345                                   |                                       |   | 345             |
| <b>Total allowance for loan losses</b> | <b>\$ 4,576</b>                       | <b>\$ 478</b>                         | <b>\$ 50</b>                                    | <b>\$ 5,104</b> |

|                                    |                   |                 |                  |                   |
|------------------------------------|-------------------|-----------------|------------------|-------------------|
| Loans:                             |                   |                 |                  |                   |
| One- to four-family first mortgage | \$ 168,943        | \$ 1,090        | \$ 12,784        | \$ 182,817        |
| Home equity loans and lines        | 38,406            | 94              | 5,165            | 43,665            |
| Commercial real estate             | 190,553           | 2,249           | 34,197           | 226,999           |
| Construction and land              | 71,207            | 2,305           | 5,481            | 78,993            |
| Multi-family residential           | 16,392            | 529             | 3,204            | 20,125            |
| Commercial and industrial          | 78,495            | 136             | 4,350            | 82,981            |
| Consumer                           | 29,529            |                 | 1,262            | 30,791            |
| <b>Total loans</b>                 | <b>\$ 593,525</b> | <b>\$ 6,403</b> | <b>\$ 66,443</b> | <b>\$ 666,371</b> |

A summary of the activity in the allowance for loan losses during the three months ended March 31, 2012 and 2011 is as follows.

| <i>(dollars in thousands)</i>      | For the Three Months Ended March 31, 2012 |             |            |           | Ending Balance |
|------------------------------------|---|-------------|------------|-----------|----------------|
|                                    | Beginning Balance                         | Charge-offs | Recoveries | Provision |                |
| Allowance for loan losses:         |   |             |            |           |                |
| One- to four-family first mortgage | \$ 778                                    | \$          | \$         | \$ 41     | \$ 819         |
| Home equity loans and lines        | 336                                       | (15)        | 3          | (6)       | 318            |
| Commercial real estate             | 1,755                                     |             | 2          | 435       | 2,192          |
| Construction and land              | 904                                       |             | 3          | 251       | 1,158          |
| Multi-family residential           | 64  |             |            | 19        | 83             |

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|                                 |          |         |       |        |          |
|---------------------------------|----------|---------|-------|--------|----------|
| Commercial and industrial       | 922      |         |       | (41)   | 881      |
| Consumer                        | 345      |         | 4     | 13     | 362      |
| Total allowance for loan losses | \$ 5,104 | \$ (15) | \$ 12 | \$ 712 | \$ 5,813 |

**Table of Contents**

| <i>(dollars in thousands)</i>          | For the Three Months Ended March 31, 2011 |               |             |               | Ending Balance  |
|--|---|---------------|-------------|---------------|-----------------|
|  | Beginning Balance                         | Charge-offs   | Recoveries  | Provision     |                 |
| Allowance for loan losses:             |   |               |             |               |                 |
| One- to four-family first mortgage     | \$ 641                                    | \$            | \$          | \$ (19)       | \$ 622          |
| Home equity loans and lines            | 296                                       |               |             |               | 296             |
| Commercial real estate                 | 1258                                      |               | 2           | 55            | 1,315           |
| Construction and land                  | 666                                       |               |             | (22)          | 644             |
| Multi-family residential               | 46  |               |             | 2             | 48              |
| Commercial and industrial              | 746                                       |               | 2           | 70            | 818             |
| Consumer                               | 267                                       | (9)           | 2           | 16            | 276             |
| <b>Total allowance for loan losses</b> | <b>\$ 3,920</b>                           | <b>\$ (9)</b> | <b>\$ 6</b> | <b>\$ 102</b> | <b>\$ 4,019</b> |

On March 12, 2010, the Bank acquired certain assets and liabilities of the former Statewide Bank in a Federal Deposit Insurance Corporation ( FDIC ) assisted transaction. In connection with the transaction, Home Bank entered into loss sharing agreements with the FDIC which cover the acquired loan portfolio ( Covered Loans ) and repossessed assets (collectively referred to as Covered Assets ). Under the terms of the loss sharing agreements, the FDIC will, subject to the terms and conditions of the agreements, absorb 80% of the first \$41,000,000 of losses incurred on Covered Assets and 95% of losses on Covered Assets exceeding \$41,000,000 during the periods specified in the loss sharing agreements.

On July 15, 2011, the Company acquired GSFC and its subsidiary, Guaranty Savings Bank. The acquired loans were accounted for under the purchase method of accounting. A portion of the loan portfolio acquired was assumed to have deteriorated credit quality and those acquired loans were recorded at their aggregate fair value of \$6.2 million at the date of acquisition.

Over the life of the loans acquired with deteriorated credit quality, the Company continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics. The Company evaluates whether the present values of such loans have decreased and if so, a provision for loan loss is recognized. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the remaining life of the applicable pool of loans.

Credit quality indicators on the Company s loan portfolio, excluding loans acquired with deteriorated credit quality, as of the dates indicated are as follows.

| <i>(dollars in thousands)</i>      | March 31, 2012    |                 |                  |           |                   |
|------------------------------------|-------------------|-----------------|------------------|-----------|-------------------|
|                                    | Pass              | Special Mention | Substandard      | Doubtful  | Total             |
| One- to four-family first mortgage | \$ 160,000        | \$ 2,073        | \$ 4,135         | \$        | \$ 166,208        |
| Home equity loans and lines        | 36,400            | 195             | 405              |           | 37,000            |
| Commercial real estate             | 191,127           | 3,377           | 10,648           |           | 205,152           |
| Construction and land              | 78,879            | 788             | 1,966            |           | 81,633            |
| Multi-family residential           | 16,663            | 228             | 585              |           | 17,476            |
| Commercial and industrial          | 75,420            | 2,615           | 155              |           | 78,190            |
| Consumer                           | 31,554            | 23              | 49               |           | 31,626            |
| <b>Total loans</b>                 | <b>\$ 590,043</b> | <b>\$ 9,299</b> | <b>\$ 17,943</b> | <b>\$</b> | <b>\$ 617,285</b> |

**Table of Contents**

| <i>(dollars in thousands)</i>      | December 31, 2011 |                    |             |          |            |
|------------------------------------|-------------------|--------------------|-------------|----------|------------|
|                                    | Pass              | Special<br>Mention | Substandard | Doubtful | Total      |
| One- to four-family first mortgage | \$ 165,997        | \$ 2,595           | \$ 1,441    | \$       | \$ 170,033 |
| Home equity loans and lines        | 37,849            | 320                | 331         |          | 38,500     |
| Commercial real estate             | 176,651           | 11,435             | 4,716       |          | 192,802    |
| Construction and land              | 69,537            | 1,595              | 2,380       |          | 73,512     |
| Multi-family residential           | 16,164            | 228                | 529         |          | 16,921     |
| Commercial and industrial          | 74,823            | 3,621              | 187         |          | 78,631     |
| Consumer                           | 29,429            | 22                 | 78          |          | 29,529     |
| Total loans                        | \$ 570,450        | \$ 19,816          | \$ 9,662    | \$       | \$ 599,928 |

The above classifications follow regulatory guidelines and can generally be described as follows:

Pass loans are of satisfactory quality.

Special mention loans have an existing weakness that could cause future impairment, including the deterioration of financial ratios, past due status, questionable management capabilities and possible reduction in the collateral values.

Substandard loans have an existing specific and well defined weakness that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.

Doubtful loans have specific weaknesses that are severe enough to make collection or liquidation in full highly questionable and improbable.

In addition, residential loans are classified using an inter-agency regulatory methodology that incorporates the extent of the delinquency and the loan-to-value ratios. These classifications were the most current available as of the dates indicated and were generally updated within the quarter. Loans acquired with deteriorated credit quality are excluded from the schedule of credit quality indicators.

Age analysis of past due loans, excluding loans acquired with deteriorated credit quality, as of the dates indicated is as follows.

| <i>(dollars in thousands)</i>      | March 31, 2012               |                              |  |                   |                  |                |
|------------------------------------|------------------------------|------------------------------|--|-------------------|------------------|----------------|
|                                    | 30-59<br>Days<br>Past<br>Due | 60-89<br>Days<br>Past<br>Due | Greater<br>Than 90<br>Days<br>Past Due | Total<br>Past Due | Current<br>Loans | Total<br>Loans |
| Real estate loans:                 |                              |                              |  |                   |                  |                |
| One- to four-family first mortgage | \$ 4,720                     | \$ 562                       | \$ 5,134                               | \$ 10,416         | \$ 155,792       | \$ 166,208     |
| Home equity loans and lines        | 132                          | 112                          | 249                                    | 493               | 36,507           | 37,000         |
| Commercial real estate             | 451                          | 2,496                        | 7,321                                  | 10,268            | 194,884          | 205,152        |
| Construction and land              | 2110                         |                              | 798                                    | 2,908             | 78,725           | 81,633         |
| Multi-family residential           | 40                           |                              | 528                                    | 568               | 16,908           | 17,476         |
| Total real estate loans            | 7,453                        | 3,170                        | 14,030                                 | 24,653            | 482,816          | 507,469        |
| Other loans:                       |                              |                              |  |                   |                  |                |
| Commercial and industrial          | 457                          | 82                           | 95                                     | 634               | 77,556           | 78,190         |

