Hamilton Bancorp, Inc.
Form 10-K
June 26, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2015

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: 1-35693

HAMILTON BANCORP, INC.

(Exact name of registrant as specified in its charter)

MARYLAND	**46-0543309**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
501 Fairmount Avenue, Suite 200, Towson, Maryland	**21286**
(Address of principal executive offices)	**(Zip Code)**

(410) 823-4510

(Registrant s telephone number, including area code)

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	**Nasdaq Capital Market**

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

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

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 x

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 x 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 x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

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

The aggregate market value of the voting and non-voting common equity held by nonaffiliates as of September 30, 2014 was $39,576,582.

The number of shares outstanding of the registrant s common stock as of June 26, 2015 was 3,417,713.

DOCUMENTS INCORPORATED BY REFERENCE:

Proxy Statement for the Registrant s Annual Meeting of Stockholders (Part III)

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

Management s ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the credit quality and composition of the loan and investment portfolios, valuation of assets acquired through foreclosure, deposit flows, competition, demand for loan products and for financial services in Hamilton Bancorp, Inc. s market area, changes in real estate market values in Hamilton Bancorp, Inc. s market area, changes in relevant accounting principles and guidelines and the inability of third party service providers to perform as required. For further discussion of factors that may affect the results, see Item 1A. Risk Factors in this Annual Report on Form 10-K (Annual Report). These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements after the date of this Annual Report, whether as a result of new information, future events or otherwise.

In this Annual Report , the terms we, our, and us refer to Hamilton Bancorp, Inc. and Hamilton Bank, unless the context indicates another meaning. In addition, we sometimes refer to Hamilton Bancorp, Inc. as Hamilton Bancorp, and to Hamilton Bank as the Bank.

PART I

Item 1. BUSINESS

General

Hamilton Bancorp, Inc. is a Maryland chartered corporation established in June 2012 to become the holding company for Hamilton Bank in connection with the Bank s mutual-to-stock conversion. On October 11, 2012 the mutual-to-stock conversion was completed and the Bank became the wholly owned subsidiary of the Company. On that date the Company sold and issued 3,703,000 shares of its common stock at a price of $10.00 per share, through which the Company received net offering proceeds of $35,580,000. Hamilton Bancorp s principal business activity is the ownership of the Bank s capital stock and the management of the offering proceeds it retained in connection with the Bank s conversion. Hamilton Bancorp does not own or lease any property but instead uses the premises, equipment and other property of the Bank with the payment of appropriate rental fees, as required by applicable law and regulations, under the terms of an expense allocation agreement. In the future, Hamilton Bancorp may acquire or organize other operating subsidiaries.

Hamilton Bank is a federally chartered savings bank that has served the banking needs of its customers since 1915. Hamilton Bank is headquartered in Towson, which is located in Baltimore County, Maryland. The Bank conducts business primarily from its four full-service banking offices located in Baltimore City, Maryland and the Maryland counties of Baltimore and Anne Arundel. Our business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations, in one- to four-family residential mortgage loans (including owner-occupied and investor loans), commercial real estate loans, commercial business loans, home equity loans and lines of credit, construction loans and, to a limited extent, consumer loans (consisting primarily of loans secured by deposits and automobile loans). At March 31, 2015, $66.8 million, or 41.6%, of our total loan portfolio was comprised of permanent residential mortgage loans.

We also invest in securities, which consist primarily of U.S. government agency, municipal and corporate bond obligations, mortgage-backed securities and collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises, and to a much lesser extent, equity securities of government-sponsored enterprises.

We offer a variety of deposit accounts, including certificate of deposit accounts, money market accounts, savings accounts, NOW accounts and individual retirement accounts. We historically have not used borrowings to

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fund our operations, however, in the second half of fiscal 2015, we did borrow from the Federal Home Loan Bank. We are dedicated to offering alternative banking delivery systems, including ATMs, online banking and remote deposit capture.

On April 15, 2015, Hamilton Bancorp entered into an Agreement and Plan of Merger (the Merger Agreement) by and among Hamilton Bancorp, Hamilton Acquisition Corp., a wholly-owned subsidiary of Hamilton Bancorp and Fairmount Bancorp, Inc. (Fairmount), pursuant to which Fairmount will merge with and into Hamilton Bancorp, with Hamilton Bancorp as the surviving entity, and immediately thereafter, Fairmount Bank will be merged with and into Hamilton Bank with Hamilton Bank as the surviving bank (collectively, the Merger).

Under the terms of the Merger Agreement, stockholders of Fairmount will receive a cash payment equal to thirty dollars ($30.00) for each share of Fairmount common stock, subject to possible adjustment. The aggregate merger consideration, excluding any upward price adjustment, is approximately $15.4 million.

