

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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HEMOCORP INC

CIK: **857667** | IRS No.: **363680814** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
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SIC: **6035** Savings institution, federally chartered

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

- () Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Period Ended September 30, 1996.
- () Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Transition Period from ___ to ___.

Commission File Number: 0-18284

HEMOCORP, INC.

(Exact name of Registrant as specified in its Charter)

Delaware

36-3680814

(State or Other Jurisdiction of
Incorporation or Organization)

I.R.S. Employer
Identification Number

1107 East State Street, Rockford, IL

61104-2259

(Address of Principal Executive Offices)

(ZIP Code)

815-987-2200

(Issuer's Telephone Number, including Area Code)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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
----- -----

As of SEPTEMBER 30, 1996 there were 1,128,579 issued and outstanding shares of the Issuer's Common Stock.

HOMECORP, INC.
AND SUBSIDIARY

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CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(IN THOUSANDS)

HOMECORP, INC.
AND SUBSIDIARY

	September 30, 1996	December 31, 1995
	-----	-----
<S> ASSETS:	<C>	<C>

Cash and cash equivalents:		
Cash and non-interest bearing deposits	\$ 6,915	\$ 7,634
Interest bearing deposits	33	388
Federal funds sold	-	2,390
Total cash and cash equivalents	6,948	10,412
Securities available for sale, at fair value	12,149	8,311
Investment securities (approximate market value of \$5,413 in 1996 and \$6,412 in 1995)	5,503	6,504
Mortgage-backed securities (approximate market value of \$19,217 in 1996 and \$24,146 in 1995)	19,679	24,488
Federal Home Loan Bank Stock, at cost	2,079	2,279
Loans receivable, net	270,845	261,022
Mortgage loans held for sale	1,593	4,741
Real estate acquired in settlement of loans	9,763	9,790
Investment in real estate developments	5,198	4,060
Premises and equipment	3,430	3,630
Other assets, principally accrued interest	3,272	2,790

Total Assets	\$340,449	\$338,027
--------------	-----------	-----------

LIABILITIES:

Deposits	\$307,820	\$314,294
Borrowed funds	8,300	-
Advance payments by borrowers for taxes and insurance	674	2,075
Other liabilities	3,231	1,234

Total Liabilities	\$320,025	\$317,603
-------------------	-----------	-----------

SHAREHOLDERS' EQUITY:

Preferred stock-Par Value \$0.1; 1,000,000 shares authorized; none outstanding	-	-
Common stock-Par Value \$.01; 5,000,000 shares authorized; 1,128,579 and 1,126,371 shares issued and outstanding for 1996 and 1995, respectively	11	11
Paid-in capital	6,490	6,465
Retained earnings	13,984	13,974
Unrealized loss on securities available for sale, net of taxes	(61)	(26)

Total Shareholders' Equity	\$ 20,424	\$ 20,424
----------------------------	-----------	-----------

Total Liabilities and Shareholders' Equity	\$340,449	\$338,027
--	-----------	-----------

</TABLE>

<TABLE>
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CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

HEMOCORP, INC.
AND SUBSIDIARY

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
	----	----	----	----
<S>	<C>	<C>	<C>	<C>
INTEREST INCOME:				
Loans receivable	\$ 5,524	\$ 5,644	\$16,172	\$15,851
Mortgage-backed securities	297	374	946	1,176
Securities available for sale	187	99	486	314
Investment securities and other	126	234	569	978

Total interest income	6,134	6,351	18,173	18,319

INTEREST EXPENSE:				
Deposits	3,678	3,862	11,032	11,126
Borrowed funds	74	93	74	93

Total interest expense	3,752	3,955	11,106	11,219

Net interest income	2,382	2,396	7,067	7,100
Provision for loan losses	175	90	395	270

Net interest income after provision for loan losses	2,207	2,306	6,672	6,830

NON-INTEREST INCOME:				
Fees and service charges	436	371	1,252	1,049
Net gains on sale of loans, investment securities, and mortgage-backed securities	181	101	729	184
Income (loss) from real estate developments	388	(68)	375	27
Operations of real estate owned	120	-	351	-
Other	22	40	106	111

