

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

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To Our Stockholders, Customers, and Friends:

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

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

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

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

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

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

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

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

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

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

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

Very Sincerely,

Peter J. Johnson
President/CEO

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2009

or

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

For the transition period from _____ to _____

Commission file number 0-29687

Eagle Bancorp

(Exact name of registrant as specified in its charter)

United States

81-0531318

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State or other jurisdiction of
incorporation or organization

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

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

59601
(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
---------------------	---

Securities registered pursuant to section 12(g) of the Act:

Common stock, par value \$0.01 per share

(Title of Class)

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes No

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

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

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

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

Yes No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

General

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

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

Business Strategy

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

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

Market Area

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

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

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

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

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

Competition

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

Lending Activities

General.

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

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Loan Portfolio Composition.

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

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

⁽¹⁾ Excludes loans held for sale.

Fee Income.

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

Loan Maturity Schedule.

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

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

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

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

⁽¹⁾ Includes loans held for sale.

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

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

⁽¹⁾ Due after June 30, 2010.

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

	2009	Ended June 30, 2008
	(In thousands)	
Net loans receivable at beginning of period ⁽¹⁾ :	\$ 175,519	\$ 159,315
Loans originated:		
Residential mortgage (1-4 family)	164,657	72,385
Commercial real estate and land	21,500	19,375
Real estate construction	4,672	15,504
Home equity	20,043	20,461
Consumer	8,341	7,637
Commercial	8,789	8,243
Total loans originated:	228,002	143,605
Loans sold:		
Whole loans	125,232	47,732
Commercial construction	6,000	4,341

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	Ended June 30,	
Total loans sold	131,232	52,073
Principal repayments and loan refinancings	99,509	75,522
Deferred loan fees decrease (increase)	(9)	(24)
Allowance for loans decrease (increase)	(225)	218
Net loan increase (decrease)	(2,973)	16,204
Net loans receivable at end of period ⁽¹⁾	\$ 172,546	\$ 175,519

⁽¹⁾ Includes loans held for sale.

Residential Lending.

The Bank's primary lending activity consists of the origination of one-to-four-family residential mortgage loans secured by property located in the Bank's market area. Approximately 47.26% of the bank's loans as of June 30, 2009 were comprised of such loans. American Federal generally originates one- to-four-family residential mortgage loans in amounts up to 80% of the lesser of the appraised value or the selling price of the mortgaged property without requiring private mortgage insurance. A mortgage loan originated by the Bank, whether fixed rate or adjustable rate, can have a term of up to 30 years. The Bank holds substantially all of its adjustable rate and its 8, 10 and 12-year fixed rate loans in portfolio. Adjustable rate loans limit the periodic interest rate adjustment and the minimum and maximum rates that may be charged over the term of the loan. The Bank's fixed rate 15-year and 20-year loans are held in portfolio or sold in the secondary market depending on market conditions. Generally, all 30-year fixed rate loans are sold in the secondary market. The volume of loan sales is dependent on the volume, type and term of loan originations.

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The Bank obtains a significant portion of its noninterest income from servicing loans sold. The Bank offers many of the fixed rate loans it originates for sale in the secondary market on a servicing retained basis. This means that we process the borrower's payments and send them to the purchaser of the loan. This retention of servicing enables the Bank to increase fee income and maintain a relationship with the borrower. Servicing income was \$628,000 for the year ended June 30, 2009. At June 30, 2009, American Federal Savings Bank had \$258.09 million in residential mortgage loans and \$12.42 million in commercial real estate sold with servicing retained. American Federal Savings Bank does not ordinarily purchase home mortgage loans from other financial institutions.

Property appraisals on real estate securing the Bank's single-family residential loans are made by state certified and licensed independent appraisers who are approved annually by the board of directors. Appraisals are performed in accordance with applicable regulations and policies. American Federal Savings Bank generally obtains title insurance policies on all first mortgage real estate loans originated. On occasion, refinancings of mortgage loans are approved using title reports instead of title insurance. Title reports are also allowed on home equity loans. Borrowers generally remit funds with each monthly payment of principal and interest, to a loan escrow account from which American Federal Savings Bank makes disbursements for such items as real estate taxes and hazard and mortgage insurance premiums as they become due.

Home Equity Loans.

American Federal Savings Bank also originates home equity loans. These loans are secured by the borrowers' primary residence, but are typically subject to a prior lien, which may or may not be held by the Bank. At June 30, 2009, \$28.68 million or 17.11% of our total loans were home equity loans. Borrowers may use the proceeds from the Bank's home equity loans for many purposes, including home improvement, debt consolidation, or other purchasing needs. The Bank offers fixed rate, fixed payment home equity loans as well as variable and fixed rate home equity lines of credit. Fixed rate home equity loans typically have terms of no longer than fifteen years.

Although home equity loans are secured by real estate, they carry a greater risk than first lien residential mortgages because of the existence of a prior lien on the property securing the loan, as well as the flexibility the borrower has with respect to the loan proceeds. American Federal Savings Bank attempts to minimize this risk by maintaining conservative underwriting policies on such loans. We generally make home equity loans for up to only 85% of appraised value of the underlying real estate collateral, less the amount of any existing prior liens on the property securing the loan.

Commercial Real Estate.

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American Federal Savings Bank originates commercial real estate mortgage loans, including both developed and undeveloped land loans, and loans on multi-family dwellings. Commercial real estate loans made up 21.90% of the Bank's total loan portfolio, or \$36.71 million at June 30, 2009. The majority of these loans are non-residential commercial real estate loans. American Federal Savings Bank's commercial real estate mortgage loans are primarily permanent loans secured by improved property such as office buildings, retail stores, commercial warehouses and apartment buildings. The terms and conditions of each loan are tailored to the needs of the borrower and based on the financial strength of the project and any guarantors. Generally, commercial real estate loans originated by the Bank will not exceed 75% of the appraised value or the selling price of the property, whichever is less. The average loan size is approximately \$174,000 and is typically made with fixed rates of interest and five to 15 year maturities. Upon maturity, the loan is repaid or the terms and conditions are renegotiated. Generally, all originated commercial real estate loans are within the market area of the Bank and all are within the state of Montana. American Federal Savings Bank's largest single commercial real estate loan had a balance of approximately \$1.46 million (net of \$5.84 million sold to the Montana Board of Investments) on June 30, 2009, and is secured by a detention facility.