The transaction has been approved by the Board of Directors of each company and is expected to close during the quarter ending September 30, 2015. Completion of the Merger is subject to customary closing conditions, including the receipt of required regulatory approvals and the approval of Fairmount s stockholders.

Available Information

The Bank s website address is www.hamilton-bank.com. Information on the Bank s website should not be considered a part of this Annual Report.

Market Area

We conduct our operations from our four full-service banking offices in Maryland. Our primary deposit market includes the areas surrounding our banking offices in Cockeysville, Pasadena, Towson, and the Hamilton area of Baltimore City. In August 2013, we closed our branch office in the Overlea area of Baltimore City due to its close proximity to one of our four remaining branch locations. More recently, in May 2015 we closed our stand alone branch office in the Towson area of Baltimore County and relocated it within our administrative offices, also located in the area of Towson. This will reduce overhead costs without compromising our customers or our service in this area of Baltimore County.

The bank considers the greater Maryland, southern Pennsylvania, Washington D.C., and northern Virginia as its primary lending area for its various consumer, commercial and mortgage lending services. It is the policy of the Bank to focus on lending to customers within its primary lending area, and/or to collaterize secured loans with real property located within the primary lending area. However, we occasionally make loans secured by property located outside of our primary lending market, especially to borrowers with whom we have an existing relationship or who have a significant presence within our primary market. Our primary lending market contains a diverse cross section of employment sectors, with a mix of services, manufacturing, wholesale/retail trade, federal and local government, health care facilities and finance related employment. The city of Baltimore is now considered a major center for both the financial and health service industries.

Our branch network includes Baltimore City and the Maryland countries of Anne Arundel and Baltimore. In recent years Baltimore City and Baltimore County have experienced relatively slow growth, while Anne Arundel County has grown at a faster pace. The stronger population growth experienced in Anne Arundel County has been reflected in higher household income and lower unemployment. Baltimore City, Baltimore County and Anne Arundel County reported preliminary unemployment rates of 7.9%, 5.5% and 4.5%, respectively, for December 2014, compared to the statewide and national unemployment rates of 5.5% and 5.6%, respectively.

Competition

We face significant competition within our market both in making loans and attracting deposits. Our market area has a high concentration of financial institutions including large money center and regional banks, community banks and credit unions. Some of our competitors offer products and services that we currently do

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not offer, such as trust services and private banking. Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms, consumer finance companies and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies. Our primary focus is to build and develop profitable customer relationships across all lines of business while maintaining our position as a community bank.

As of June 30, 2014 (the latest date for which information is available), our market share was 0.38% of total deposits in Baltimore City, making us the 13th largest out of 31 financial institutions in Baltimore City based upon deposit share as of that date. In addition, as of June 30, 2014, our deposit market share was 0.67% and 0.41% of total deposits in Baltimore County and Anne Arundel County, respectively, making us the 20th largest out of 38 financial institutions in Baltimore County and the 20th largest out of 30 financial institutions in Anne Arundel County.

Lending Activities

General. Historically, our principal lending activity was the origination, for retention in our portfolio, of mortgage loans collateralized by one- to four-family residential real estate located within our primary market area. However, in 2009 we changed our business strategy to become less reliant upon one- to four-family lending and to emphasize commercial business and commercial real estate lending. In connection with this strategy, we have hired several commercial real estate and commercial business loan officers with strong experience in these lending areas. In addition, new back office commercial loan personnel have also been hired over the past year to assist with the record keeping, underwriting, and monitoring of our commercial loan portfolio. Previously the Bank utilized the services of third parties to conduct the underwriting analysis of such loans based on our underwriting policies. However, in the past year we have transitioned the commercial loan underwriting analysis in-house. In the past we have purchased commercial business and commercial real estate loans and participated in commercial and commercial real estate loans originated by other institutions. We currently sell almost all of our one- to four-family mortgage loans with terms over 10 years into the secondary market. In addition to commercial business loans, commercial real estate loans and residential mortgage loans, we also make home equity loans and lines of credit, residential and commercial construction loans, and, to a much lesser extent, consumer loans. A portion of the loans that we make for one- to four-family properties are made to investors who reside in our community.

Loan Portfolio Composition. Set forth below is selected information concerning the composition of our loan portfolio in dollar amounts and in percentages as of the dates indicated. Amounts shown do not include loans held for sale equal to $581,000, $-0-, $197,000, $-0- and $-0- at March 31, 2015, 2014, 2013, 2012 and 2011, respectively.