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|                   |          |          |           |           |            |            |
|-------------------|----------|----------|-----------|-----------|------------|------------|
| Consumer          | 107      | 45       | 9         | 161       | 31,465     | 31,626     |
| Total other loans | 564      | 127      | 104       | 795       | 109,021    | 109,816    |
| Total loans       | \$ 8,017 | \$ 3,297 | \$ 14,134 | \$ 25,448 | \$ 591,837 | \$ 617,285 |

**Table of Contents**

|                                    | December 31, 2011            |                              |  |                   |                   |                   |
|------------------------------------|------------------------------|------------------------------|--|-------------------|-------------------|-------------------|
|                                    | 30-59<br>Days<br>Past<br>Due | 60-89<br>Days<br>Past<br>Due | Greater<br>Than 90<br>Days<br>Past Due | Total<br>Past Due | Current<br>Loans  | Total<br>Loans    |
| <i>(dollars in thousands)</i>      |                              |                              |  |                   |                   |                   |
| Real estate loans:                 |                              |                              |  |                   |                   |                   |
| One- to four-family first mortgage | \$ 3,740                     | \$ 451                       | \$ 2,053                               | \$ 6,244          | \$ 163,789        | \$ 170,033        |
| Home equity loans and lines        | 242                          |                              | 171                                    | 413               | 38,087            | 38,500            |
| Commercial real estate             | 1,384                        | 704                          | 1,862                                  | 3,950             | 188,852           | 192,802           |
| Construction and land              | 1,376                        | 13                           | 812                                    | 2,201             | 71,311            | 73,512            |
| Multi-family residential           | 944                          |                              | 707                                    | 1,651             | 15,270            | 16,921            |
| <b>Total real estate loans</b>     | <b>7,686</b>                 | <b>1,168</b>                 | <b>5,605</b>                           | <b>14,459</b>     | <b>477,309</b>    | <b>491,768</b>    |
| Other loans:                       |                              |                              |  |                   |                   |                   |
| Commercial and industrial          | 309                          | 95                           |  | 404               | 78,227            | 78,631            |
| Consumer                           | 216                          | 38                           | 50                                     | 304               | 29,225            | 29,529            |
| <b>Total other loans</b>           | <b>525</b>                   | <b>133</b>                   | <b>50</b>                              | <b>708</b>        | <b>107,452</b>    | <b>108,160</b>    |
| <b>Total loans</b>                 | <b>\$ 8,211</b>              | <b>\$ 1,301</b>              | <b>\$ 5,655</b>                        | <b>\$ 15,167</b>  | <b>\$ 584,761</b> | <b>\$ 599,928</b> |

As of March 31, 2012 and December 31, 2011, the Company did not have any loans that are not subject to the FDIC loss sharing agreements, which are referred to as Noncovered Loans, greater than 90 days past due and accruing.

The following is a summary of information pertaining to impaired loans excluding Acquired Loans as of the dates indicated.

|                                     | For the Three Months Ended March 31, 2012 |                                |                      |                                   |                                  |
|-------------------------------------|---|--------------------------------|----------------------|-----------------------------------|----------------------------------|
|                                     | Recorded<br>Investment                    | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| <i>(dollars in thousands)</i>       |   |                                |                      |                                   |                                  |
| With no related allowance recorded: |   |                                |                      |                                   |                                  |
| One- to four-family first mortgage  | \$ 925                                    | \$ 925                         | \$                   | \$ 733                            | \$ 7                             |
| Home equity loans and lines         | 78  | 78                             |                      | 79                                | 1                                |
| Commercial real estate              | 1,303                                     | 1,303                          |                      | 1,634                             | 3                                |
| Construction and land               | 340                                       | 340                            |                      | 535                               | 5                                |
| Multi-family residential            | 529                                       | 529                            |                      | 528                               |                                  |
| Commercial and industrial           | 70  | 70                             |                      | 53                                | 1                                |
| Consumer                            |   |                                |                      |                                   |                                  |
| <b>Total</b>                        | <b>\$ 3,245</b>                           | <b>\$ 3,245</b>                | <b>\$</b>            | <b>\$ 3,562</b>                   | <b>\$ 17</b>                     |
| With an allowance recorded:         |   |                                |                      |                                   |                                  |
| One- to four-family first mortgage  | \$ 548                                    | \$ 548                         | \$ 72                | \$ 742                            | \$ 9                             |
| Home equity loans and lines         |   |                                |                      | 11                                |                                  |
| Commercial real estate              | 496                                       | 496                            | 182                  | 499                               | 7                                |
| Construction and land               | 1572                                      | 1572                           | 316                  | 1,573                             | 18                               |
| Multi-family residential            |   |                                |                      |                                   |                                  |
| Commercial and industrial           | 57  | 57                             | 57                   | 81                                | 1                                |
| Consumer                            |   |                                |                      |                                   |                                  |
| <b>Total</b>                        | <b>\$ 2,673</b>                           | <b>\$ 2,673</b>                | <b>\$ 627</b>        | <b>\$ 2,906</b>                   | <b>\$ 35</b>                     |



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|                                    |                 |                 |               |                 |              |
|------------------------------------|-----------------|-----------------|---------------|-----------------|--------------|
| Total impaired loans:              |                 |                 |               |                 |              |
| One- to four-family first mortgage | \$ 1,473        | \$ 1,473        | \$ 72         | \$ 1,475        | \$ 16        |
| Home equity loans and lines        | 78              | 78              |               | 90              | 1            |
| Commercial real estate             | 1,798           | 1,798           | 182           | 2,133           | 10           |
| Construction and land              | 1,913           | 1,913           | 316           | 2,108           | 23           |
| Multi-family residential           | 529             | 529             |               | 528             |              |
| Commercial and industrial          | 127             | 127             | 57            | 134             | 2            |
| Consumer                           |                 |                 |               |                 |              |
| <b>Total</b>                       | <b>\$ 5,918</b> | <b>\$ 5,918</b> | <b>\$ 627</b> | <b>\$ 6,468</b> | <b>\$ 52</b> |

**Table of Contents**

| <i>(dollars in thousands)</i>       | For the Year Ended December 31, 2011 |                                |                      |                                   |                                  |
|-------------------------------------|--------------------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
|                                     | Recorded<br>Investment               | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| With no related allowance recorded: |                                      |                                |                      |                                   |                                  |
| One- to four-family first mortgage  | \$ 540                               | \$ 540                         | \$                   | \$ 745                            | \$ 28                            |
| Home equity loans and lines         | 79                                   | 79                             |                      | 58                                | 3                                |
| Commercial real estate              | 1,747                                | 1,747                          |                      | 996                               | 60                               |
| Construction and land               | 734                                  | 734                            |                      | 672                               | 40                               |
| Multi-family residential            | 529                                  | 529                            |                      | 41                                | 25                               |
| Commercial and industrial           | 70                                   | 70                             |                      | 55                                | 4                                |
| Consumer                            |                                      |                                |                      |                                   |                                  |
| <b>Total</b>                        | <b>\$ 3,699</b>                      | <b>\$ 3,699</b>                | <b>\$</b>            | <b>\$ 2,567</b>                   | <b>\$ 160</b>                    |
| With an allowance recorded:         |                                      |                                |                      |                                   |                                  |
| One- to four-family first mortgage  | \$ 550                               | \$ 550                         | \$ 72                | \$ 78                             | \$ 38                            |
| Home equity loans and lines         | 15                                   | 15                             | 15                   | 10                                | 1                                |
| Commercial real estate              | 501                                  | 501                            | 129                  | 301                               | 14                               |
| Construction and land               | 1,572                                | 1,572                          | 196                  | 510                               | 88                               |
| Multi-family residential            |                                      |                                |                      | 25                                |                                  |
| Commercial and industrial           | 66                                   | 66                             | 66                   | 130                               | 3                                |
| Consumer                            |                                      |                                |                      | 2                                 |                                  |
| <b>Total</b>                        | <b>\$ 2,704</b>                      | <b>\$ 2,704</b>                | <b>\$ 478</b>        | <b>\$ 1,056</b>                   | <b>\$ 144</b>                    |
| Total impaired loans:               |                                      |                                |                      |                                   |                                  |
| One- to four-family first mortgage  | \$ 1,090                             | \$ 1,090                       | \$ 72                | \$ 823                            | \$ 66                            |
| Home equity loans and lines         | 94                                   | 94                             | 15                   | 68                                | 4                                |
| Commercial real estate              | 2,249                                | 2,249                          | 129                  | 1,297                             | 74                               |
| Construction and land               | 2,305                                | 2,305                          | 196                  | 1,182                             | 128                              |
| Multi-family residential            | 529                                  | 529                            |                      | 66                                | 25                               |
| Commercial and industrial           | 136                                  | 136                            | 66                   | 185                               | 7                                |
| Consumer                            |                                      |                                |                      | 2                                 |                                  |
| <b>Total</b>                        | <b>\$ 6,403</b>                      | <b>\$ 6,403</b>                | <b>\$ 478</b>        | <b>\$ 3,623</b>                   | <b>\$ 304</b>                    |

**Table of Contents**

A summary of information pertaining to nonaccrual Noncovered Loans as of dates indicated is as follows.

| <i>(dollars in thousands)</i>      | <b>March 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|------------------------------------|---------------------------|------------------------------|
| Nonaccrual loans <sup>(1)</sup> :  |                           |                              |
| One- to four-family first mortgage | \$ 3,981                  | \$ 4,298                     |
| Home equity loans and lines        | 269                       | 191                          |
| Commercial real estate             | 9,025                     | 4,194                        |
| Construction and land              | 922                       | 813                          |
| Multi-family residential           | 1,319                     | 1,322                        |
| Commercial and industrial          | 234                       | 139                          |
| Consumer                           | 9                         | 50                           |
| <b>Total</b>                       | <b>\$ 15,759</b>          | <b>\$ 11,007</b>             |

<sup>(1)</sup> Includes \$7.1 million and \$7.2 million in Acquired Loans from GSFC as of March 31, 2012 and December 31, 2012, respectively. As of March 31, 2012, the Company was not committed to lend additional funds to any customer whose loan was classified as impaired.