Real Estate Construction Lending.

American Federal Savings Bank also lends funds for the construction of one- to-four-family homes and commercial real estate. Real estate construction loans are made both to individual homeowners for the construction of their primary residence and, to a lesser extent, to local builders for the construction of pre-sold houses or houses that are being built for sale in the future. Real estate construction loans accounted for \$4.64 million or 2.77% of the Bank's loan portfolio at June 30, 2009.

Consumer Loans.

As part of its strategy to invest in higher yielding shorter term loans, American Federal Savings Bank emphasized growth of its consumer lending portfolio in recent years. This portfolio includes personal loans secured by collateral other than real estate, unsecured personal loans and lines of credit, and loans secured by deposits held by the Bank. As of June 30, 2009, consumer loans totaled \$10.84 million or 6.46% of the Bank's total loan portfolio. These loans consist primarily of auto loans, RV loans, boat loans, personal loans and credit lines and deposit account loans. Consumer loans are originated in the Bank's market area and generally have maturities of up to 7 years. For loans secured by savings accounts, American Federal Savings Bank will lend up to 90% of the account balance on single payment loans and up to 100% for monthly payment loans.

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Consumer loans have a shorter term and generally provide higher interest rates than residential loans. Consumer loans can be helpful in improving the spread between average loan yield and cost of funds and at the same time improve the matching of the maturities of rate sensitive assets and liabilities. Increasing its consumer loans has been a major part of the Bank's strategy of operating more like a commercial bank than a traditional savings bank.

The underwriting standards employed by American Federal Savings Bank for consumer loans include a determination of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income. Creditworthiness of the applicant is of primary consideration; however, the underwriting process also includes a comparison of the value of the collateral in relation to the proposed loan amount.

Commercial Loans.

Commercial loans amounted to \$7.54 million, or 4.50% of the Bank's total loan portfolio at June 30, 2009. American Federal Savings Bank's commercial loans are traditional business loans and are not secured by real estate. Such loans may be structured as unsecured lines of credit or may be secured by inventory, accounts receivable or other business assets. While the commercial loan portfolio amounts to only 4.50% of the total portfolio at June 30, 2009, American Federal Savings Bank intends to increase such lending by focusing on market segments which it has not previously emphasized, such as business loans to doctors, lawyers, architects and other professionals as well as to small businesses within its market area. Our management believes that this strategy provides opportunities for growth, without significant additional cost outlays for staff and infrastructure.

Commercial loans of this nature usually involve greater credit risk than 1-4 family residential mortgage loans. The collateral we receive is typically related directly to the performance of the borrower's business which means that repayment of commercial loans is dependent on the successful operations and income stream of the borrower's business. Such risks can be significantly affected by economic conditions. In addition, commercial lending generally requires substantially greater oversight efforts compared to residential real estate lending.

Loans to One Borrower.

Under federal law, savings institutions have, subject to certain exemptions, lending limits to one borrower in an amount equal to the greater of \$500,000 or 15% of the institution's unimpaired capital and surplus. As of June 30, 2009, our largest aggregation of loans to one borrower was approximately \$7.31 million, consisting of one commercial real estate loan secured by a detention facility. Eighty percent, or \$5.85 million, of that loan is sold to the Montana Board of Investments, leaving the net balance of \$1.46 million, below the Bank's federal legal lending limit to one borrower of approximately \$4.14 million. At June 30, 2009, this loan was current. The Bank maintains the servicing for this loan.

Loan Solicitation and Processing.

Our customary sources of mortgage loan applications include repeat customers, walk-ins, and referrals from home builders and real estate brokers. We also advertise in local newspapers and on local radio and television. We currently have the ability to accept online mortgage loan applications and provide pre-approvals through our website. Our branch managers and loan officers located at our headquarters and in branches, have authority to approve certain types of loans when presented with a completed application. Other loans must be approved at our main offices as disclosed herein. No loan consultants or loan brokers are currently used by us for either residential or commercial lending activities.

After receiving a loan application from a prospective borrower, a credit report and verifications are obtained to confirm specific information relating to the loan applicant's employment, income and credit standing. When required by our policies, an appraisal of the real estate intended to secure the proposed loan is undertaken by an independent fee appraiser. In connection with the loan approval process, our staff analyze the loan applications and the property involved. Officers and branch managers are granted lending authority based on the kind of loan types where they possess expertise and their level of experience. We have established a series of loan committees to approve any loans which may exceed the lending authority of particular officers or branch managers. A quorum (five) of the board of directors is required for approval of any loan, or aggregation of loans to a single borrower, that exceeds \$1,250,000.

Loan applicants are promptly notified of the decision by a letter setting forth the terms and conditions of the decision. If approved, these terms and conditions include the amount of the loan, interest rate basis, amortization term, a brief description of real estate to be mortgaged, tax escrow and the notice of requirement of insurance coverage to be maintained. We generally require title insurance on first mortgage loans and fire and casualty insurance on all properties securing loans, which insurance must be maintained during the entire term of the loan.

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Loan Commitments.

We generally provide commitments to fund fixed and adjustable-rate single-family mortgage loans for periods up to 60 days at a specified term and interest rate, and other loan categories for shorter time periods. The total amount of our commitments to extend credit as of June 30, 2009, was approximately \$12.44 million, \$11.23 million of which was for residential mortgage loans.

Non-performing Loans and Problem Assets

Collection Procedures.

Generally, our collection procedures provide that when a loan is 15 or more days delinquent, the borrower is notified with a past due notice. If the loan becomes 30 days delinquent, the borrower is sent a written delinquent notice requiring payment. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower, including face to face meetings and counseling to resolve the delinquency. All collection actions are undertaken with the objective of compliance with the Fair Debt Collection Act.