Total non-interest income	1,147	444	2,813	1,371

NON-INTEREST EXPENSE:				
Compensation and benefits	1,264	1,155	3,773	3,394
Office occupancy and equipment	305	304	923	868
Data processing	232	190	673	543
Federal deposit insurance premium	228	203	634	639

SAIF special assessment	2,043	-	2,043	-
Other	539	452	1,434	1,323

Total non-interest expense	4,611	2,304	9,480	6,767

Income before income taxes	(1,257)	446	5	1,434
Income taxes	(501)	168	(5)	542

Net income (loss)	\$ (756)	\$ 278	\$ 10	\$ 892

Earnings per common and common equivalent share:				
Earnings per share	\$ (0.64)	\$ 0.23	\$ 0.01	\$ 0.76
	=====	=====	=====	=====

</TABLE>

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<TABLE>
<CAPTION>

CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED) HEMOCORP, INC.
AND SUBSIDIARY
(IN THOUSANDS)

	Nine Months Ended September 30,	
	1996	1995
	----	----
	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 10	\$ 892
Adjustment to reconcile net income to net cash (used in) operating activities:		
Amortization of:		
Premiums and discounts on loans, and mortgage- backed and investment securities	109	131
Net (income)/loss from real estate developments	(375)	(27)
Provision for loan losses	395	270
Net (gain) loss on sale of:		
Loans receivable	(729)	179
Securities available for sale	-	(4)
Depreciation and amortization of premises and equipment	347	340
Decrease (Increase) in loans held for sale	3,148	(3,557)
Increase (Decrease) in cash flows due to changes in:		
Accrued interest and other assets	(454)	(194)
Accrual for SAIF special assessment	2,043	-
Deferred taxes and other liabilities	(46)	(117)
Total adjustments	4,438	(3,337)
Net cash provided by (used in) operating activities	4,448	(2,445)

Cash flows from investing activities:		
Loan originations, net of principal payments on loans	(4,197)	(16,015)
Purchases of:		
Loan participations	(5,202)	(8,155)
Securities available for sale	(6,997)	-
Investment securities	(1,500)	(282)
Certificates of deposit	(7,000)	(11,000)
Premises and equipment	(147)	(407)
Investment in foreclosed real estate	(24)	(1,179)
Investment in real estate developments	(977)	(1,093)
Principal payments on mortgage-backed securities	4,688	3,231
Principal repayments of securities available for sale	1,086	679
Proceeds from sales of:		
Securities available for sale	-	2,554
Real estate developments	67	210
Foreclosed real estate	61	675
Proceeds from maturities of:		
Certificates of deposit	7,000	13,000
Investment securities	2,500	1,000
Securities available for sale	1,986	-
Redemption of investments required by law	172	-
Distributions of income on real estate partnerships	147	1,209
Net cash provided by investing activities	(8,337)	(15,573)
Cash flows from financing activities:		
Net increase (decrease) in borrowings	8,300	2,000
Net increase (decrease) in deposits	(6,473)	6,593
Net increase (decrease) in advance payments by borrowers for taxes and insurance	(1,402)	(792)
Net cash used in financing activities	425	7,801
Net increase (decrease) in cash and cash equivalents	(3,464)	(10,217)
Cash and cash equivalents at beginning of year	10,412	17,983
Cash and cash equivalents at end of year	6,948	7,766
Supplemental disclosures of cash flow information payment during the period for:		
Interest	10,873	11,033
Taxes	240	300

</TABLE>

(1) MANAGEMENT'S STATEMENT

In the opinion of management the accompanying unaudited financial statements contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly the financial position of HomeCorp, Inc. and Subsidiary (the Company) at September 30, 1996 and December 31, 1995 and the results of operations for three and nine month periods ended September 30, 1996 and 1995 and cash flows for the year-to-date periods ended September 30, 1996 and 1995. The Notes to the Consolidated Financial Statements which are contained in the 1995 Annual Report to Shareholders and incorporated by reference into the 1995 Form 10-K should be read in conjunction with these Consolidated Financial Statements.