**Troubled Debt Restructurings**

During the course of its lending operations, the Company periodically grants concessions to its customers in an attempt to protect as much of its investment as possible and to minimize risk of loss. These concessions may include restructuring the terms of a customer loan to alleviate the burden of the customer's near-term cash requirements. Effective January 1, 2011, the Company adopted the provisions of ASU No.2011-02, *Receivables* (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring, which provides clarification on the determination of whether loan restructurings are considered troubled debt restructurings ( TDRs ). In accordance with the ASU, in order to be considered a TDR, the Company must conclude that the restructuring of a loan to a borrower who is experiencing financial difficulties constitutes a concession . The Company defines a concession to the customer as a modification of existing terms granted to the borrower for economic or legal reasons related to the borrower's financial difficulties that the Company would otherwise not consider. The concession is either granted through an agreement with the customer or is imposed by a court or law. Concessions include modifying original loan terms to reduce or defer cash payments required as part of the loan agreement, including but not limited to:

a reduction of the stated interest rate for the remaining original life of the debt,

an extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk characteristics,

a reduction of the face amount or maturity amount of the debt as stated in the agreement, or

a reduction of accrued interest receivable on the debt.

In its determination of whether the customer is experiencing financial difficulties, the Company considers numerous indicators, including, but not limited to:

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whether the customer is currently in default on its existing loan, or is in an economic position where it is probable the customer will be in default on its loan in the foreseeable future without a modification,

whether the customer has declared or is in the process of declaring bankruptcy,

whether there is substantial doubt about the customer's ability to continue as a going concern,

whether, based on its projections of the customer's current capabilities, the Company believes the customer's future cash flows will be insufficient to service the debt, including interest, in accordance with the contractual terms of the existing agreement for the foreseeable future, and

whether, without modification, the customer cannot obtain sufficient funds from other sources at an effective interest rate equal to the current market rate for similar debt for a non-troubled debtor.

**Table of Contents**

If the Company concludes that both a concession has been granted and the concession was granted to a customer experiencing financial difficulties, the Company identifies the loan as a TDR in its loan system. For purposes of the determination of an allowance for loan losses on these TDRs, the loan is reviewed for specific impairment in accordance with the Company's allowance for loan loss methodology. If it is determined that losses are probable on such TDRs, either because of delinquency or other credit quality indicators, the Company establishes specific reserves for these loans.

Information about the Company's TDRs is presented in the following tables.

| <i>(dollars in thousands)</i>      | For the Three Months Ended March 31, 2012 |                                     |                    |               |
|------------------------------------|---|-------------------------------------|--------------------|---------------|
|                                    | Current                                   | Past Due<br>Greater Than<br>30 Days | Nonaccrual<br>TDRs | Total<br>TDRs |
| Real estate loans:                 |   |                                     |                    |               |
| One- to four-family first mortgage | \$  | \$                                  | \$                 | \$            |
| Home equity loans and lines        |   |                                     |                    |               |
| Commercial real estate             | 314                                       |                                     | 116                | 430           |
| Construction and land              | 27  | 168                                 |                    | 195           |
| Multi-family residential           |   |                                     |                    |               |
| <b>Total real estate loans</b>     | <b>341</b>                                | <b>168</b>                          | <b>116</b>         | <b>625</b>    |
| Other loans:                       |   |                                     |                    |               |
| Commercial and industrial          | 19  |                                     |                    | 19            |
| Consumer                           | 40  |                                     |                    | 40            |
| <b>Total other loans</b>           | <b>59</b>                                 |                                     |                    | <b>59</b>     |
| <b>Total loans</b>                 | <b>\$ 400</b>                             | <b>\$ 168</b>                       | <b>\$ 116</b>      | <b>\$ 684</b> |

| <i>(dollars in thousands)</i>      | For the Year Ended December 31, 2011 |                                     |                    |               |
|------------------------------------|--------------------------------------|-------------------------------------|--------------------|---------------|
|                                    | Current                              | Past Due<br>Greater Than<br>30 Days | Nonaccrual<br>TDRs | Total<br>TDRs |
| Real estate loans:                 |                                      |                                     |                    |               |
| One- to four-family first mortgage | \$                                   | \$                                  | \$                 | \$            |
| Home equity loans and lines        | 15                                   |                                     |                    | 15            |
| Commercial real estate             | 319                                  |                                     | 117                | 436           |
| Construction and land              | 198                                  |                                     |                    | 198           |
| Multi-family residential           |                                      |                                     |                    |               |
| <b>Total real estate loans</b>     | <b>532</b>                           |                                     | <b>117</b>         | <b>649</b>    |
| Other loans:                       |                                      |                                     |                    |               |
| Commercial and industrial          | 22                                   |                                     |                    | 22            |
| Consumer                           | 44                                   |                                     |                    | 44            |
| <b>Total other loans</b>           | <b>66</b>                            |                                     |                    | <b>66</b>     |
| <b>Total loans</b>                 | <b>\$ 598</b>                        | <b>\$</b>                           | <b>\$ 117</b>      | <b>\$ 715</b> |

None of the troubled debt restructurings defaulted subsequent to the restructuring through the date the financial statements were available to be issued. The Company did not restructure any additional loans during the first quarter of 2012.

**7. Fair Value Disclosures**

The Company groups its financial assets and liabilities measured at fair value in three levels as required by ASC 820, *Fair Value Measurements and Disclosures*. Under this guidance, fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value

**Table of Contents**

hierarchy that prioritizes the inputs used to develop those assumptions and measure fair value. The hierarchy requires companies to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

An asset's or liability's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Management reviews and updates the fair value hierarchy classifications of the Company's assets and liabilities on a quarterly basis.

**Recurring Basis***Investment Securities Available for Sale*

Fair values of investment securities available for sale are primarily measured using information from a third-party pricing service. This pricing service provides pricing information by utilizing evaluated pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data from market research publications. If quoted prices are available in an active market, investment securities are classified as Level 1 measurements. If quoted prices are not available in an active market, fair values are estimated primarily by the use of pricing models. Level 2 investment securities are primarily comprised of mortgage-backed securities issued by government agencies and U.S. government-sponsored enterprises. In certain cases, where there is limited or less transparent information provided by the Company's third-party pricing service, fair value is estimated by the use of secondary pricing services or through the use of non-binding third-party broker quotes. Investment securities are classified within Level 3 when little or no market activity supports the fair value.

Management primarily identifies investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume and frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. Investment securities that are deemed to have been trading in illiquid or inactive markets may require the use of significant unobservable inputs. For example, management may use quoted prices for similar investment securities in the absence of a liquid and active market for the investment securities being valued. As of March 31, 2012, management did not make adjustments to prices provided by the third-party pricing service as a result of illiquid or inactive markets.

The following tables present the balances of assets and liabilities measured on a recurring basis as of March 31, 2012 and December 31, 2011.

|                                 | 00000000                             | 00000000       | 00000000       | 00000000       |
|---------------------------------|--------------------------------------|----------------|----------------|----------------|
|                                 | <b>Fair Value Measurements Using</b> |                |                |                |
| <i>(dollars in thousands)</i>   | <b>March 31,<br/>2012</b>            | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| Available for sale securities:  |                                      |                |                |                |
| U.S. agency mortgage-backed     | \$ 121,882                           | \$             | \$ 121,882     | \$             |
| Non-U.S. agency mortgage-backed | 14,239                               |                | 14,239         |                |
| Municipal bonds                 | 12,130                               |                | 12,130         |                |
| U.S. government agency          | 12,749                               |                | 12,749         |                |

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|       |    |         |    |  |    |         |    |
|-------|----|---------|----|--|----|---------|----|
| Total | \$ | 161,000 | \$ |  | \$ | 161,000 | \$ |
|-------|----|---------|----|--|----|---------|----|



**Table of Contents**

| <i>(dollars in thousands)</i>   | 00000000             | 00000000 | 00000000   | 00000000 |
|---------------------------------|----------------------|----------|------------|----------|
|                                 | December 31,<br>2011 | Level 1  | Level 2    | Level 3  |
| Available for sale securities:  |                      |          |            |          |
| U.S. agency mortgage-backed     | \$ 116,529           | \$       | \$ 116,529 | \$       |
| Non-U.S. agency mortgage-backed | 13,679               |          | 13,679     |          |
| Municipal bonds                 | 12,221               |          | 12,221     |          |
| U.S. government agency          | 12,831               |          | 12,831     |          |
| Total                           | \$ 155,260           | \$       | \$ 155,260 | \$       |

The Company did not record any liabilities at fair value for which measurement of the fair value was made on a recurring basis.