For mortgage loans and home equity loans, if the borrower is unable to cure the delinquency or reach a payment agreement, we will institute foreclosure actions. If a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the debt. Any property acquired as the result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until such time as it is sold or otherwise disposed of. When real estate owned is acquired, it is recorded at the lower of the unpaid principal balance of the related loan or its fair market value less estimated selling costs. The initial recording of any loss is charged to the allowance for loan losses. As of June 30, 2009, American Federal Savings Bank had no real estate owned.

Loans are reviewed on a quarterly basis and are placed on non-accrual status when they are more than 90 days delinquent. Loans may be placed on non-accrual status at any time if, in the opinion of management, the collection of additional interest is doubtful. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding

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principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. At June 30, 2009, we had \$1.00 million (\$990,000 net of specific reserves) of loans that were non-performing and held on non-accrual status.

Delinquent Loans.

The following table provides information regarding the Bank's loans that are delinquent 30 to 89 days at June 30, 2009:

	<u>Number</u>	<u>Amount</u>	<u>Percentage of Total Delinquent Loans</u>
(Dollars in thousands)			
Loan type:			
Residential mortgage (1-4 family)	5	\$ 492	23.08%
Real estate construction	1	220	10.32%
Commercial real estate and land	7	969	45.45%
Home equity	4	248	11.63%
Consumer	24	184	8.63%
Commercial	2	19	0.89%
Total	43	2,132	100.00%

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Non-Performing Assets.

The following table sets forth information regarding American Federal Savings Bank's non-performing assets as of the dates indicated. As of June 30, 2009 the Bank had no loans considered to be a troubled debt restructuring within the meaning of the Statement of Financial Accounting Standards No. 114.

	<u>At June 30,</u>	
	<u>2009</u>	<u>2008</u>
(Dollars in thousands)		
Non-accrual loans	\$ 1,002	\$ 32
Accruing loans delinquent 90 days or more	251	
Real estate owned		
Total	1,253	32
Total non-performing loans as a percentage of total loan portfolio	0.75%	0.02%
Percentage of total assets	0.43%	0.01%

During the year ended June 30, 2009, the Bank had one foreclosure resulting in a loss of \$3,000. During the year ended June 30, 2009, a minimal amount of interest was recorded on loans previously accounted for on a non-accrual basis.

Classified Assets.

Management, in compliance with regulatory guidelines, conducts an internal loan review program, whereby loans are placed or classified in categories depending upon the level of risk of nonpayment or loss. These categories are special mention, substandard, doubtful or loss. When a loan is classified as substandard or doubtful, management is required to establish an allowance for loan losses in an amount that is deemed prudent. When management classifies a loan as a loss asset, a reserve equal to 100% of the loan balance is required to be established or the loan is required to be charged-off. The allowance for loan losses is composed of an allowance for both inherent risk associated with lending activities and specific problem assets.

Management's evaluation of the classification of assets and the adequacy of the allowance for loan losses is reviewed by the Board on a regular basis and by the regulatory agencies as part of their examination process. In addition, each loan that exceeds \$500,000 and each group of loans that exceeds \$500,000 is monitored more closely. The following table reflects our classified assets.

	At June 30,	
	2009	2008
	(Dollars in thousands)	
Residential mortgage (1-4 family):	\$	\$
Special Mention		
Substandard	392	
Doubtful		
Loss		
Commercial Real Estate and Land:		
Special Mention		
Substandard	488	42
Doubtful		
Loss		
Home equity loans:		
Special Mention		
Substandard	131	
Doubtful		
Loss		32
Consumer loans:		
Special Mention		
Substandard	40	26
Doubtful		
Loss	12	
Commercial loans:		
Special Mention		
Substandard	551	
Doubtful		
Loss		
Real estate owned/repossessed property:		
Special Mention		
Substandard		
Doubtful		
Loss		6
Total classified loans and real estate owned	\$ 1,614	\$ 106

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Allowance for Loan Losses and Real Estate Owned.

The Bank segregates its loan portfolio for loan losses into the following broad categories: residential mortgages (1-4 family), commercial real estate, real estate construction, commercial loans, home equity loans and consumer loans. The Bank provides for a general allowance for losses inherent in the portfolio by the above categories, which consists of two components. General loss percentages are calculated based on historical analyses and other factors such as volume and severity of delinquencies, local and national economy, underwriting standards, and other factors. A supplemental portion of the allowance is calculated for inherent losses which probably exist as of the evaluation date even though they might not have been identified by the more objective processes used. This is due to the risk of error and/or inherent imprecision in the process.

This portion of the allowance is particularly subjective and requires judgments based on qualitative factors which do not lend themselves to exact mathematical calculations such as: trends in delinquencies and non-accruals; trends in volume; terms and portfolio mix; new credit products; changes in lending policies and procedures; and changes in the outlook for the local, regional and national economy.

At least quarterly, the management of the Bank evaluates the need to establish reserves against losses on loans and other assets based on estimated losses on specific loans and on any real estate owned when a finding is made that a loss is estimable and probable. Such evaluation includes a review of all loans for which full collectibility may not be reasonably assured and considers; among other matters; the estimated market value of the underlying collateral of problem loans; prior loss experience; economic conditions; and overall portfolio quality.

Provisions for, or adjustments to, estimated losses are included in earnings in the period they are established. We had \$525,000 in allowances for loan losses at June 30, 2009.

While we believe we have established our existing allowance for loan losses in accordance with generally accepted accounting principles, there can be no assurance that bank regulators, in reviewing our loan portfolio, will not request that we significantly increase our allowance for loan losses, or that general economic conditions, a deteriorating real estate market, or other factors will not cause us to significantly increase our allowance for loan losses, therefore negatively affecting our financial condition and earnings.

In making loans, we recognize that credit losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a secured loan, the quality of the security for the loan.

It is our policy to review our loan portfolio, in accordance with regulatory classification procedures, on at least a quarterly basis.