(2) LOANS RECEIVABLE

Following is a summary of loans receivable for the dates indicated:

<TABLE>

<CAPTION>

(In Thousands)	Sept. 30, 1996	Dec. 31, 1995
	-----	-----
<S>	<C>	<C>
Conventional first mortgage loans	\$182,031	\$195,423
Short-term construction and land loans	16,016	9,102
Commercial business loans	5,855	4,007
Auto loans	51,598	38,687
Home equity and improvement loans	20,721	16,268
Other consumer loans	1,290	1,294
	-----	-----
Total loans receivable, gross	\$277,511	\$264,781
Less:		
Loans in process	5,407	2,754
Deferred loan origination costs	(415)	(440)
Unearned discount, principally on loans purchased	222	270
Allowance for possible loan losses	1,452	1,175
	-----	-----
Total loans receivable net	\$270,845	\$261,022
	=====	=====

</TABLE>

Adjustable rate loans totaled \$114.7 million and \$111.7 million at September 30, 1996 and December 31, 1995, respectively. The Bank serviced first mortgage loans for other institutions approximating \$151.4 million and \$125.8 million at September 30, 1996 and December 31, 1995, respectively.

The following summarizes activity in the allowance for loan losses for the three and nine month periods indicated:

<TABLE>
<CAPTION>

(In Thousands)	Three Months Ended		Nine Months Ended	
	Sept. 30, 1996	Sept. 30, 1995	Sept. 30, 1996	Sept. 30, 1995
<S>	<C>	<C>	<C>	<C>
Balance at beginning of period	\$1,365	\$1,034	\$1,175	\$1,048
Charge-offs	(89)	(29)	(122)	(227)
Recoveries	1	-	4	4
Provision for possible loan losses	175	90	395	270
	-----	-----	-----	-----
Balance at end of year	\$1,452	\$1,095	\$1,452	\$1,095
	=====	=====	=====	=====

</TABLE>

Total impaired loans at September 30, 1996 were \$2,881,000.

In addition to residential and commercial mortgage loans and consumer loans 90 days or more delinquent, which totaled \$2,675,000, the Bank identified as impaired one loan totaling \$206,000 to a borrower who also had a commercial real estate loan that was greater than 90 days delinquent as of September 30, 1996. The \$206,000 loan was current at September 30, 1996. Total indebtedness of this borrower was \$980,000 at September 30, 1996. The indebtedness is secured by a commercial building which is being leased to retail businesses. A reserve of \$45,000 had been established for this borrower at December 31, 1995.

Included in impaired loans were two participating interests totaling \$1,445,000 at September 30, 1996 that were ninety days delinquent but which continued on an accrual basis. The participating interests represent interests in loans to a single borrower who recently filed for bankruptcy protection under Chapter 11 and are secured by multi-family properties located in Southern Wisconsin. The cash flow from both properties is currently being diverted to a bankruptcy trustee for distribution. It is anticipated that funds will be released to the participating banks as senior secured creditors and that such funds will return the loans to a current status and maintain scheduled payments. Based upon the current and historical lease performance of the buildings, their current physical condition and the economic condition of the area in which the buildings are located, accrual status was considered appropriate.

A total of \$151,000 in interest income was recognized during the first nine months of 1996 on impaired loans. A total of \$94,000 was recognized on the two delinquent participations discussed above, including \$31,000 which was accrued at September 30, 1996. An additional \$82,000 of interest income would have been recognized had the non accruing impaired loans remained current. The average recorded investment in impaired loans during the nine

months ended September 30, 1996 was approximately \$1.5 million.

At September 30, 1995, the recorded investment in loans that were considered to be impaired was \$150,000, all of which were on a nonaccrual basis. There was no allowance for loan losses related to the impaired loans. The average recorded investment in impaired loans during the nine months ended September 30, 1995 was approximately \$5.4 million. For the nine months ended September 30, 1995, the Bank recognized interest income on impaired loans of \$364,000.