**Nonrecurring Basis**

In accordance with the provisions of ASC 310, *Receivables*, the Company records loans considered impaired at their fair value. A loan is considered impaired if it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Fair value is measured at the fair value of the collateral for collateral-dependent loans. For non-collateral-dependent loans, fair value is measured by present valuing expected future cash flows. Impaired loans are classified as Level 2 assets when measured using appraisals from external parties of the collateral less any prior liens. Impaired loans are classified as Level 3 when an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price. Repossessed assets are initially recorded at fair value less estimated costs to sell. The fair value of repossessed assets is based on property appraisals and an analysis of similar properties available. As such, the Company classifies repossessed assets as Level 3 assets. Repossessed assets are classified as Level 3 assets when an appraised value is not available or management determines the fair value of the property is further impaired below the appraised value and there is no observable market price.

Loans acquired from GSFC and Statewide ( Acquired Loans ), the FDIC loss sharing receivable, acquired FHLB advances, and acquired interest-bearing deposit liabilities are measured on a nonrecurring basis using significant unobservable inputs (Level 3).

The Company has segregated all financial assets and liabilities that are measured at fair value on a nonrecurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below.

| <i>(dollars in thousands)</i>                       | March 31,<br>2012 | Fair Value Measurements Using |         |            |
|---|-------------------|-------------------------------|---------|------------|
|   |                   | Level 1                       | Level 2 | Level 3    |
| <b>Assets</b>                                       |                   |                               |         |            |
| Acquired Loans with deteriorated credit quality     | \$ 61,316         | \$                            | \$      | \$ 61,316  |
| Acquired Loans without deteriorated credit quality  | 143,270           |                               |         | 143,270    |
| Impaired loans excluding Acquired Loans             | 5,291             |                               |         | 5,291      |
| Repossessed assets                                  | 7,844             |                               |         | 7,844      |
| FDIC loss sharing receivable                        | 24,400            |                               |         | 24,400     |
| Total   | \$ 242,121        | \$                            | \$      | \$ 242,121 |
| <b>Liabilities</b>                                  |                   |                               |         |            |
| Deposits acquired through business combination      | \$ 107,889        | \$                            | \$      | \$ 107,889 |
| FHLB advances acquired through business combination | 24,348            |                               |         | 24,348     |
| Total   | \$ 132,237        | \$                            | \$      | \$ 132,237 |



**Table of Contents**

| <i>(dollars in thousands)</i>                       | December 31,<br>2011 | Fair Value Measurements Using |           |                   |
|---|----------------------|-------------------------------|-----------|-------------------|
|   |                      | Level 1                       | Level 2   | Level 3           |
| <b>Assets</b>                                       |                      |                               |           |                   |
| Acquired Loans with deteriorated credit quality     | \$ 66,393            | \$                            | \$        | \$ 66,393         |
| Acquired Loans without deteriorated credit quality  | 155,064              |                               |           | 155,064           |
| Impaired loans excluding Acquired Loans             | 5,925                |                               |           | 5,925             |
| Repossessed assets                                  | 8,964                |                               |           | 8,964             |
| FDIC loss sharing receivable                        | 24,222               |                               |           | 24,222            |
| <b>Total</b>  | <b>\$ 260,568</b>    | <b>\$</b>                     | <b>\$</b> | <b>\$ 260,568</b> |
| <b>Liabilities</b>                                  |                      |                               |           |                   |
| Deposits acquired through business combination      | \$ 129,034           | \$                            | \$        | \$ 129,034        |
| FHLB advances acquired through business combination | 34,123               |                               |           | 34,123            |
| <b>Total</b>  | <b>\$ 163,157</b>    | <b>\$</b>                     | <b>\$</b> | <b>\$ 163,157</b> |

ASC 820, *Fair Value Measurements and Disclosures*, requires the disclosure of each class of financial instruments for which it is practicable to estimate. The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. ASC 820 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial statement element. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates included herein are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the fair value of assets and liabilities that are not required to be recorded or disclosed at fair value like premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

The carrying value of cash and cash equivalents and interest-bearing deposits in banks approximate their fair value.

**Table of Contents**

The fair value for investment securities is determined from quoted market prices when available. If a quoted market price is not available, fair value is estimated using third party pricing services or quoted market prices of securities with similar characteristics.

The fair value of mortgage loans held for sale and loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturity.

The cash surrender value of bank-owned life insurance ( BOLI ) approximates its fair value.

The fair value of the FDIC loss sharing receivable is determined by discounting projected cash flows from loss sharing agreements based on expected reimbursements for losses at the applicable loss sharing percentages based on the terms of the loss sharing agreements.

The fair value of demand deposits, savings and interest-bearing demand deposits is the amount payable on demand. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

The fair value of short-term FHLB advances is the amount payable at maturity. The fair value of long-term FHLB advances is estimated using the rates currently offered for advances of similar maturities.

*Fair Value Limitations*

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect the premium or discount on any particular financial instrument that could result from the sale of the Company's entire holdings. Fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes, premises and equipment and goodwill. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The following table presents estimated fair values of the Company's financial instruments as of the dates indicated.

| <i>(dollars in thousands)</i>            | Carrying<br>Amount | Fair Value Measurements at March 31, 2012 |           |            |            |
|--|--------------------|---|-----------|------------|------------|
|  |                    | Total                                     | Level 1   | Level 2    | Level 3    |
| <b>Financial Assets</b>                  |                    |   |           |            |            |
| Cash and cash equivalents                | \$ 33,801          | \$ 33,801                                 | \$ 33,801 | \$         | \$         |
| Interest-bearing deposits in banks       | 4,754              | 4,754                                     | 4,754     |            |            |
| Investment securities available for sale | 161,000            | 161,000                                   |           | 161,000    |            |
| Investment securities held to maturity   | 3,065              | 3,168                                     |           | 3,168      |            |
| Mortgage loans held for sale             | 1,794              | 1,794                                     |           |            | 1,794      |
| Loans, net                               | 672,837            | 692,771                                   |           |            | 692,771    |
| Cash surrender value of BOLI             | 16,902             | 16,902                                    | 16,902    |            |            |
| FDIC loss sharing receivable             | 24,400             | 24,400                                    |           |            | 24,400     |
| <b>Financial Liabilities</b>             |                    |   |           |            |            |
| Deposits                                 | \$ 736,157         | \$ 737,885                                | \$        | \$ 629,996 | \$ 107,889 |
| Short-term FHLB advances                 | 61,042             | 61,042                                    | 55,500    |            | 5,542      |
| Long-term FHLB advances                  | 39,806             | 41,291                                    |           | 22,485     | 18,806     |

**Table of Contents**

| <i>(dollars in thousands)</i>            | Carrying<br>Amount | Fair Value Measurements at December 31, 2011 |           |            |            |
|--|--------------------|--|-----------|------------|------------|
|  |                    | Total  | Level 1   | Level 2    | Level 3    |
| <b>Financial Assets</b>                  |                    |  |           |            |            |
| Cash and cash equivalents                | \$ 31,273          | \$ 31,273                                    | \$ 31,273 | \$         | \$         |
| Interest-bearing deposits in banks       | 5,583              | 5,583  | 5,583     |            |            |
| Investment securities available for sale | 155,260            | 155,260                                      |           | 155,260    |            |
| Investment securities held to maturity   | 3,462              | 3,575  |           | 3,575      |            |
| Mortgage loans held for sale             | 1,673              | 1,673  |           |            | 1,673      |
| Loans, net                               | 661,267            | 686,538                                      |           |            | 686,538    |
| Cash surrender value of BOLI             | 16,771             | 16,771                                       | 16,771    |            |            |
| FDIC loss sharing receivable             | 24,222             | 24,222                                       |           |            | 24,222     |
| <b>Financial Liabilities</b>             |                    |  |           |            |            |
| Deposits                                 | \$ 730,734         | \$ 732,266                                   | \$        | \$ 603,232 | \$ 129,034 |
| Short-term FHLB advances                 | 52,634             | 52,634                                       | 37,500    |            | 15,134     |
| Long-term FHLB advances                  | 40,989             | 42,465                                       |           | 23,476     | 18,989     |

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The purpose of this discussion and analysis is to focus on significant changes in the financial condition of Home Bancorp, Inc. and its subsidiary, Home Bank, from December 31, 2011 to March 31, 2012 and on its results of operations for the three months ended March 31, 2012 and March 31, 2011. This discussion and analysis is intended to highlight and supplement information presented elsewhere in this quarterly report on Form 10-Q, particularly the financial statements and related notes appearing in Item 1.

**Forward-Looking Statements**

To the extent that statements in this Form 10-Q relate to future plans, objectives, financial results or performance of the Company or Bank, these statements are deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements, which are based on management's current information, estimates and assumptions and the current economic environment, are generally identified by the use of words such as "plan", "believe", "expect", "intend", "anticipate", "estimate", "project" or similar expressions, or by conditional terms such as "will", "would", "should", "could", "may", "likely", "probably", or "possibly". The Company's or the Bank's actual results in future periods may differ materially from those currently expected due to various risks and uncertainties. Factors that may cause actual results to differ materially from these forward-looking statements include, but are not limited to, the risk factors described under the heading "Risk Factors" in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2011. The Company undertakes no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made.