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The following table sets forth information with respect to our allowance for loan losses at the dates indicated:

	For the Years Ended June 30,	
	2009	2008
	(Dollars in thousands)	
Balance at beginning of period	\$ 300	\$ 518
Loans charged-off	(47)	(54)
Recoveries	15	11
Loss	(32)	(43)
Provision for possible loan losses	257	(175)
Balance at end of period	525	300
Allowance for loan losses to total loans	0.31%	0.18%
Allowance for loan losses to total non-performing loans	41.90%	937.50%
Net recoveries (charge-offs) to average loans outstanding during the period	0.02%	0.03%

The following table presents our allocation of the allowance for loan losses by loan category and the percentage of loans in each category to total loans at the periods indicated.

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	2009			2008		
	Amount	Percentage of Allowance to Total Allowance	(Dollars in Thousands) Loans in Each Category to Total Loans	Amount	Percentage of Allowance to Total Allowance	Loans in Each Category to Total Loans
First mortgage loans:						
Residential mortgage (1-4 family)	\$ 190	36.19%	47.26%	\$ 133	44.33%	51.53%
Commercial real estate	158	30.10%	21.90%	34	11.33%	16.75%
Real estate construction	10	1.90%	2.77%	10	3.33%	4.35%
Total first mortgage loans	358	68.19%	71.93%	177	59.00%	72.62%
Other loans:						
Home equity	67	12.76%	17.11%	62	20.67%	16.65%
Consumer	68	12.95%	6.46%	51	17.00%	6.87%
Commercial	32	6.10%	4.50%	10	3.32%	3.86%
Total other loans	167	31.81%	28.07%	123	41.00%	27.38%
Total	\$ 525	100.00%	100.00%	\$ 300	100.00%	100.00%

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INVESTMENT ACTIVITIES

General.

Federally chartered savings banks such as American Federal Savings Bank have the authority to invest in various types of investment securities, including United States Treasury obligations, securities of various Federal agencies (including securities collateralized by mortgages), certificates of deposits of insured banks and savings institutions, municipal securities, corporate debt securities and loans to other banking institutions.

Eagle maintains liquid assets that may be invested in specified short-term securities and other investments. Liquidity levels may be increased or decreased depending on the yields on investment alternatives. They may also be increased based on management's judgment as to the attractiveness of the yields then available in relation to other opportunities. Liquidity levels can also change based on management's expectation of future yield levels, as well as management's projections as to the short-term demand for funds to be used in the Bank's loan origination and other activities. Eagle maintains an investment securities portfolio and a mortgage-backed securities portfolio as part of its investment portfolio.

Investment Policies.

The investment policy of Eagle, which is established by the board of directors, is designed to foster earnings and liquidity within prudent interest rate risk guidelines, while complementing American Federal's lending activities. The policy provides for available-for-sale (including those accounted for under SFAS 159), held-to-maturity, and trading classifications. However, Eagle does not hold any securities for purposes of trading. The policy permits investments in high credit quality instruments with diversified cash flows while permitting us to maximize total return within the guidelines set forth in our interest rate risk and liquidity management policies. Permitted investments include but are not limited to U.S. government obligations, government agency or government-sponsored agency obligations, state, county and municipal obligations, and mortgage-backed securities. Collateralized mortgage obligations, investment grade corporate debt securities, and commercial paper are also included. We also invest in Federal Home Loan Bank overnight deposits and federal funds, but these instruments are not considered part of the investment portfolio.

Our investment policy also includes several specific guidelines and restrictions to insure adherence with safe and sound activities. The policy prohibits investments in high-risk mortgage derivative products (as defined within the policy) without prior approval from the board of directors. Management must demonstrate the business advantage of such investments.

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We do not participate in hedging programs, interest rate swaps, or other activities involving the use of off-balance sheet derivative financial instruments, except interest rate caps and certain financial instruments designated as cash flow hedges related to loans committed to be sold in the secondary market. Further, Eagle does not invest in securities which are not initially rated investment grade.

The Board, through its asset liability committee, has charged the President and CEO to implement the investment policy. All transactions are reported to the board of directors monthly, as well as the current composition of the portfolio, including market values and unrealized gains and losses.

Investment Securities.

We maintain a portfolio of investment securities, classified as either available-for-sale (including those accounted for under SFAS 159) or held-to-maturity to enhance total return on investments. At June 30, 2009, our investment securities included U.S. government and agency obligations, Small Business Administration pools, municipal securities, mortgage-backed securities, collateralized mortgage obligations and corporate obligations, all with varying characteristics as to rate, maturity and call provisions. Investment securities held-to-maturity represented 0.44% of Eagle's total investment portfolio. Securities available-for-sale totaled 96.91% of Eagle's total investment portfolio, while securities SFAS 159 totaled 0.03%. The remaining percentage is comprised of interest-bearing deposits in banks and stock in the Federal Home Loan Bank of Seattle (FHLB).

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The following table sets forth the carrying value of Eagle's investment securities portfolio at the dates indicated.

	2009		At June 30, 2008	
	Carrying Value	Percentage of Total	Carrying Value	Percentage of Total
(Dollars in Thousands)				
Securities available for sale, at fair value:				
U.S. Government and agency obligations	\$ 3,882	4.57%	\$ 2,232	2.70%
Corporate obligations	9,493	11.18%	12,722	15.38%
Municipal obligations	28,893	34.04%	22,190	26.83%
Collateralized mortgage obligations	31,551	37.17%	28,224	34.17%
Mortgage-backed securities	8,444	9.95%	13,016	15.74%
Common stock		0.00%	33	0.00%
Corporate preferred stock		0.00%		0.00%
Total securities available for sale	82,263	96.91%	78,417	94.82%
Securities held to maturity, at book value:				
Mortgage-backed securities		0.00%	22	0.03%
Municipal obligations	375	0.44%	675	0.82%
Total securities held to maturity	375	0.44%	697	0.85%
Preferred stock SFAS 159	25	0.03%	1,321	1.60%
Total securities	82,663	97.38%	80,435	97.27%
Interest-bearing deposits	224	0.26%	549	0.66%
Federal Home Loan Bank capital stock, at cost	2,000	2.36%	1,715	2.07%
Total	\$ 84,887	100.00%	\$ 82,699	100.00%

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The following table sets forth information regarding the carrying values, weighted average yields and maturities of Eagle's investment securities portfolio at June 30, 2009.