	At March 31,					
	2015		2014		2013	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Real estate loans:						
Residential mortgage loans:						
One- to four-family residential	$ 49,865	31.1%	$ 57,674	39.8%	$ 63,912	39.6%
One- to four-family investor	12,971	8.1	14,000	9.7	15,826	9.8
Construction	6,362	4.0	3,268	2.3	3,508	2.2
Commercial real estate	59,273	36.9	41,406	28.6	36,239	22.5
Total real estate loans	128,471	80.1	116,348	80.4	119,485	74.1
Commercial business loans	18,490	11.5	15,657	10.8	26,937	16.7
Consumer:						
Home equity loans and lines of credit	12,261	7.6	11,660	8.0	13,727	8.5
Other consumer	1,166	0.8	1,154	0.8	1,123	0.7
Total consumer loans	13,427	8.4	12,814	8.8	14,850	9.2
Total loans receivable	160,388	100.0%	144,819	100.0%	161,272	100.0%
Premium on purchased loans					15	
Net deferred loan origination fees and costs	(103)		(119)		(96)	
Allowance for loan losses	(1,690)		(1,786)		(2,071)	
Total loans receivable, net	$ 158,595		$ 142,914		$ 159,120	

	At March 31,			
	2012		2011	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real estate loans:				
Residential mortgage loans:				
One- to four-family residential	$ 76,687	44.2%	$ 92,144	51.5%
One- to four-family investor	17,265	9.9	19,568	10.9
Construction	3,865	2.2	6,514	3.6
Commercial real estate	31,018	17.9	21,034	11.7
Total real estate loans	128,835	74.2	139,260	77.7%
Commercial business loans	27,158	15.7	19,425	10.8
Consumer:				
Home equity loans and lines of credit	16,344	9.4	19,224	10.8
Other consumer	1,181	0.7	1,310	0.7
Total consumer loans	17,525	10.1	20,534	11.5
Total loans receivable	173,518	100.0%	179,219	100.0%
Premium on purchased loans	38		61	

Net deferred loan origination fees and costs	(100)	(206)
Allowance for loan losses	(3,552)	(1,183)
Total loans receivable, net	$ 169,904	$ 177,891

Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at March 31, 2015. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	One-to Four-Family Residential Real Estate		One-to Four-Family Investor Real Estate		Construction Real Estate		Commercial Real Estate	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
				(Dollars in thousands)				
Due During the Years Ending March 31,								
2016	$ 624	5.25%	$ 178	6.23%	$ 5,330	3.29%	$ 5,870	5.69%
2017	572	5.67	6,804	7.17			4,359	5.55
2018	785	4.80	377	7.64			3,183	5.97
2019 to 2020	2,585	4.64	4,114	5.26			16,941	4.55
2021 to 2025	7,902	3.92	1,052	5.60	491	4.25	25,866	4.42
2026 to 2030	3,209	4.79			541	4.25	229	4.15
2031 and beyond	34,188	4.70	446	6.26			2,825	4.14
Total	$ 49,865	4.60%	$ 12,971	6.41%	$ 6,362	3.45%	$ 59,273	4.73%

	Commercial Business		Home Equity Loans and Lines of Credit		Other Consumer		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
				(Dollars in thousands)				
Due During the Years Ending March 31,								
2016	$ 9,253	3.65%	$ 289	5.22%	$ 27	4.32%	$ 21,571	4.21%
2017	88	6.00	117	3.84			11,940	6.47
2018	486	5.30	122	4.17	26	3.14	4,979	5.79
2019 to 2020	5,063	5.18	403	4.43	9	2.75	29,115	4.77
2021 to 2025	2,106	5.57	2,079	4.40	21	3.00	39,517	4.41
2026 to 2030	1,300	5.32	5,067	4.16			10,346	4.51
2031 and beyond	194	6.50	4,184	3.53	1,083	3.53	42,920	4.54
Total	$ 18,490	4.49%	$ 12,261	4.02%	$ 1,166	3.52%	$ 160,388	4.68%

Fixed and Adjustable-Rate Loan Schedule. The following table sets forth at March 31, 2015, the dollar amount of all fixed-rate and adjustable-rate loans due after March 31, 2016.

	Due after March 31, 2016		
	Fixed	Adjustable	Total
		(In thousands)	
Real estate loans:			
One- to four-family residential	$ 48,194	$ 1,047	$ 49,241
One- to four-family investor	12,732	61	12,793
Construction	1,032		1,032
Commercial	48,738	4,665	53,403
Commercial business loans	8,612	625	9,237
Consumer loans:			
Home equity loans and lines of credit	5,651	6,321	11,972
Other consumer	1,139		1,139
Total loans	$ 126,098	$ 12,719	$ 138,817

Residential Mortgage Loans. Hamilton Bank originates mortgage loans secured by owner occupied one- to four-family residential properties. To a lesser extent, we have also made loans to investors for the purchase of one- to four-family residential properties that are not owner-occupied. As of March 31, 2015, we had a total of $66.8 million of residential mortgage loans secured by one- to four-family properties, of which $53.8 million, or 80.6%, were secured by properties serving as the primary residence of the owner. The remaining $13.0 million, or 19.4%, of such loans were secured by non owner-occupied properties. Almost all of our residential mortgage loans are secured by properties in the Greater Baltimore area.