## **Table of Contents**

### **EXECUTIVE OVERVIEW**

During the first quarter of 2012, the Company earned \$2.1 million, an increase of \$1.3 million, or 159.3%, compared to the first quarter of 2011. Diluted earnings per share for the first quarter of 2012 were \$0.29, an increase of \$0.18, or 163.6%, compared to the first quarter of 2011.

As previously reported, the Company completed the acquisition of GS Financial Corp. ( GSFC ), the former holding company of Guaranty Savings Bank of Metairie, Louisiana, on July 15, 2011. As a result of the transaction, the Company acquired \$256.7 million of assets, including loans of \$182.4 million, and \$230.6 million in deposits and other liabilities.

Key components of the Company's performance in the first quarter of 2012 are summarized below.

Assets totaled \$979.6 million as of March 31, 2012, up \$15.8 million, or 1.6%, from December 31, 2011.

Net loans as of March 31, 2012 were \$672.8 million, an increase of \$11.6 million, or 1.7%, from December 31, 2011. The increase in loans was driven by commercial real estate (up \$11.0 million), construction and land (up \$7.1 million) and consumer (up \$1.8 million) loans. These increases were partially offset by decreases in one- to four-family first mortgage (down \$4.0 million), home equity (down \$2.3 million) and commercial and industrial (down \$1.1 million) loans. As of March 31, 2012, Covered Loans totaled \$56.1 million, a decrease of \$5.0 million, or 8.1%, from December 31, 2011.

Investment securities totaled \$164.1 million as of March 31, 2012, an increase of \$5.3 million, or 3.4%, from December 31, 2011. The increase was attributable to purchases of U.S. agency mortgage-backed securities, which more than offset paydowns and investment securities sales.

Core deposits (i.e., checking, savings, and money market accounts) grew for the eleventh consecutive quarter, increasing \$12.6 million, or 2.8%, from December 31, 2011. Core deposits totaled \$458.6 million as of March 31, 2012.

Total customer deposits as of March 31, 2012 were \$736.2 million, an increase of \$5.4 million, or 0.7%, from December 31, 2011.

Interest income increased \$3.1 million, or 38.1%, in the first quarter of 2012 compared to the first quarter of 2011. The increase was driven by the GSFC acquisition and organic loan growth.

Interest expense increased \$35,000, or 2.7%, for the first quarter of 2012 compared to the first quarter of 2011. The increase was primarily the result of higher average balances of interest-bearing liabilities due to the GSFC acquisition, offset by reduced market rates and changes in the composition of our interest-bearing liabilities.

The provision for loan losses totaled \$712,000 for the first quarter of 2012, an increase of \$610,000, or 596.1%, compared to the first quarter of 2011. The increase in the provision was the result of organic loan growth over the past 12 months, a \$5.4 million commercial real estate loan which was placed on nonaccrual status during the quarter and modest downgrades of certain other loans in the Company's loan portfolio. As of March 31, 2012, the Company's ratio of allowance for loan losses to total loans was 0.86%, compared to 0.77% at December 31, 2011. Excluding Acquired Loans, the ratio of the allowance for loan losses to total was 1.22% at March 31, 2012, compared to 1.14% at December 31, 2011. Net charge-offs for the first three months of 2012 and 2011 were \$3,000.

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Noninterest income for the first quarter of 2012 increased \$478,000, or 39.1%, compared to the first quarter of 2011. The increase in noninterest income was primarily the result of increased gains on the sale of mortgage loans of \$222,000 and the absence of losses on sale of securities, which totaled \$166,000 during the first quarter of 2011. Additionally, service fees and charges and bank card fees increased as a result of the accounts added through our acquisition of GSFC and organic customer growth.

**Table of Contents**

Noninterest expense for the first quarter of 2012 increased \$1.1 million, or 16.4%, compared to the first quarter of 2011. The increase in noninterest expense was primarily due to higher compensation and benefits, occupancy and data processing and communication expenses primarily reflecting our increase in offices and employees as a result of the GSFC acquisition. Additionally, expenses related to foreclosed assets increased primarily due to resolution costs related to nonperforming assets ( NPA's ) acquired from GSFC.

**FINANCIAL CONDITION****Loans, Asset Quality and Allowance for Loan Losses**

**Loans** Loans totaled \$678.7 million as of March 31, 2012, an increase of \$12.3 million, or 1.8%, from December 31, 2011. The increase in loans was driven by commercial real estate (up \$11.0 million), construction and land (up \$7.1 million) and consumer (up \$1.8 million) loans. These increases were partially offset by decreases in one- to four-family first mortgage (down \$4.0 million), home equity (down \$2.3 million) and commercial and industrial (down \$1.1 million) loans. Covered Loans totaled \$56.1 million as of March 31, 2012, a decrease of \$5.0 million, or 8.1%, compared to December 31, 2011. The decrease in the Covered Loan portfolio was primarily the result of principal repayments and foreclosures.

The following table summarizes the composition of the Company's loan portfolio as of the dates indicated.

| <i>(dollars in thousands)</i>      | March 31,<br>2012 | December 31,<br>2011 | Increase/(Decrease)<br>Amount | Percent    |
|------------------------------------|-------------------|----------------------|-------------------------------|------------|
| Real estate loans:                 |                   |                      |                               |            |
| One- to four-family first mortgage | \$ 178,826        | \$ 182,817           | \$ (3,991)                    | (2.2)%     |
| Home equity loans and lines        | 41,337            | 43,665               | (2,328)                       | (5.3)      |
| Commercial real estate             | 238,019           | 226,999              | 11,020                        | 4.9        |
| Construction and land              | 86,108            | 78,993               | 7,115                         | 9.0        |
| Multi-family residential           | 19,849            | 20,125               | (276)                         | (1.4)      |
| <b>Total real estate loans</b>     | <b>564,139</b>    | <b>552,599</b>       | <b>11,540</b>                 | <b>2.1</b> |
| Other loans:                       |                   |                      |                               |            |
| Commercial and industrial          | 81,930            | 82,981               | (1,051)                       | (1.3)      |
| Consumer                           | 32,582            | 30,791               | 1,791                         | 5.8        |
| <b>Total other loans</b>           | <b>114,512</b>    | <b>113,772</b>       | <b>740</b>                    | <b>0.7</b> |
| <b>Total loans</b>                 | <b>\$ 678,651</b> | <b>\$ 666,371</b>    | <b>\$ 12,280</b>              | <b>1.8</b> |

**Asset Quality** One of management's key objectives has been, and continues to be, maintaining a high level of asset quality. In addition to maintaining credit standards for new loan originations, we proactively monitor loans and collection and workout processes of delinquent or problem loans. When a borrower fails to make a scheduled payment, we attempt to cure the deficiency by making personal contact with the borrower. Initial contacts are generally made within 10 days after the date the payment is due. In most cases, deficiencies are promptly resolved. If the delinquency continues, late charges are assessed and additional efforts are made to collect the deficiency. All loans which are designated as special mention, classified or which are delinquent 90 days or more are reported to the Board of Directors of the Bank monthly. For loans where the collection of principal or interest payments is doubtful, the accrual of interest income ceases. It is our policy, with certain limited exceptions, to discontinue accruing interest and reverse any interest accrued on any loan which is 90 days or more past due. On occasion, this action may be taken earlier if the financial condition of the borrower raises significant concern with regard to his/her ability to service the debt in accordance with the terms of the loan agreement. Interest income is not accrued on these loans until the borrower's financial condition and payment record demonstrate an ability to service the debt.

Reposessed assets which are acquired as a result of foreclosure are classified as reposessed assets until sold. Third party property valuations are obtained at the time the asset is reposessed and periodically until the property



**Table of Contents**

is liquidated. Repossessed assets are recorded at the lesser of the balance of the loan or fair value less estimated selling costs, at the date acquired or upon receiving new property valuations. Costs associated with acquiring and improving a foreclosed property are usually capitalized to the extent that the carrying value does not exceed fair value less estimated selling costs. Holding costs are charged to expense. Gains and losses on the sale of repossessed assets are charged to operations, as incurred.

An impaired loan generally is one for which it is probable, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Loans collectively evaluated for impairment include smaller balance commercial loans, residential real estate loans and consumer loans. These loans are evaluated as a group because they have similar characteristics and performance experience. Larger commercial real estate, multi-family residential, construction and land loans and commercial and industrial loans are individually evaluated for impairment with balances of \$100,000 or greater. Third party property valuations are obtained at the time of origination for real estate secured loans. When a determination is made that a loan has deteriorated to the point of becoming a problem loan, updated valuations may be ordered to help determine if there is impairment, which may lead to a recommendation for partial charge off or appropriate allowance allocation. Property valuations are ordered through, and are reviewed by, an appraisal officer. The Company typically orders an as is valuation for collateral property if the loan is in a criticized loan classification. The Board of Directors is provided with monthly reports on impaired loans. As of March 31, 2012 and December 31, 2011, impaired loans, excluding Covered Loans, amounted to \$11.2 million and \$11.8 million, respectively. The impaired loans include loans acquired from GSFC, which totaled \$5.3 million and \$5.4 million at March 31, 2012 and December 31, 2011, respectively. As of March 31, 2012 and December 31, 2011, substandard loans, excluding Covered Loans, amounted to \$23.2 million and \$15.0 million, respectively. The increase in substandard loans for 2012 includes a \$5.4 million commercial real estate loan which was placed on nonaccrual status during the quarter and \$12.9 million acquired from GSFC. The amount of the allowance for loan losses allocated to impaired or substandard loans, excluding Covered Loans, totaled \$627,000 and \$478,000 as of March 31, 2012 and December 31, 2011, respectively. There were no assets classified as doubtful or loss as of March 31, 2012 and December 31, 2011.