	At June 30, 2009 (Dollars in thousands)							Total Investment Securities	
	One Year or Less		One to Five Years		More than Five Years		Carrying Value		Approximate Market Value
	Carrying Value	Annualized Weighted Average Yield	Carrying Value	Annualized Weighted Average Yield	Carrying Value	Annualized Weighted Average Yield			
Securities available for sale:									
U.S. Government and agency obligations	\$	%	\$ 2,569	1.86%	\$ 1,313	1.21%	\$ 3,882	\$ 3,882	
Corporate obligations			6,961	4.87	2,532	6.68	9,493	9,493	
Municipal obligations	100	4.15	657	5.33	28,136	6.21	28,893	28,893	
Collateralized mortgage obligations	251	3.11			31,300	4.80	31,551	31,551	
Mortgage-backed securities	358	3.78	456	3.76	7,630	5.33	8,444	8,444	
Total securities available for sale	709	3.59	10,643	4.12	70,911	5.42	82,263	82,263	
Securities held to maturity:									
Municipal obligations	110	6.96	125	7.64	140	7.02	375	384	
Total securities held to maturity	110	6.96	125	7.64	140	7.02	375	384	
Preferred SFAS 159					25		25	25	
Total securities	819	4.05	10,768	4.17	71,076	5.42	82,663	82,672	
Interest-bearing deposits and									
Federal Funds Sold	3,841	0.38					3,841	3,841	
Federal Home Loan Bank capital stock					2,000		2,000	2,000	
Total	\$ 819	4.05%	\$ 10,768	4.17%	\$ 73,076	5.27%	\$ 84,663	\$ 84,672	

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SOURCES OF FUNDS

General.

Deposits are the major source of our funds for lending and other investment purposes. Borrowings (principally from the Federal Home Loan Bank of Seattle) are also used to compensate for reductions in the availability of funds from other sources. In addition to deposits and borrowings, we derive funds from loan and mortgage-backed securities principal repayments, and proceeds from the maturity, call and sale of mortgage-backed securities and investment securities and from the sale of loans. Loan and mortgage-backed securities payments are a relatively stable source of funds, while loan prepayments and deposit inflows are significantly influenced by general interest rates and financial market conditions.

Deposits.

We offer a variety of deposit accounts. Deposit account terms vary, primarily as to the required minimum balance amount, the amount of time that the funds must remain on deposit and the applicable interest rate.

Our current deposit products include certificates of deposit accounts ranging in terms from 90 days to five years as well as checking, savings and money market accounts. Individual retirement accounts (IRAs) are included in certificates of deposit.

Deposits are obtained primarily from residents of Helena, Bozeman, Butte and Townsend. We believe we are able to attract deposit accounts by offering outstanding service, competitive interest rates and convenient locations and service hours. We use traditional methods of advertising to

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attract new customers and deposits, including radio, television, print media advertising and sales training and incentive programs for employees. Management believes that non-residents of Montana hold an insignificant number of deposit accounts.

We pay interest rates on deposits which are competitive in our market. Interest rates on deposits are set weekly by senior management, based on a number of factors, including: projected cash flow; a current survey of a selected group of competitors' rates for similar products; external data which may influence interest rates; investment opportunities and loan demand; and scheduled certificate maturities and loan and investment repayments.

Core deposits are deposits that are more stable and somewhat less sensitive to rate changes. They also represent a lower cost source of funds than rate sensitive, more volatile accounts such as certificates of deposit. We believe that our core deposits are our checking, as well as NOW accounts, statement savings accounts, money market accounts and IRA accounts. Based on our historical experience, we include IRA accounts funded by certificates of deposit as core deposits because they exhibit the principal features of core deposits in that they are stable and generally are not rate sensitive. Core deposits amounted to \$124.12 million or 65.21% of the Bank's deposits at June 30, 2009 (\$101.00 million or 53.95% if IRA certificates of deposit are excluded). The presence of a high percentage of core deposits and, in particular, transaction accounts, is part of our strategy to restructure our liabilities to more closely resemble the lower cost liabilities of a commercial bank. However, a significant portion of our deposits remains in certificate of deposit form. These certificates of deposit, should they mature and be renewed at higher rates, will result in an increase in our cost of funds.

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The following table sets forth American Federal's distribution of deposit accounts at the dates indicated and the weighted average interest rate on each category of deposit represented:

	At June 30,					
	2009			2008		
	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate
	(Dollars in thousands)					
Noninterest checking	\$ 15,002	8.01%	0.00%	\$ 14,617	8.17%	0.00%
Passbook savings	26,445	14.13%	0.41%	23,906	13.37%	0.65%
NOW account/Interest bearing checking	32,664	17.45%	0.33%	30,720	17.18%	0.38%
Money market accounts	26,886	14.36%	0.64%	25,275	14.12%	1.75%
Total	100,997	53.95%	0.38%	94,518	52.85%	0.76%
Certificates of deposit accounts:						
IRA certificates	23,121	12.35%	2.96%	22,108	12.36%	3.15%
Brokered certificates		0.00%	0.00%		0.00%	0.00%
Other certificates	63,081	33.70%	2.41%	62,225	34.79%	3.31%
Total certificates of deposit	86,202	46.05%	2.56%	84,333	47.15%	3.27%
Total deposits	\$ 187,199	100.00%	1.38%	\$ 178,851	100.00%	1.94%

The following table sets forth the amounts and maturities of our certificates of deposit as of June 30, 2009, for the maturity dates indicated:

	(Dollars in thousands)				
	June 30, 2010	June 30, 2011	June 30, 2012	After June 30, 2013	Total
under 1.01%	\$ 2,678	\$	\$	\$	\$ 2,678