Historically, the terms of our one- to four-family mortgage loans retained in our portfolio ranged from 10 to 30 years. In order to lower our interest rate risk, beginning in 2009 we have sold to the secondary market almost all one- to four-family fixed rate loans that we originate with terms exceeding 10 years. During fiscal 2015 and 2014, we sold $2.8 million and $2.4 million of one- to four-family mortgage loans that we originated, respectively. Our residential mortgage portfolio is almost entirely comprised of fixed-rate loans, with 90.8% of residential mortgage loans due after March 31, 2016 having fixed rates at March 31, 2015. During the year ended March 31, 2015, we originated $578,000 in residential mortgage loans with adjustable-rates.

We generally do not make new one- to four-family mortgage loans on owner-occupied properties with loan-to-value ratios exceeding 95% at the time the loan is originated, and all loans with loan-to-value ratios in excess of 80% require private mortgage insurance. Loan to value ratios on refinances may not exceed 80%, and loan-to-value ratios for non-owner occupied properties may not exceed 85%. In addition, borrower debt may generally not exceed 43% of the borrower s monthly cash flow. With respect to borrower debt on loans secured by non-owner occupied properties, we look to the investor s aggregate debt and cash flows from all investment properties the investor operates. We require all properties securing residential mortgage loans to be appraised by a board-approved independent appraiser.

Loans secured by non-owner occupied properties typically have 5 to 10 year terms and amortize over a 25 to 30 year period. Because of the increased risk associated with non-owner occupied properties, interest rates on such loans are higher than for owner-occupied properties, and averaged 6.4% during the year ended March 31, 2015. We have generally only originated loans secured by non-owner occupied properties to investors that reside in our market area.

In an effort to provide financing for first-time home buyers, we offer 30-year fixed-rate one- to four-family mortgage loans with loan-to-value ratios up to 95%, which cannot be readily sold to the secondary market and are held in portfolio. In fiscal 2015 and 2014, we did not originate any such loans which we did not sell.

We also make jumbo loans (loans above $417,000, the current maximum conforming loan amount as established by the Federal Housing Finance Agency) that we typically sell into the secondary market. Jumbo loans that we originate and sell, typically have 30 year terms and maximum loan-to-value ratios of 80%. At March 31, 2015, our largest outstanding jumbo residential mortgage loan was for $1.6 million, with a book balance of $1.4 million. This loan is performing in accordance with its original terms.

Beginning in 2009, applications for loans that we intend to sell are processed through Mortgage Department Services, LLC (MDS), a company in which we have a minority interest. Prior to delivering applications to MDS, we review each application to ensure that the loan meets MDS standards for sale to the secondary market. However, we have outsourced the loan processing and loan underwriting to MDS as a cost savings measure. See Loan Originations, Participations, Purchases and Sales. We receive an origination fee for each loan processed and sold to the secondary market through MDS. All such loans are sold with servicing released and in most cases, with recourse that we provide due to (i) delinquency within the first 90 days of sale, or (ii) breaches of customary representations and warranties to the buyers.

All residential mortgage loans that we originate include due-on-sale clauses, which give us the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid. All borrowers are required to obtain title insurance for the benefit of Hamilton Bank. We also require homeowner s insurance and fire and casualty insurance and, where circumstances warrant, flood insurance on properties securing real estate loans.

Commercial Real Estate Loans. We originate commercial real estate loans in the Greater Baltimore area that are secured by properties used for business purposes such as small office buildings or retail facilities. We have increased our origination of commercial real estate loans over the last several years, and intend to continue to grow this portion of our loan portfolio in the future. At March 31, 2015, commercial real estate loans totaled $59.3 million, which amounted to 37.0% of total loans, compared to approximately $21.0 million, or 11.7% of total loans, at March 31, 2011.

Our commercial real estate loans are underwritten based on our loan underwriting polices. Our policies provide that such loans may be made in amounts of up to 80% of the appraised value of the property, provided that the property is more than 50% owner-occupied, or 75% of the appraised value of the property if it is not owner-occupied. Our commercial real estate loans typically have terms of 5 to 10 years and amortize for a period of up to 25 years. In the past year we have originated commercial real estate loans with terms of 7 to 10 years based upon the competitiveness of the market. Interest rates may be fixed or adjustable. If adjustable, then they are generally based on the Prime rate of interest or LIBOR.