Federal regulations and our policies require that we utilize an internal asset classification system as a means of reporting problem and potential problem assets. We have incorporated an internal asset classification system, substantially consistent with Federal banking regulations, as a part of our credit monitoring system. Federal banking regulations set forth a classification scheme for problem and potential problem assets 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 characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses 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 classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

A savings institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by Federal bank regulators which can order the establishment of additional general or specific loss allowances. The Federal banking agencies have adopted an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management analyze all significant factors that affect the collectability of the portfolio in a reasonable manner; and that management establish acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Our management believes that, based on information currently available, our allowance for loan losses is maintained at a level which covers all known and inherent losses that are both probable and reasonably estimable as of each reporting date. However, actual losses are dependent upon future events and, as such, further additions to the level of allowances for loan losses may become necessary.

**Table of Contents**

Nonperforming assets defined as nonaccrual loans, accruing loans past due 90 days or more and foreclosed assets, excluding Covered Assets, amounted to \$19.0 million, or 2.0% of total assets, as of March 31, 2012, compared to \$14.4 million, or 1.6% of total assets, as of December 31, 2011. The increase in NPAs relates primarily to a \$5.4 million commercial real estate loan which was placed on nonaccrual status during the first quarter of 2012.

Real estate, or other collateral, which is acquired as a result of foreclosure is classified as a foreclosed asset until sold. Foreclosed assets are recorded at the lesser of the balance of the loan or fair value less estimated selling costs, at the date acquired or upon receiving new property valuations. Holding costs are charged to expense. Gains and losses on the sale of real estate owned are charged to operations, as incurred.

The following table sets forth the composition of the Company's nonperforming assets and troubled debt restructurings as of the dates indicated.

| <i>(dollars in thousands)</i>                                      | March 31, 2012 <sup>(1)</sup> | December 31,<br>2011 <sup>(2)</sup> |
|--|-------------------------------|-------------------------------------|
| Nonaccrual loans:  |                               |                                     |
| Real estate loans:   |                               |                                     |
| One- to four-family first mortgage                                 | \$ 7,652                      | \$ 8,526                            |
| Home equity loans and lines  | 665                           | 857                                 |
| Commercial real estate   | 10,263                        | 6,570                               |
| Construction and land  | 2,752                         | 2,624                               |
| Multi-family residential   | 1,319                         | 1,321                               |
| Other loans:   |                               |                                     |
| Commercial and industrial  | 3,416                         | 1,382                               |
| Consumer   | 147                           | 187                                 |
| <b>Total nonaccrual loans</b>                                      | <b>26,214</b>                 | <b>21,467</b>                       |
| Accruing loans 90 days or more past due                            |                               |                                     |
| <b>Total nonperforming loans</b>                                   | <b>26,214</b>                 | <b>21,467</b>                       |
| Foreclosed asset   | 7,844                         | 8,964                               |
| <b>Total nonperforming assets</b>                                  | <b>34,058</b>                 | <b>30,431</b>                       |
| Performing troubled debt restructurings                            | 568                           | 598                                 |
| <b>Total nonperforming assets and troubled debt restructurings</b> | <b>\$ 34,626</b>              | <b>\$ 31,029</b>                    |
| Nonperforming loans to total loans                                 | 3.86%                         | 3.22%                               |
| Nonperforming loans to total assets                                | 2.68%                         | 2.23%                               |
| Nonperforming assets to total assets                               | 3.48%                         | 3.16%                               |

<sup>(1)</sup> Includes \$15.6 million in Covered Assets acquired from Statewide and \$9.5 million of assets acquired from GSFC. Excluding Acquired Loans and assets, ratios for nonperforming loans to total loans, nonperforming loans to total assets and nonperforming assets to total assets were 1.83%, 1.13% and 1.16%, respectively, at March 31, 2012.

<sup>(2)</sup> Includes \$16.6 million in Covered Assets acquired from Statewide and \$9.9 million of assets acquired from GSFC. Excluding Acquired Loans and assets, ratios for nonperforming loans to total loans, nonperforming loans to total assets and nonperforming assets to total assets were 0.85%, 0.51% and 0.54%, respectively, at December 31, 2011.

Net loan charge-offs for the first quarter of 2012 and 2011 were \$3,000.

**Allowance for Loan Losses** The allowance for loan losses is established through provisions for loan losses. The Company maintains the allowance at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the allowance for loan losses at least quarterly in order to identify those inherent losses and to assess the overall collection probability for the loan portfolio. Our evaluation process includes,



**Table of Contents**

among other things, an analysis of delinquency trends, nonperforming loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of loans, the value of collateral securing loans, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, economic conditions and industry experience. Based on this evaluation, management assigns risk rankings to segments of the loan portfolio. Such risk ratings are periodically reviewed by management and revised as deemed appropriate. These efforts are supplemented by independent reviews and validations performed by an independent loan reviewer. The results of the reviews are reported directly to the Audit Committee of the Board of Directors. The establishment of the allowance for loan losses is significantly affected by management judgment and uncertainties and there is a likelihood that different amounts would be reported under different conditions or assumptions. Federal regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require management to make additional provisions for estimated loan losses based upon judgments different from those of management.

With respect to Acquired Loans, the Company follows the reserve standard set forth in ASC 310, *Receivables*. At acquisition, the Company reviews each loan to determine whether there is evidence of deterioration in credit quality since origination and if it is probable that the Company will be unable to collect all amounts due according to the loan's contractual terms. The Company considers expected prepayments and estimates the amount and timing of undiscounted expected principal, interest and other cash flows for each loan pool meeting the criteria above, and determines the excess of the loan pool's scheduled contractual principal and interest payments in excess of cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the pool's cash flows expected to be collected over the fair value, is accreted into interest income over the remaining life of the pool (accretable yield). The Company records a discount on these loans at acquisition to record them at their estimated fair values. As a result, Acquired Loans subject to ASC 310 are excluded from the calculation of the allowance for loan losses as of the acquisition date.

Acquired Loans were recorded as of their acquisition date fair value, which was based on expected cash flows and included an estimation of expected future loan losses. Under current accounting principles, if the Company determines that losses arose after the acquisition date, the additional losses will be reflected as a provision for loan losses. As of March 31, 2012, \$50,000 of our allowance for loan losses was allocated to Acquired Loans with deteriorated credit quality.

We will continue to monitor and modify our allowance for loan losses as conditions dictate. No assurance can be given that our level of allowance for loan losses will cover all of the inherent losses on our loans or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the conditions used by management to determine the current level of the allowance for loan losses.

The following table presents the activity in the allowance for loan losses during the first three months of 2012.

| <i>(dollars in thousands)</i>   | <b>Amount</b>   |
|---------------------------------|-----------------|
| Balance, December 31, 2011      | \$ 5,104        |
| Provision charged to operations | 712             |
| Loans charged off               | (15)            |
| Recoveries on charged off loans | 12              |
| <b>Balance, March 31, 2012</b>  | <b>\$ 5,813</b> |

At March 31, 2012 the Company's ratio of allowance for loan losses to total loans was 0.86%, compared to 0.91% at March 31, 2011. The decrease in the ratio of the allowance for loan losses to total loans relates to the accounting for Acquired Loans. Under accounting principles generally accepted in the United States, an acquirer may not carry over the acquiree's allowance for loan losses. Instead, the acquirer must fair value the cash flows expected to be derived from the acquired loan portfolio. Management has included its credit loss expectations in the acquired loan portfolios' cash flow assumptions used to derive the portfolios' fair value. Hence, management

**Table of Contents**

believes that expected credit losses in the acquired loan portfolios were appropriately addressed in the fair value adjustments recorded on the acquired loan portfolios. Ongoing evaluations of the acquired loan portfolios may result in additional provisions for Acquired Loans. Excluding Acquired Loans, the ratio of allowance for loan losses to total loans was 1.22% at March 31, 2012, compared to 1.10% at March 31, 2011.

**Investment Securities**

The Company's investment securities portfolio totaled \$164.1 million as of March 31, 2012, an increase of \$5.3 million, or 3.4%, from December 31, 2011. As of March 31, 2012, the Company had a net unrealized gain on its available for sale investment securities portfolio of \$4.0 million, compared to \$2.6 million as of December 31, 2011. At March 31, 2012, the investment securities portfolio had a modified duration of 3.2 years.