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	(Dollars in thousands)				
1.01-2.00%	24,882	339			25,221
2.01-3.00%	15,069	3,055	230	136	18,490
3.01-4.00%	26,460	5,899	1,543	375	34,277
4.01-5.00%	2,685	733	890	844	5,152
5.01-6.00%	343	41			384
6.01-7.00%					
Total	\$72,117	\$10,067	\$2,663	\$1,355	\$86,202

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The following table shows the amount of certificates of deposit of more than \$100,000 by time remaining until maturity as of June 30, 2009:

	(Dollars in thousands)
3 months or less	\$ 7,444
Over 3 to 6 months	6,831
Over 6 to 12 months	6,213
Over 12 months	3,349
Total	\$ 23,837

The following table sets forth the net changes in deposit accounts for the periods indicated:

	Year Ended June 30,	
	2009	2008
	(Dollars in thousands)	
Opening balance	\$ 178,851	\$ 179,647
Deposits(Withdrawals), Net	5,265	(5,059)
Interest credited	3,083	4,263
Ending balance	\$ 187,199	\$ 178,851
Net increase	\$ 8,348	\$ (797)
Percent increase	4.67%	0.44%
Weighted average cost of deposits during the period	1.86%	2.67%
Weighted average cost of deposits at end of period	1.38%	1.94%

Our depositors are primarily residents of the state of Montana.

Borrowings.

Deposits are the primary source of funds for our lending and investment activities and for general business purposes. However, as the need arises, or in order to take advantage of funding opportunities, we also borrow funds in the form of advances from the Federal Home Loan Bank of Seattle and other borrowings from PNC Financial Services, Inc. (PNC) to supplement our supply of lendable funds and to meet deposit withdrawal requirements.

During the fiscal year ended June 30, 2006, Eagle formed a special purpose subsidiary, Eagle Bancorp Statutory Trust I (the Trust), for the purpose of issuing trust preferred securities in the amount of \$5.0 million. Eagle has issued subordinated debentures to the Trust, and the coupon on the debentures matches the dividend payment on the trust preferred securities. For regulatory purposes, the securities qualify as Tier 1

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Capital, while for accounting purposes they are recorded as long term debt. The securities have a 30 year maturity and carry a fixed coupon of 6.02% for the first five years, at which time the coupon becomes variable, at a spread of 142 basis points over 3 month LIBOR.

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The following table sets forth information concerning our borrowing from the Federal Home Loan Bank of Seattle and PNC at the end of, and during, the periods indicated:

	Ended June 30,	
	2009	2008
(Dollars in thousands)		
Advances and other borrowings:		
Average balance	\$ 67,772	\$ 43,712
Maximum balance at any month-end	73,789	68,222
Balance at period end	67,056	68,222
Weighted average interest rate during the period	3.90%	4.50%
Weighted average interest rate at period end	4.02%	3.94%

SUBSIDIARY ACTIVITY

We are permitted to invest in the capital stock of, or originate secured or unsecured loans to, subsidiary corporations. We do not have any subsidiaries, except for American Federal Savings Bank and Eagle Bancorp Statutory Trust I.

Personnel

As of June 30, 2009, we had 79 full-time employees and 7 part-time employees. The employees are not represented by a collective bargaining unit. We believe our relationship with our employees to be good.

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REGULATION

Set forth below is a brief description of laws which relate to the regulation of American Federal and Eagle Bancorp. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

Regulation of American Federal Savings Bank

General.

As a federally chartered savings bank and a member of the FDIC's Deposit Insurance Fund, American Federal Savings Bank is subject to extensive regulation by the Office of Thrift Supervision and the FDIC. Lending activities and other investments must comply with federal statutory and regulatory requirements. American Federal Savings Bank is also subject to reserve requirements of the Federal Reserve System. Federal regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the Deposit Insurance Fund of the FDIC and depositors. This regulatory structure gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies regarding the classification of assets and the establishment of adequate loan loss reserves.

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The Office of Thrift Supervision regularly examines American Federal Savings Bank and provides a report on its examination findings to American Federal's board of directors. American Federal's relationship with its depositors and borrowers is also regulated by federal law, especially in such matters as the ownership of savings accounts and the form and content of American Federal's mortgage documents.

American Federal Savings Bank must file reports with the Office of Thrift Supervision and the FDIC concerning its activities and financial condition, and must obtain regulatory approvals prior to entering into transactions such as mergers with or acquisitions of other financial institutions. Any change in such regulations, whether by the Office of Thrift Supervision, the FDIC or the United States Congress, could have a material adverse impact on Eagle and American Federal, and their operations.

Insurance of Deposit Accounts.

The deposit accounts held by American Federal Savings Bank are insured by the Deposit Insurance Fund of the FDIC to a maximum of \$100,000 as permitted by law (qualifying retirement funds are insured up to \$250,000). The FDIC insurance has been temporarily raised to \$250,000 until January 1, 2014. Insurance on deposits may be terminated by the FDIC if it finds an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the institution's primary regulator.

Regulatory Capital Requirements.

Office of Thrift Supervision (OTS) capital regulations require savings institutions to meet three capital standards. The standards for capital adequacy are tangible capital equal to 1.5% of adjusted total assets, core capital (leverage ratio) equal to at least 4% of total adjusted assets, and risk-based capital equal to 8% of total risk-weighted assets. In order to be deemed "Well Capitalized", OTS rules require a leverage ratio of at least 5%, a Tier 1 risk-based ratio of at least 6%, and a total risk-based ratio of at least 10%. American Federal's capital ratios at June 30, 2009 are set forth below.

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Tangible	\$ 27,079	9.53	\$ 4,261	1.50
Leverage	\$ 27,079	9.53	\$ 8,522	3.00
Tier 1 risk-based	\$ 27,079	13.41	\$ 8,078	4.00
Total risk-based	\$ 27,592	13.66	\$ 16,157	8.00

Tangible capital is defined as core capital less all intangible assets, less nonqualifying mortgage servicing rights and investments. Core capital is defined as common stockholders' equity, noncumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, nonwithdrawable accounts and pledged deposits of mutual savings associations and qualifying supervisory goodwill, less nonqualifying intangible assets, mortgage servicing rights and investments.