The Bank has no restructured loans at September 30, 1996.

(3) EARNINGS PER SHARE

Earnings (loss) per share for the three and nine months ended September 30, 1996 were computed by dividing net income by 1,175,539 and 1,174,467, the average number of common and common equivalent shares (using the treasury share method) outstanding, respectively. The Company's equivalent shares consist entirely of common stock options.

Earnings per share for the three and nine months ended September 30, 1995 were computed by dividing net income by 1,168,213 and 1,167,773, the weighted average number of shares outstanding during the respective periods as adjusted for the dilutive effect of common stock options.

(4) CHANGES IN ACCOUNTING PRINCIPLES

During the quarter ended March 31, 1996, the Company adopted FASB Statement No. 122, "Accounting for Mortgage Servicing Rights," which requires that an allocation of costs be made between loans and their related servicing rights for loans originated with a definitive plan to sell with servicing rights retained. Statement No. 122 requires entities to recognize a separate asset for servicing rights which will increase the gain on sale of loans when the servicing rights are retained. Statement No. 122 is being applied on a prospective basis to mortgage servicing rights acquired after December 31, 1995. Mortgage servicing rights acquired prior to January 1, 1996 will continue to be accounted for under the prior accounting rules, under which costs were fully allocated to the loan and servicing income was recognized as it was received over the life of the loan. The effect of adopting this statement was to increase net income after income taxes by \$239,000 during the nine months ended September 30, 1996. Servicing rights capitalized in accordance with this accounting pronouncement totaled \$392,000 at September 30, 1996.

HEMOCORP, INC.
AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATION

FORWARD-LOOKING STATEMENTS

When used in this Form 10-Q and in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, and in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result", "are expected to", "will continue", "is anticipated", "estimate", "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed below could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake -- and specifically declines any obligation -- to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

FINANCIAL CONDITION

The Company has continued its focus upon community banking during 1996, as evidenced by the continued growth in the consumer and commercial loan portfolios. The consumer portfolio increased \$17.4 million, or 30.9% during the first nine months of 1996. The increase was largely due to the increase in automobile loans, most of which are originated indirectly through local auto dealers. While representing a smaller percentage of the total increase, home equity and improvement loans increased 27.4% during the first nine months of 1996. The September 30, 1996 consumer loan delinquency ratio was .5% of the portfolio.

The commercial portfolio increased \$1.8 million, or 46.1% during the same time period. Construction and land loans also increased during the first nine months of 1996. Gross construction and land loans totaled \$16.0 million at September 30, 1996 as compared to \$9.1 million at December 31, 1995.

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The conventional first mortgage loan portfolio declined \$13.4 million during the nine months ended September 30, 1996. The majority of conventional mortgage loan originations were sold, with the servicing retained by the Bank.

The Bank reclassified \$450,000 of the general loan loss reserve against foreclosed real estate. The reclassification has been reflected in prior periods as well. Reserves had been provided in past periods and it was determined the reclassification of the reserve amount more accurately reflected the nature of the allowances provided. The balance of foreclosed real estate at September 30,

1996 was unchanged from December 31, 1995. The general loan loss reserve has been reclassified in prior periods to conform to the current year's presentation.

Investment in real estate developments increased \$1.1 million to \$5.2 million between September 30, 1996 and December 31, 1995. The increase is primarily the result of operating costs and improvements within one of the Company's real estate ventures. All the cash flow generated by the venture is used to reduce the debt of the venture, which is held by an unaffiliated party.

Deposits decreased \$6.5 million during the first nine months of 1996, primarily in longer term certificates of deposit, defined as original terms of 24 months or greater. Shorter term certificates increased \$7.2 million during the nine month period. Management continues to focus upon attracting core deposits and shorter term certificates of deposit.