The following table summarizes activity in the Company's investment securities portfolio during the first three months of 2012.

| <i>(dollars in thousands)</i>                            | Available for Sale | Held to Maturity |
|--|--------------------|------------------|
| Balance, December 31, 2011                               | \$ 155,260         | \$ 3,462         |
| Purchases  | 13,615             |                  |
| Sales  | (1,558)            |                  |
| Principal payments and calls                             | (8,003)            | (397)            |
| Accretion of discounts and amortization of premiums, net | 315                |                  |
| Increase in market value                                 | 1,371              |                  |
| Balance, March 31, 2012                                  | \$ 161,000         | \$ 3,065         |

The Company holds no Federal National Mortgage Association ( Fannie Mae ) or Federal Home Loan Mortgage Corporation ( Freddie Mac ) preferred stock, equity securities, corporate bonds, trust preferred securities, hedge fund investments, or collateralized debt obligations.

**Funding Sources**

**Deposits** Deposits totaled \$736.2 million as of March 31, 2012, an increase of \$5.4 million, or 0.7%, compared to December 31, 2011. The Company experienced its eleventh consecutive quarter of core deposit (i.e., checking, savings, and money market accounts) growth during the first quarter of 2012. Core deposits totaled \$458.6 million as of March 31, 2012, an increase of \$12.6 million, or 2.8 %, compared to December 31, 2011. The following table sets forth the composition of the Company's deposits at the dates indicated.

| <i>(dollars in thousands)</i> | March 31,<br>2012 | December 31,<br>2011 | Increase (Decrease)<br>Amount | Percent |
|-------------------------------|-------------------|----------------------|-------------------------------|---------|
| Demand deposit                | \$ 135,600        | \$ 127,828           | \$ 7,772                      | 6.1%    |
| Savings                       | 46,569            | 43,671               | 2,898                         | 6.6     |
| Money market                  | 182,442           | 180,790              | 1,652                         | 0.9     |
| NOW                           | 93,970            | 93,679               | 291                           | 0.3     |
| Certificates of deposit       | 277,576           | 284,766              | (7,190)                       | (2.5)   |
| Total deposits                | \$ 736,157        | \$ 730,734           | \$ 5,423                      | 0.7%    |

**Federal Home Loan Bank Advances** Short-term FHLB advances totaled \$61.0 million as of March 31, 2012, compared to \$52.6 million as of December 31, 2011. The average rates paid on short-term FHLB advances were 0.10% for the three months ended March 31, 2012, compared to 0.16% for the three months ended March 31, 2011.

**Table of Contents**

Long-term FHLB advances totaled \$39.8 million as of March 31, 2012, compared to \$41.0 million as of December 31, 2011. The average rates paid on long-term FHLB advances were 1.63% for the three months ended March 31, 2012, compared to 3.08% for the three months ended March 31, 2011.

**Shareholders Equity** Shareholders equity provides a source of permanent funding that allows for future growth and provides the Company with a cushion to withstand unforeseen adverse developments. Shareholders equity increased \$3.4 million, or 2.6%, from \$134.3 million as of December 31, 2011 to \$137.7 million as of March 31, 2012.

As of March 31, 2012, the Bank had regulatory capital that was well in excess of regulatory requirements. The following table details the Bank's actual levels and current regulatory capital requirements as of March 31, 2012.

| <i>(dollars in thousands)</i> | Actual     |        | Required for<br>Capital<br>Adequacy Purposes |       | To Be Well<br>Capitalized<br>Under Prompt<br>Corrective Action<br>Provisions |       |
|-------------------------------|------------|--------|--|-------|--|-------|
|                               | Amount     | Ratio  | Amount                                       | Ratio | Amount   | Ratio |
| Tier 1 risk-based capital     | \$ 121,442 | 19.87% | \$ 24,443                                    | 4.00% | \$ 36,664  | 6.00% |
| Total risk-based capital      | 127,255    | 20.83  | 48,885                                       | 8.00  | 61,106   | 10.00 |
| Tier 1 leverage capital       | 121,442    | 12.59  | 38,592                                       | 4.00  | 48,240   | 5.00  |
| Tangible capital              | 121,442    | 12.59  | 14,472                                       | 1.50  | N/A  | N/A   |

**LIQUIDITY AND ASSET/LIABILITY MANAGEMENT****Liquidity Management**

Liquidity management encompasses our ability to ensure that funds are available to meet the cash flow requirements of depositors and borrowers, while also ensuring adequate cash flow exists to meet the Company's needs, including operating, strategic and capital. The Company develops its liquidity management strategies as part of its overall asset/liability management process. Our primary sources of funds are from deposits, amortization of loans, loan prepayments and the maturity of loans, investment securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and investment securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan prepayments can be greatly influenced by general interest rates, economic conditions and competition. The Company also maintains excess funds in short-term, interest-bearing assets that provide additional liquidity. As of March 31, 2012, cash and cash equivalents totaled \$33.8 million. At such date, investment securities available for sale totaled \$161.0 million.

The Company uses its liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. As of March 31, 2012, certificates of deposit maturing within the next 12 months totaled \$159.7 million. Based upon historical experience, the Company anticipates that a significant portion of the maturing certificates of deposit will be redeposited with us. For the three months ended March 31, 2012, the average balance of our outstanding FHLB advances was \$101.5 million. As of March 31, 2012, the Company had \$100.8 million in outstanding FHLB advances and had \$276.4 million in additional FHLB advances available.

In addition to cash flow from loan and securities payments and prepayments as well as from sales of securities available for sale, the Company has significant borrowing capacity available to fund liquidity needs. In recent years, the Company has utilized borrowings as a cost efficient addition to deposits as a source of funds. Our borrowings consist of advances from the FHLB of Dallas, of which the Company is a member. Under terms of the collateral agreement with the FHLB, the Company pledges residential mortgage loans and investment securities as well as the Company's stock in the FHLB as collateral for such advances.

**Table of Contents****Asset/Liability Management**

The objective of asset/liability management is to implement strategies for the funding and deployment of the Company's financial resources that are expected to maximize soundness and profitability over time at acceptable levels of risk. Interest rate sensitivity is the potential impact of changing rate environments on both net interest income and cash flows. The Company measures its interest rate sensitivity over the near term primarily by running net interest income simulations.

Our interest rate sensitivity also is monitored by management through the use of a model which generate estimates of the change in its net interest income over a range of interest rate scenarios. Based on the Company's interest rate risk model, the table below sets forth the results of immediate and sustained changes in interest rates as of March 31, 2012.

| Shift in Interest Rates (in bps) | % Change in Projected<br>Net Interest<br>Income |
|----------------------------------|---|
| +300                             | 4.7%  |
| +200                             | 3.3   |
| +100                             | 1.9   |

The actual impact of changes in interest rates will depend on many factors. These factors include the Company's ability to achieve expected growth in earning assets and maintain a desired mix of earning assets and interest-bearing liabilities, the actual timing of asset and liability repricings, the magnitude of interest rate changes and corresponding movement in interest rate spreads, and the level of success of asset/liability management strategies.

**Off-Balance Sheet Activities**

To meet the financing needs of its customers, the Bank issues financial instruments which represent conditional obligations that are not recognized, wholly or in part, in the statements of financial condition. These financial instruments include commitments to extend credit and standby letters of credit. Such instruments expose the Company to varying degrees of credit and interest rate risk in much the same way as funded loans. The same credit policies are used in these commitments as for on-balance sheet instruments. The Company's exposure to credit losses from these financial instruments is represented by their contractual amounts.

The following table summarizes our outstanding commitments to originate loans and to advance additional amounts pursuant to outstanding letters of credit, lines of credit and undisbursed construction loans as of March 31, 2012 and December 31, 2011.

| <i>(dollars in thousands)</i>           | Contract Amount   |                      |
|---|-------------------|----------------------|
|   | March 31,<br>2012 | December 31,<br>2011 |
| Standby letters of credit               | \$ 1,413          | \$ 1,626             |
| Available portion of lines of credit    | 65,912            | 60,675               |
| Undisbursed portion of loans in process | 36,459            | 37,840               |
| Commitments to originate loans          | 75,581            | 53,711               |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to be drawn upon, the total commitment amounts generally represent future cash requirements.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

## **Table of Contents**

The Company is subject to certain claims and litigation arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the financial condition or results of operations of the Company.

## **RESULTS OF OPERATIONS**

The Company reported net income for the first quarter of 2012 of \$2.1 million, an increase of \$1.3 million, or 159.3%, compared to the first quarter of 2011. Diluted earnings per share were \$0.29 for the first quarter of 2012, an increase of \$0.18, or 163.6%, compared to the first quarter of 2011.

**Net Interest Income** Net interest income is the difference between the interest income earned on interest-earning assets, such as loans and investment securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The Company's net interest income is largely determined by our net interest spread, which is the difference between the average yield earned on interest-earning assets and the average rate paid on interest bearing liabilities, and the relative amounts of interest-earning assets and interest-bearing liabilities. The Company's net interest spread was 4.56% and 4.42% for the three months ended March 31, 2012 and 2011, respectively. The Company's net interest margin, which is net interest income as a percentage of average interest-earning assets, was 4.69% and 4.67% for the three months ended March 31, 2012 and 2011, respectively. The increase in net interest margin was primarily due to the asset and liability mix changes resulting from the GSFC acquisition and organic loan and deposit growth and additional FHLB borrowings.

Net interest income totaled \$10.0 million for the three months ended March 31, 2012, an increase of \$3.1 million, or 44.6%, compared to the three months ended March 31, 2011.