The risk-based capital standard for savings institutions requires the maintenance of total risk-based capital of 8% of risk-weighted assets. Risk-based capital is comprised of core and supplementary capital. The components of supplementary capital include, among other items, cumulative perpetual preferred stock, perpetual subordinated debt, mandatory convertible subordinated debt, intermediate-term preferred stock, and the portion of the allowance for loan losses not designated for specific loan losses. The portion of the allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, supplementary capital is limited to 100% of core capital. A savings association must calculate its risk-weighted assets by multiplying each asset and off-balance sheet item by various risk factors as determined by the Office of Thrift Supervision, which range from 0% for cash to 100% for delinquent loans, property acquired through foreclosure, commercial loans, and other assets.

Office of Thrift Supervision rules require a deduction from capital for institutions which have unacceptable levels of interest rate risk. The Office of Thrift Supervision calculates the sensitivity of an institution's net portfolio value based on data submitted by the institution in a schedule to its quarterly Thrift Financial Report and using the interest rate risk measurement model adopted by the Office of Thrift Supervision.

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The amount of the interest rate risk component, if any, is deducted from an institution's total capital in order to determine if it meets its risk-based capital requirement. Federal savings institutions with less than \$300 million in assets and a risk-based capital ratio above 12% are exempt from filing the interest rate risk schedule. However, the Office of Thrift Supervision may require any exempt institution to file such schedule on a quarterly basis and may be subject to an additional capital requirement based on its level of interest rate risk as compared to its peers.

Dividend and Other Capital Distribution Limitations.

The Office of Thrift Supervision imposes various restrictions or requirements on the ability of savings institutions to make capital distributions, including dividend payments.

Office of Thrift Supervision regulations impose limitations on all capital distributions by savings institutions, such as cash dividends, payment to repurchase or otherwise acquire its shares, payments to stockholders of another institution in a cash-out merger, and other distributions charged against capital. The rule establishes three tiers of institutions based primarily on an institution's capital level. An institution that exceeds all capital requirements before and after a proposed capital distribution and has not been advised by the Office of Thrift Supervision that it is in need of more than the normal supervision has the greatest amount of flexibility for determining dividends. Such institutions can, after prior notice but without the approval of the Office of Thrift Supervision, make capital distributions during a calendar year. These distributions can be equal to the greater of 100% of its net income to date during the calendar year plus the amount that would reduce by one-half its excess capital divided by its fully phased-in capital requirements at the beginning of the calendar year. At the institution's discretion, dividends can also be 75% of its net income over the most recent four-quarter period. Any additional capital distributions require prior regulatory notice. As of June 30, 2009, American Federal Savings Bank had this level of flexibility with respect to dividends.

Qualified Thrift Lender Test.

Federal savings institutions must meet a qualified thrift lender test or they become subject to operating restrictions. The Bank anticipates that it will maintain an appropriate level of investments consisting primarily of residential mortgages, mortgage-backed securities and other mortgage-related investment, and otherwise qualify as a qualified thrift lender. The required percentage of these mortgage-related investments is 65% of portfolio assets. Portfolio assets are all assets minus intangible assets, property used by the institution in conducting its business and liquid assets equal to 10% of total assets. Compliance with the qualified thrift lender test is determined on a monthly basis in nine out of every twelve months.

Transactions With Affiliates.

Generally, federal banking law requires that transactions between a savings institution or its subsidiaries and its affiliates must be on terms as favorable to the savings institution as comparable transactions with non-affiliates. In addition, some transactions can be restricted to an aggregate percentage of the savings institution's capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from the savings institution. In addition, a savings institution may not extend credit to any affiliate engaged in activities not permissible for a bank holding company or acquire the securities of any affiliate that is not a subsidiary. The Office of Thrift Supervision has the discretion to treat subsidiaries of a savings institution as affiliates on a case-by-case basis.

Liquidity Requirements.

The Bank is required to maintain minimum levels of liquid assets as defined by the Office of Thrift Supervision regulations. The OTS states that the liquidity requirement is retained for safety and soundness purposes, and that appropriate levels of liquidity will depend upon the types of activities in which the bank engages.

Federal Home Loan Bank System.

We are a member of the Federal Home Loan Bank of Seattle, which is one of 12 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by financial institutions and proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members pursuant to policies and procedures established by the board of directors of the Federal Home Loan Bank.

As a member, we are required to purchase and maintain stock in the Federal Home Loan Bank of Seattle in an amount equal to at least 1% of our aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year, or 5% of our

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outstanding advances, whichever is larger. We are in compliance with this requirement. The Federal Home Loan Bank imposes various limitations on advances such as limiting the amount of real estate related collateral to 30% of a member's capital and limiting total advances to a member. As a federal savings bank, we were mandatory members of the Federal Home Loan Bank of Seattle. Under the Gramm-Leach-Bliley Financial Modernization Act of 1999, we are now voluntary members of the Federal Home Loan Bank of Seattle. We could withdraw or significantly reduce our required stock ownership in the Federal Home Loan Bank of Seattle.

Federal Reserve System.

The Federal Reserve System requires all depository institutions to maintain noninterest-bearing reserves at specified levels against their checking, NOW and Super NOW checking accounts and non-personal time deposits. The balances maintained to meet the reserve requirements imposed by the Federal Reserve System may be used to satisfy the Office of Thrift Supervision liquidity requirements.

Savings institutions have authority to borrow from the Federal Reserve System discount window. The Bank maintains a primary credit facility at the Federal Reserve's discount window. It had a \$0 balance as of June 30, 2009 and is secured by an agency bond.

Regulation of Eagle Bancorp

General.