The regulatory loan-to-one borrower limit is 15% of a bank s unimpaired capital plus unimpaired surplus. As a result of the additional capital received in the stock offering, Hamilton Bank s loans-to-one borrower limit is approximately $6.9 million. We have adopted an internal limit of $5.2 million. We generally target commercial real estate loans with balances of $250,000 to $4.0 million. At March 31, 2015, our commercial real estate loans had an average balance of $1.0 million. At that same date, our largest commercial real estate relationship included several loans totaling $4.8 million. These loans were secured by several restaurants, and were performing in accordance with their original terms at March 31, 2015.

Commercial real estate lending involves additional risks compared to one- to four-family residential lending because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, and/or the collateral value of the commercial real estate securing the loan. Repayment of such loans may be subject, to a greater extent than residential loans, to adverse conditions in the real estate market or the economy. Also, commercial real estate loans typically involve large loan balances to single borrowers or groups of related borrowers. Commercial real estate loans generally have a higher rate of interest and shorter term than residential mortgage loans because of increased risks associated with commercial real estate lending. We seek to minimize these risks through our underwriting standards. Recently we have experienced a decrease in delinquencies and non-performing loans in our commercial real estate loan portfolio. See Risk Factors Our entry into commercial real estate and commercial business lending has resulted in higher losses on our loans.

Commercial Business Loans. We originate commercial business loans and lines of credit secured by non-real estate business assets. These loans are generally originated to small and middle market businesses in our primary market area. Our commercial business loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture, and are primarily secured by business assets other than real estate, such as business equipment, inventory and accounts receivable. We have increased our origination of commercial business loans over the last few years and intend to continue to grow this portfolio at a moderate pace. At March 31, 2015, commercial business loans and lines of credit outstanding totaled $18.5 million, which amounted to 11.5% of total loans, compared to approximately $19.4 million, or 10.8% of total loans, at March 31, 2011. At March 31, 2015, we also had $8.3 million of unfunded commitments on such loans.

Our commercial business loans have terms up to 5 years at both fixed and adjustable rates of interest, although, adjustable rates of interest are preferred and obtained when possible. Our commercial business loans are underwritten based on our commercial business loan underwriting policies. We typically avoid making commercial business loans to purchase highly specialized, custom made equipment which may be difficult to dispose of in the event of default. When making commercial business loans, we consider the financial statements, lending history and debt service capabilities of the borrower (generally requiring a minimum debt service coverage ratio of 1.20:1.00), the projected cash flows of the business, and the value of the collateral, if any. Virtually all commercial business loans are guaranteed by the principals of the borrower.

Hamilton Bank is also qualified to make Small Business Administration (SBA) loans. The SBA program is an economic development program which finances the expansion of small businesses. Under the SBA program, we originate and fund loans under the SBA 7(a) Loan Program which qualify for guarantees up to 85% for loans less than or equal to $150,000 and 75% for loans greater than $150,000. We also originate loans under the SBA s CDC/504 Loan Program in which we generally provide 50% of the financing, taking a first lien on the real property as collateral. We do not treat the SBA guarantee as a substitute for a borrower meeting our credit standards, and, except for minimum capital levels or maximum loan terms, the borrower must meet our other credit standards as applicable to loans outside the SBA process. During fiscal 2015, we did not originate any loans under the SBA programs, compared to $75,000 and $1.1 million of such loans originated in fiscal 2014 and 2013, respectively.

We focus on the origination of commercial business loans in amounts between $250,000 and $4.0 million. At March 31, 2015, our commercial business loans had an average balance of $299,000. At that same date, our largest commercial business loan was commercial line of credit with a commitment balance of $3.8 million, of which $2.0 million was advanced. The loan is secured by the business assets of the company and is performing in accordance with its original terms at March 31, 2015.

Commercial business loans generally have a greater credit risk than one- to four-family residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower s ability to make repayment from his or her employment and other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower s ability to make repayment from the cash flow of the borrower s business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. We seek to minimize these risks through our underwriting standards. During fiscal 2014 and 2013 we experienced increased delinquencies and non-performing loans within our commercial business loan portfolio, but have since restructured our commercial lending platform and improved our asset quality. See Risk Factors - Our entry into commercial real estate and commercial business lending has resulted in higher losses on our loans.

Home Equity Loans and Lines of Credit. In addition to traditional one- to four-family residential mortgage loans, we offer home equity loans and lines of credit that are secured by the borrower s primary or secondary residence. At March 31, 2015, we had $12.3 million, or 7.6% of our total loan portfolio in home equity loans and lines of credit. At that date we also had $15.9 million of undisbursed funds related to home equity lines of credit.