Interest income increased \$3.1 million, or 38.1%, in the first quarter of 2012 compared to the first quarter of 2011. The increase was primarily due to a higher average volume of loans receivable in the three months ended March 31, 2012 as the result of the GSFC acquisition and organic loan growth, which more than offset a decrease in the average yield on interest-earning assets.

Interest expense increased \$35,000, or 2.7%, in the first quarter of 2012 compared to the first quarter of 2011. The increase was primarily due to a higher average volume of interest-bearing liabilities as the result of the GSFC acquisition, offset by a decrease in the average rate paid on interest-bearing liabilities as the result of reduced market rates.

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rate; (iii) net interest income; (iv) net interest spread; and (v) net interest margin. Information is based on average monthly balances during the indicated periods.



**Table of Contents**

|   | Three Months Ended March 31, |               |                                   |                   |              |                                   |
|---|------------------------------|---------------|-----------------------------------|-------------------|--------------|-----------------------------------|
|   | 2012                         |               |                                   | 2011              |              |                                   |
| (dollars in thousands)                            | Average Balance              | Interest      | Average Yield/Rate <sup>(1)</sup> | Average Balance   | Interest     | Average Yield/Rate <sup>(1)</sup> |
| <b>Interest-earning assets:</b>                   |                              |               |                                   |                   |              |                                   |
| Loans receivable <sup>(1)</sup>                   | \$ 672,713                   | \$ 10,371     | 6.20%                             | \$ 439,490        | \$ 7,161     | 6.59%                             |
| Investment securities                             | 155,476                      | 860           | 2.21                              | 130,607           | 961          | 2.94                              |
| Other interest-earning assets                     | 25,160                       | 34            | 0.55                              | 24,423            | 37           | 0.61                              |
| <b>Total interest-earning assets</b>              | <b>853,349</b>               | <b>11,265</b> | <b>5.31</b>                       | <b>594,520</b>    | <b>8,159</b> | <b>5.55</b>                       |
| Noninterest-earning assets                        | 112,334                      |               |                                   | 98,235            |              |                                   |
| <b>Total assets</b>                               | <b>\$ 965,683</b>            |               |                                   | <b>\$ 692,755</b> |              |                                   |
| <b>Interest-bearing liabilities:</b>              |                              |               |                                   |                   |              |                                   |
| <b>Deposits:</b>                                  |                              |               |                                   |                   |              |                                   |
| Savings, checking and money market                | \$ 316,004                   | \$ 352        | 0.45%                             | \$ 233,440        | \$ 302       | 0.53%                             |
| Certificates of deposit                           | 282,476                      | 780           | 1.11                              | 209,734           | 875          | 1.69                              |
| <b>Total interest-bearing deposits</b>            | <b>598,480</b>               | <b>1,132</b>  | <b>0.76</b>                       | <b>443,174</b>    | <b>1,177</b> | <b>1.08</b>                       |
| FHLB advances                                     | 101,473                      | 181           | 0.71                              | 15,280            | 101          | 2.64                              |
| <b>Total interest-bearing liabilities</b>         | <b>699,953</b>               | <b>1,313</b>  | <b>0.75</b>                       | <b>458,454</b>    | <b>1,278</b> | <b>1.13</b>                       |
| Noninterest-bearing liabilities                   | 129,755                      |               |                                   | 102,307           |              |                                   |
| <b>Total liabilities</b>                          | <b>829,708</b>               |               |                                   | <b>560,761</b>    |              |                                   |
| Shareholders' equity                              | 135,975                      |               |                                   | 131,994           |              |                                   |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 965,683</b>            |               |                                   | <b>\$ 692,755</b> |              |                                   |
| <b>Net interest-earning assets</b>                | <b>\$ 153,396</b>            |               |                                   | <b>\$ 136,066</b> |              |                                   |
| Net interest spread                               |                              | \$ 9,952      | 4.56%                             |                   | \$ 6,881     | 4.42%                             |
| <b>Net interest margin</b>                        |                              |               | <b>4.69%</b>                      |                   |              | <b>4.67%</b>                      |

<sup>(1)</sup> Nonperforming loans are included in the respective average loan balances, net of deferred fees, discounts and loans in process. Acquired Loans were recorded at fair value upon acquisition and accrete interest income over the remaining lives of the respective loans.

**Provision for Loan Losses** For the quarter ended March 31, 2012, the Company recorded a provision for loan losses of \$712,000, compared to a provision of \$102,000 for the same period in 2011. The increase was primarily the result of a \$5.4 million commercial real estate loan which was placed on nonaccrual status during the first quarter of 2012. As of March 31, 2012, the Company's ratio of allowance for loan losses to total loans was 0.86%, compared to 0.77% as of December 31, 2011. Excluding Acquired Loans, the ratio of allowance for loan losses to total loans was 1.22% at March 31, 2012, compared to 1.14% at December 31, 2011.

**Noninterest Income** The Company's noninterest income was \$1.7 million for the three months ended March 31, 2012, \$478,000, or 39.1%, higher than the \$1.2 million earned for the same period in 2011. The increase was primarily the result of increased gains on the sale of mortgage loans of \$222,000 and the absence of losses on the sale of securities, which totaled \$166,000 during the first quarter of 2011. Additionally, service fees and charges and bank card fees increased compared to the first quarter of 2011 as a result of the accounts added through our acquisition of GSFC and organic customer growth.

**Noninterest Expense** The Company's noninterest expense was \$7.8 million for the three months ended March 31, 2012, \$1.1 million, or 16.4%, higher than the \$6.7 million recorded for the same period in 2011. The increase was primarily due to higher compensation and benefits, occupancy and data processing and communication expenses primarily reflecting our increase in offices and employees as a result of the GSFC acquisition. Additionally, expenses related to foreclosed assets increased during the first quarter 2012 compared to the same quarter a year ago due primarily to resolution costs related to NPAs acquired in the GSFC acquisition.

**Income Taxes** For the quarters ended March 31, 2012 and March 31, 2011, the Company incurred income tax expense of \$1.1 million and \$498,000, respectively. The Company's effective tax rate amounted to 34.2% and 38.5% during the first quarters of 2012 and 2011, respectively. The effective tax rate during the first quarter of 2011 was higher than the statutory rate due to non-deductible merger-related expenses of \$191,000. Other differences between the effective tax rate and the statutory tax rate primarily relates to variances in items that are non-taxable or non-deductible (i.e., state tax, tax-exempt income, tax credits, etc.).

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Quantitative and qualitative disclosures about market risk are presented in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2011, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset/Liability Management and Market Risk". Additional information at March 31, 2012 is included herein under Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Asset/Liability Management".

**Table of Contents****Item 4. Controls and Procedures.**

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the first quarter of 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

Not applicable.

**Item 1A. Risk Factors.**

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for December 31, 2011 filed with the Securities and Exchange Commission.

**Item 2. Unregistered Sales of Equity Securities and the Use of Proceeds.**

The Company's purchases of its common stock made during the quarter consisted of stock repurchases under the Company's approved plan and are set forth in the following table.

| Period                         | Total<br>Number<br>of<br>Shares<br>Purchased | Average<br>Price<br>Paid per Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of Publicly<br>Announced<br>Plans<br>or Programs | Maximum Number of<br>Shares that<br>May Yet<br>be Purchased<br>Under<br>the Plan or<br>Programs <sup>(1)</sup> |
|--------------------------------|--|------------------------------------|---|--|
| January 1 - January 31, 2012   | 1,215  | \$ 15.54                           | 1,215   | 98,510   |
| February 1 - February 28, 2012 | 2,721  | 15.97                              | 2,721   | 95,789   |
| March 1 - March 31, 2012       | 654  | 16.31                              | 654   | 95,135   |
| Total                          | 4,590  | \$ 15.91                           | 4,590   | 95,135   |

<sup>(1)</sup> On May 23, 2011, the Company's Board of Directors approved a share repurchase program. Under the plan, the Company can repurchase up to 402,835 shares, or 5% of its common stock outstanding, through open market or privately negotiated transactions.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosure.**

None.

**Item 5. Other Information.**

None.

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**Table of Contents**

**Item 6. Exhibits and Financial Statement Schedules.**

| No.     | Description   |
|---------|---|
| 31.1    | Rule 13(a)-14(a) Certification of the Chief Executive Officer |
| 31.2    | Rule 13(a)-14(a) Certification of the Chief Financial Officer |
| 32.0    | Section 1350 Certification                                    |
| 101.INS | XBRL Instance Document*                                       |
| 101.SCH | XBRL Taxonomy Extension Schema Document*                      |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document*        |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document*              |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document*       |
| 101.DEF | XBRL Taxonomy Extension Definitions Linkbase Document*        |

\* These interactive data files are being furnished as part of this Quarterly Report, and, in accordance with Rule 402 of Regulation S-T, shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**HOME BANCORP, INC.**

May 9, 2012

By: /s/ John W. Bordelon  
John W. Bordelon  
*President, Chief Executive Officer and Director*

May 9, 2012

By: /s/ Joseph B. Zanco  
Joseph B. Zanco  
*Executive Vice President and Chief Financial Officer*

May 9, 2012

By: /s/ Mary H. Hopkins  
Mary H. Hopkins  
*Home Bank First Vice President and Director of Financial Reporting*