Eagle Bancorp, as a federal stock corporation in a mutual holding company structure, is deemed a federal mutual holding company within the meaning of Section 10(o) of the Home Owners Loan Act (HOLA). Eagle is registered and files reports with the Office of Thrift Supervision and is subject to regulation and examination by the Office of Thrift Supervision. In addition, the Office of Thrift Supervision has enforcement authority over Eagle and any nonsavings institution subsidiary of Eagle. The Office of Thrift Supervision can restrict or prohibit activities that it determines to be a serious risk to us. This regulation is intended primarily for the protection of our depositors and not for the benefit of stockholders of Eagle.

FEDERAL TAXATION

Savings institutions are subject to the Internal Revenue Code of 1986, as amended, in the same general manner as other corporations. Prior to changes to the Internal Revenue Code in 1996, thrift institutions enjoyed a tax advantage over banks with respect to determining additions to its bad debt reserves.

The Internal Revenue Code was revised in August 1996 to equalize the taxation of thrift institutions and banks, effective for taxable years beginning after 1995. All thrift institutions are now subject to the same provisions as banks with respect to deductions for bad debt. Now only thrift institutions that are treated as small banks under the Internal Revenue Code may continue to account for bad debts under the reserve method; however, such institutions may only use the experience method for determining additions to their bad debt reserve. Thrift institutions that are not treated as small banks may no longer use the reserve method to account for their bad debts but must now use the specific charge-off method.

The revisions to the Internal Revenue Code in 1996 also provided that all thrift institutions must generally recapture any applicable excess reserves into their taxable income, over a six year period beginning in 1996; however, such recapture may be delayed up to two years if a thrift institution meets a residential-lending test. Generally, a thrift institution's applicable excess reserves equals the excess of the balance of its bad debt reserves as of the close of its taxable year beginning before January 1, 1996, over the balance of such reserves as of the close of its last taxable year beginning before January 1, 1988. These are known as pre-1988 reserves. American Federal Savings Bank had recaptured all of its remaining applicable excess reserve as of June 30, 2009.

In addition, all thrift institutions must continue to keep track of their pre-1988 reserves because this amount remains subject to recapture in the future under the Internal Revenue Code. A thrift institution such as American Federal, would generally be required to recapture into its taxable income its pre-1988 reserves in the case of excess distributions, and redemptions of American Federal's stock and in the case of a reduction in American Federal's outstanding loans when comparing loans currently outstanding to loans outstanding at the end of the base year. For taxable years after 1995, American Federal Savings Bank will continue to account for its bad debts under the reserve method. The balance of American Federal's pre-1988 reserves equaled \$915,000.

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Eagle may exclude from its income 100% of dividends received from American Federal Savings Bank as a member of the same affiliated group of corporations. A 70% dividends received deduction generally applies with respect to dividends received from corporations that are not members of such affiliated group.

American Federal's federal income tax returns for the last five tax years have not been audited by the IRS.

State Taxation

American Federal Savings Bank files Montana tax returns. For Montana tax purposes, savings institutions are presently taxed at a rate equal to 6.75% of taxable income which is calculated based on federal taxable income, subject to adjustments (including the addition of interest income on state and municipal obligations).

American Federal's state tax returns have not been audited for the past five years by the state of Montana.

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ITEM 2. DESCRIPTION OF PROPERTY.

The Company's business activities consist of its ownership of 100% of the common stock of the Bank. The Bank's executive office is located at 1400 Prospect Avenue in Helena, Montana. American Federal conducts its business through six offices, which are located in Helena, Bozeman, Butte, and Townsend, Montana. All of its offices are owned. Its principal banking office in Helena also serves as its executive headquarters and operations center. This office houses over 50% of American Federal's full-time employees. The following table sets forth the location of each of American Federal's offices, the year the office was opened, and the net book value including land, buildings, computer software and its related equipment and furniture. The square footage at each location is also shown.

Location	Address	Opened	Value At June 30, 2009 (in thousands)	Square Footage
Helena Main Office	1400 Prospect Ave. Helena, MT 59601	1997	\$ 3,913	32,304
Helena Downtown Drive-up	28 Neill Ave. Helena, MT 59601	1987	\$ 354	1,391
Helena Skyway Branch	2090 Cromwell Dixon Helena, MT 59602	2009	\$ 2,466	4,643
Butte Office	3401 Harrison Ave. Butte, MT 59701	1979	\$ 513	3,890
Bozeman Office	606 North Seventh Bozeman, MT 59715	1980	\$ 471	5,886
Bozeman Branch	1455 Oak St Bozeman, MT 59715	Under Construction (Expected to open Mid-October 2009)	\$ 5,823	19,818
Townsend Office	416 Broadway Townsend, MT 59644	1979	\$ 221	1,973

As of June 30, 2009, the net book value of land, buildings, furniture, and equipment owned by American Federal, less accumulated depreciation, totaled \$13.76 million.

ITEM 3. LEGAL PROCEEDINGS.

American Federal, from time to time, is a party to routine litigation, which arises in the normal course of business, such as claims to enforce liens, condemnation proceedings on properties in which American Federal Savings Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the business of American Federal. There were no lawsuits pending or known to be contemplated against Eagle or American Federal at June 30, 2009.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders in the fourth quarter of the fiscal year ended June 30, 2009.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUERS PURCHASES OF EQUITY SECURITIES.

The common stock is traded on the OTC Bulletin Board under the symbol EBMT. At the close of business on June 30, 2009, there were 1,075,312 shares of common stock outstanding, held by approximately 600 shareholders of record. Eagle Financial MHC, Eagle's mutual holding company, held 648,493 shares (or 60.3%) of the outstanding common stock.

The high bid and asked prices noted below for the four quarters of fiscal 2008 and the four quarters of the current fiscal year were obtained from the OTC Bulletin Board. The quotations reflect interdealer prices without retail markup, markdown or commission, and may not represent actual transactions.

	<u>High Bid</u>	<u>Low Bid</u>
Fourth quarter 2009	\$ 28.00	\$ 23.00
Third quarter 2009	\$ 23.00	\$ 21.00
Second quarter 2009		