Shareholder's equity remained unchanged at \$20.4 million between September 30, 1996 and December 31, 1995. The accrual of the \$2.0 million SAIF assessment as of September 30, 1996 reduced 1996 earnings to \$10,000. The Bank's increased investment in its real estate development subsidiary together with the growth experienced in the consumer and commercial loan portfolios resulted in a September 30, 1996 risk based capital ratio of 7.74% as compared to the 8.0% requirement of the Office of Thrift Supervision, the Bank's primary regulator. In order to achieve compliance at December 31, 1996, management intends to reduce the Bank's investment in its subsidiary through the continued sale of real estate or reduce risk based assets through the sale of higher risk weighted assets and the repayment of Federal Home Loan Bank advances. See - "Liquidity and Capital."

Impaired loans increased to \$2.9 million at September 30, 1996 from \$1.0 million at December 31, 1995. The increase is primarily the result of two participating interests in multi-family loans totaling \$1.4 million which were classified as impaired during the third quarter of 1996. See - "Footnote (2) - Loans Receivable."

RESULTS OF OPERATION

The following table presents, for the period indicated, the yields on average interest-earning assets as well as the cost of average interest-bearing liabilities. The table does not reflect the impact of income taxes. All averages are monthly average balances.

<TABLE>
<CAPTION>

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	1996	1995	1996	1995
	----	----	----	----
<S>	<C>	<C>	<C>	<C>

Mortgage loans	8.04%	8.24%	7.95%	8.02%
Consumer loans	8.38	8.56	8.28	8.44
Commercial loans	9.32	9.27	9.33	9.61
Other earning assets	5.89	5.94	5.79	5.94
	----	----	----	----
Total interest-earning assets	7.85	7.95	7.72	7.72
	----	----	----	----
Deposits	4.86	5.03	4.83	4.85
Other borrowings	5.64	6.11	5.64	6.11
	----	----	----	----
	4.88	5.04	4.83	4.86
	----	----	----	----
Interest rate spread	2.97%	2.91%	2.89%	2.86%
	====	====	====	====
Net interest rate margin	3.05%	3.00%	3.00%	2.99%
	====	====	====	====

</TABLE>

THREE MONTHS ENDED SEPTEMBER 30, 1996 VS 1995:

The Company's third quarter earnings were impacted by Congressional legislation signed by President Clinton on September 30, 1996 which included a special assessment on all institutions insured under the Savings Association Insurance Fund (SAIF). HomeCorp's special assessment totaled \$2.0 million which resulted in a net after tax reduction in operating earnings of \$1.2 million. Excluding this special assessment, HomeCorp's third quarter earnings were \$490,000 or \$0.41 per share, an increase of 76% from the \$278,000 or \$0.23 per share reported for the third quarter of 1995.

Non-interest income generated the increase in earnings between quarters. The largest increase was income from real estate development, which increased to \$388,000 in third quarter 1996 from a loss of \$68,000 in the prior year. The increase is primarily due to the sale of commercial lots, although the sale of single family lots also increased from the prior year.

Income from REO operations totaled \$120,000 for the third quarter of 1996. The shopping center generating the net operating earnings entered REO in late September 1995. The center remains in excess of 90% leased and is listed for sale. The center, as a commercial real estate loan, did generate interest revenue through most of the third quarter of 1995.

Gains from the sale of residential mortgage loans increased to \$181,000 during the third quarter of 1996 as compared to \$101,000 in third quarter

1995, an increase of \$80,000 or 79% due to the adoption of an accounting standard requiring the recognition of servicing rights at the time of sale for loans sold on a servicing retained basis and approximately \$2.4 million more in mortgage loan sales in 1996 as compared to 1995. See - "Footnote (3) - "Changes in Accounting Principles." Management continues to sell virtually all fixed rate residential mortgage loans originated and some adjustable rate loans. Management

will continue to originate adjustable rate loans for portfolio as long as yields can be obtained to provide favorable returns to the Bank. Adjustable rate loans with fixed rates for initial periods of three and five years and annual adjustments thereafter as well as six month adjustable loans have been originated for portfolio.