Home equity loans and lines of credit are generally underwritten using the same criteria that we use to underwrite one- to four-family residential mortgage loans. Home equity loans and lines of credit may be underwritten with a loan-to-value ratio of up to 80% when combined with the principal balance of the existing first mortgage loan. Our home equity loans are primarily originated with fixed rates of interest with terms of up to 20 years. Our home equity lines of credit are originated with adjustable-rates based on the prime rate of interest minus an applicable margin and require interest paid monthly. Home equity loans and lines of credit are available in amounts of between $10,000 and $1.0 million.

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

Construction Loans. We originate construction loans for both commercial and residential real estate. Construction loans we originate generally provide for the payment of interest only during the construction phase. At the end of the construction phase, the loan converts to a permanent mortgage loan at the same or a different rate of interest. The construction period on the residential homes is typically nine to twelve months, at which time Hamilton Bank is repaid through permanent financing by a third party with servicing released.

Before making a commitment to fund a construction loan, Hamilton Bank requires detailed cost estimates to complete the project and an appraisal of the property by an independent licensed appraiser. Hamilton Bank also reviews and inspects each property before disbursement of funds during the term of the construction loan. Loan proceeds are disbursed after inspection based on the percentage of completion method. Construction loans for one- to four-family residential real estate may be underwritten with a loan-to-value ratio of up to 80% or 95% with private mortgage insurance. Commercial construction loans generally may not exceed a loan-to-value ratio of 75% to 85%.

Construction lending generally involves a greater degree of risk than other one- to four-family mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of construction. Various potential factors including construction delays or the financial viability of the builder may further impair the borrower s ability to repay the loan.

At March 31, 2015, total construction loans represented $6.4 million, or 4.0%, of Hamilton Bank s total loans, of which $4.0 million consisted of residential construction loans and $2.4 million was commercial construction. At March 31, 2015, the unadvanced portion of total construction loans totaled $6.5 million. At March 31, 2015, our largest construction loan had a contractual principal balance of $2.5 million and a recorded investment balance of $1.4 million. Although the borrower is current on payments, the Bank has placed the loan on nonaccrual and charged off $1.0 million due to lack of additional required funding and the inability to complete the project in a timely manner.

Other Consumer Loans. We make loans secured by deposit accounts up to 90% of the amount of the depositor s deposit account balance. On a more limited basis, we also originate automobile loans to our customers. Other consumer loans totaled $1.2 million, or 0.8% of our total loan portfolio, at March 31, 2015.

Loan Originations, Participations, Purchases and Sales. Most of our loan originations are generated by our loan personnel operating at our corporate headquarters and banking office locations. All loans we originate are underwritten pursuant to our policies and procedures. While we originate both fixed-rate and adjustable-rate loans, our ability to generate each type of loan depends upon relative borrower demand and the pricing levels as set in the local marketplace by competing banks, thrifts, credit unions, and mortgage banking companies. Our volume of real estate loan originations is influenced significantly by market interest rates, and, accordingly, the volume of our real estate loan originations can vary from period to period.

Consistent with our interest rate risk strategy, in the low interest rate environment that has existed in recent years, we have sold on a servicing-released basis almost all of the one- to four-family residential mortgage loans with maturities over 10 years that we have originated. All loan applications that we have the intention of selling are processed through MDS. We have outsourced the loan processing and loan underwriting for one- to four-family residential mortgage loans to MDS as a cost savings measure. We pay a flat fee to MDS for each loan settled and we receive a fee per loan in return for delivery of the loan to the secondary market. All loans sold through MDS are sold with servicing released and in most cases, with recourse that we provide due to (i) delinquency within the first 90 days of sale,or (ii) breaches of customary representations and warranties to the buyers.

From time to time, we have purchased loan participations in commercial loans in which we are not the lead lender that are secured by real estate or other assets within the state of Maryland. With regard to all loan participations, we follow our customary loan underwriting and approval policies, and although we may be only approving and servicing a portion of the loan, we underwrite the loan request as if we had originated the loan to ensure cash flow and collateral are sufficient. At March 31, 2015, our loan participations totaled $20.8 million, or 13.0% of our total loan portfolio, the majority of which were in our primary market area. Of these $20.8 million in participations, $1.5 million were on nonaccrual at March 31, 2015, a decrease of $200,000 from March 31, 2014. We do not specifically look to loan participations as a means to increase loan volume, however, we do look at opportunities for participations, if presented, on a case by case basis.

During fiscal 2010, in connection with the acquisition of our Pasadena, Maryland office from K Bank, we purchased approximately $25.6 million of K Bank s loans. As of March 31, 2015, the remaining balance of loans purchased from K Bank totaled $10.2 million, or 6.3% of total gross loans, including three loans equaling $2.4 million that are classified as Troubled Debt Restructures that are performing as agreed under the restructure agreement. The remaining loans are performing as agreed under their current contract at March 31, 2015.

The following table shows our loan origination, repayment and sale activities for the fiscal years indicated.

	Year Ended March 31, 2015	Year Ended March 31, 2014
	(In thousands)	
Total loans at beginning of year	$ 144,819	$ 161,272
Loans originated:		
Real estate loans:		
Residential mortgage loans:		
One- to four-family residential	1,921	3,799
One- to four-family investor		
Construction	9,519	2,381
Commercial real estate	22,816	10,091
Total real estate loans	34,256	16,271
Commercial business loans	14,378	990
Consumer:		
Home equity loans and lines of credit	3,899	1,765
Other consumer	117	54
Total consumer loans	4,016	1,819
Total loans originated	52,650	19,080
Deduct:		
Principal repayments	27,379	33,110
Transferred to foreclosed real estate	12	1,003
Unused lines of credit	9,690	1,420
Net loan activity	15,569	(16,453)
Total loans at end of year	$ 160,388	$ 144,819

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures developed by management and approved by our board of directors. The loan approval process is intended to assess the borrower s ability to repay the loan and the value of the collateral that will secure the loan. To assess the borrower s ability to repay, our policies provide for the review of the borrower s employment and credit history and information on the historical and projected income and expenses of the borrower. We will also evaluate a guarantor when a guarantee is provided as part of the loan. As a cost saving measure, we have outsourced most of the processing and underwriting of our one-to four-family residential loan applications to a third party. The third party provides Hamilton Bank with a report on each loan application, which our lending officers then present for approval.

Hamilton Bank s policies and loan approval limits are established by our board of directors. Designated Bank officers and loan committee are assigned levels of loan authority. Having loan authority gives the individuals or committee the ability to authorize the extension of credit. Every extension of credit requires two signatures, one of which must have sufficient authority given the risk rating and aggregate exposure. The second approver cannot be an individual assigned less loan authority than the sponsor of the loan. Loan authority is recommended by the Chief Credit Risk

Officer and approved by the Loan Committee of the Board of Directors. All loan authorities are reviewed and confirmed annually by the Loan Committee. The Chief Credit Risk Officer, and or the President may recommend interim changes to establish loan limits or assign loan authority for new officers. These interim changes shall be presented to the Loan Committee for approval at its next regularly scheduled meeting. The Chief Credit Risk Officer and/or the President also have the authority to reduce or remove loan authority. Such changes are to be reported to Loan Committee after the fact.

Securities Activities

General. Our investment policy is developed by management and approved by the board of directors. The objectives of the policy are to: (i) ensure adequate liquidity for loan demand and deposit fluctuations, and to allow us to alter our liquidity position to meet both day-to-day and long-term changes in assets and liabilities; (ii) manage interest rate risk in accordance with our interest rate risk policy; (iii) provide collateral for pledging requirements; (iv) maximize return on our investments; and (v) maintain a balance of high quality diversified investments to minimize risk.

Our Investment Committee, consisting of our President and Chief Executive Officer, our Chief Financial Officer, and Controller is responsible for implementing our investment policy, including approval of investment strategies and monitoring investment performance. The President and Chief Financial Officer are authorized to execute purchases or sales of securities. The board of directors regularly reviews our investment strategies and the market value of our investment portfolio.

We account for investment and mortgage-backed securities in accordance with Accounting Standards Codification Topic 320, Investments Debt and Equity Securities. Accounting Standards Codification 320 requires that investments be categorized as held-to maturity, trading, or available for sale. Our securities are generally categorized as available-for-sale based on our need to meet daily liquidity needs and to take advantage of profits that may occur from time to time. At March 31, 2015, all of our securities were classified as available for sale.

Federally chartered savings institutions have authority to invest in various types of assets, including government-sponsored enterprise obligations, securities of various federal agencies, residential mortgage-backed securities, certain certificates of deposit of insured financial institutions, overnight and short-term loans to other banks, corporate debt instruments, debt instruments of municipalities and Fannie Mae and Freddie Mac equity securities. At March 31, 2015, our investment portfolio consisted entirely of securities and mortgage-backed securities issued by U.S. Government agencies, municipalities or U.S. Government-sponsored enterprises, as well as a small percentage of corporate bonds. The principal and interest on our mortgage-backed securities are guaranteed by the issuing entity.

At March 31, 2015, we owned $523,000 in Federal Home Loan Bank of Atlanta stock. As a member of Federal Home Loan Bank of Atlanta, we are required to purchase stock in the Federal Home Loan Bank of Atlanta. At March 31, 2015, we had no investments in a single company or entity (other than an agency of the U.S. Government, a municipality or a U.S. Government-sponsored enterprise) that had an aggregate book value in excess of 10% of our equity.

Amortized Cost and Estimated Fair Value of Securities. The following table sets forth certain information regarding the amortized cost and estimated fair values of our securities as of the dates indicated.

	At March 31, 2015		At March 31, 2014		At March 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Mortgage-backed securities:						
Fannie Mae	$ 44,083	$ 43,831	$ 47,189	$ 46,356	$ 49,657	$ 49,845
Ginnie Mae	2,415	2,456	4,753	4,802	11,536	11,975
Freddie Mac	25,281	25,070	26,426	25,617	27,303	27,380
Total mortgage-backed securities	71,779	71,357	78,368	76,775	88,496	89,200
U.S. Government agencies	17,509	17,312	24,539	23,413	27,075	27,029
Municipal bonds	2,149	2,317	3,242	3,338		
Corporate bonds	2,000	1,953				
Freddie Mac stock			7	27	7	5
Total	$ 93,437	$ 92,939	$ 106,156	$ 103,553	$ 115,578	$ 116,234

Portfolio Maturities and Yields. The composition and maturities of the debt investment securities portfolio at March 31, 2015 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur.

	At March 31, 2015										
	One Year or Less		More Than One Year Through Five Years		More Than Five Years Through Ten Years		More Than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Estimated Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Mortgage-backed securities:											
Fannie Mae	$	0.00%	$	0.00%	$ 14,354	2.71%	$ 29,729	2.33	$ 44,083	$ 43,832	2.45%
Ginnie Mae					18	6.50	2,397	2.90	2,415	2,456	2.90
Freddie Mac	1	6.02	7	6.01	2,042	1.96	23,231	2.21	25,281	25,070	2.19
Total mortgage-backed securities	1	6.02	7	6	16,414	2.62	55,357	2.30	71,779	71,358	2.37
U.S. Government agencies	509	3.80			17,000	2.11			17,509	17,312	2.16
Municipal bonds							2,149	4.65	2,149	2,317	4.65

Corporate bonds					2,000	3.00			2,000	1,953	3.00
Total	$ 510	3.80%	$ 7	6.01%	$ 35,414	2.40%	$ 57,506	2.39%	$ 93,437	$ 92,940	2.40%

Sources of Funds

General. Deposits, scheduled amortization and prepayments of loan principal, maturities and calls of securities and funds provided by operations are our primary sources of funds for use in lending, investing and for other any general purposes. We historically have not used Federal Home Loan Bank of Atlanta (FHLB) advances to fund our operations and did not have any advances as of March 31, 2014. In the second half of fiscal 2015, we did borrow from the FHLB and now have outstanding $6.0 million in advances as of March 31, 2015.

Deposits. We offer deposit products having a range of interest rates and terms. We currently offer statement savings accounts, NOW accounts, noninterest-bearing demand accounts, money market accounts and certificates of deposit. We also offer the Certificate of Deposit Account Registry Service (CDARS) program to our customers. Our strategic plan includes a greater emphasis on developing commercial business activities, both deposit and lending customer relationships.

Deposit flows are significantly influenced by general and local economic conditions, changes in prevailing interest rates, internal pricing decisions and competition. Our deposits are primarily obtained from areas surrounding our branch offices. In order to attract and retain deposits we rely on paying competitive interest rates and providing quality service.

Based on experience, we believe that our deposits are relatively stable. However, the ability to attract and maintain deposits and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions. At March 31, 2015, $149.7 million, or 67.3% of our total deposit accounts were certificates of deposit, of which $86.1 million had maturities of one year or less.

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

	For the Years Ended March 31, 2015			2014			2013		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)								
Deposit type:									
Certificates of deposit	$ 160,764	69.3%	1.00%	$ 179,191	72.3%	1.04%	$ 208,204	75.8%	1.30
Money market	29,168	12.6	0.12	28,761	11.6	0.12	27,694	10.1	0.24
Statement savings	15,343	6.6	0.05	15,394	6.2	0.05	15,210	5.5	0.14
Noninterest bearing demand	16,765	7.2		14,869	6.0		15,967	5.8	
NOW accounts	9,967	4.3	0.03	9,558	3.9	0.05	7,684	2.8	0.05
Total deposits	$ 232,007	100.0%	0.71%	$ 247,773	100.0%	0.77%	$ 274,759	100.0%	1.02

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

	At March 31, 2015	2014	2013
	(In thousands)		
Interest Rate:			
Less than 2.00%	$ 134,569	$ 148,282	$ 164,194
2.00% to 2.99%	15,127	21,522	22,876
3.00% to 3.99%		270	4,487
4.00% to 4.99%		17	4,411
5.00% and above			50