Service charges and loan fees increased \$65,000, or 17.5%, to a total of \$436,000 for third quarter 1996 as compared to \$371,000 for third quarter 1995. Service charges continue to benefit from the growth experienced in the number of retail and business checking accounts. Loan fees have benefited from the increased mortgage loan servicing portfolio, which totaled \$151.4 million at September 30, 1996. The servicing portfolio was \$125.8 million at December 31, 1995.

Net interest income totaled \$3.8 million for the three months ended September 30, 1996 as compared to \$4.0 million during the same 1995 period. Interest spread, the difference between the asset yield and cost of funds, increased to 2.97% from 2.91% and net interest margin increased to 3.05% from 3.00%. The decline in total dollars of net interest income is the result of a decline in the average balance of interest bearing assets. The average interest bearing assets of the Bank were \$312.4 million for third quarter 1996 as compared to \$319.4 million for the third quarter of 1995.

Operating expenses, excluding the special SAIF assessment, increased \$264,000 between the third quarters of 1996 and 1995. The largest increases were noted in compensation and benefits which reflect the impact of additional lending personnel and increased pension costs.

NINE MONTHS ENDED SEPTEMBER 30, 1996 VS 1995:

Earnings for the nine month period were likewise impacted by the special (SAIF) assessment and resulted in net income for the nine months ended September 30, 1996 of \$10,000. Net income excluding the special assessment totaled \$1.3 million as compared to \$892,000 in the prior year, an increase of 40.8%.

Noninterest income more than doubled to a total of \$2.8 million during the nine months ended September 30, 1996 as compared to the comparable prior year period. The largest increase was noted in gains on the sale of mortgage loans, which increased \$545,000 to \$729,000 in 1996 from \$184,000 during 1995. A total of \$442,000 in gains were generated through the recognition of servicing rights retained in accordance with FAS 122.

The operation of a shopping center obtained through foreclosure generated \$351,000 in net operating income during 1996. The center was not operated by the Bank until the fourth quarter of 1995.

Income from real estate development increased to \$375,000 during the first nine months from 1996 from \$27,000 during the comparable period of 1995. The increase is due primarily to the sale of two commercial land parcels from one of the partnerships in which the Bank's subsidiary is a partner. Single family lot sales have also increased throughout 1996 as compared to 1995.

Loan fees and service charges increased \$203,000 between 1996 and 1995, representing a 19.3% increase. The mortgage loan servicing portfolio was the primary contributor to the loan fee increase. Most mortgage loan sales have occurred on a servicing retained basis, resulting in an increasing revenue stream from the servicing portfolio. Service charges increased primarily as a result of the growth in the number of core deposit accounts, which typically generate higher levels of fee income. The growth experienced in the number of business checking accounts has also contributed significantly to the fee revenue increase.

Net interest margin increased to 3.00% during 1996 from 2.99% during 1995. A decline in average interest bearing assets resulted in a decrease of \$33,000 in net interest income between the first nine months of 1996 and 1995.

Operating expenses, excluding the special SAIF assessment, increased \$670,000, or 9.9% between the first nine months of 1996 and the first nine months of 1995. The largest increases were noted in compensation and benefits which reflect the impact of additional lending personnel and increased pension costs. Data processing costs also increased between 1996 and 1995 due to the Bank's expanding customer base, including the loan servicing portfolio, and expanded services required in connection with ongoing targeted marketing efforts.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is generally regarded as the ability to generate sufficient cash flow to meet all present and future funding commitments. The Bank's primary source of funds, or liquidity, are deposits, amortization and repayment of loan principal (including mortgage-backed securities) operations and, to a lesser extent, maturities and sales of mortgage-backed securities and short-term investments. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan repayments are more influenced by interest rates, general economic conditions and competition.

The Bank's liquidity, represented by cash and cash equivalents, is a product of its operative activities, investing activities, and financing activities. These activities are summarized as follows for the nine month periods ended September 30, 1996 and 1995.

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<TABLE>
<CAPTION>

	1996 -----	1995 -----
	(In Thousands)	
<S>	<C>	<C>
Operating Activities:		
Net income	\$ 10	\$ 892
Adjustments to reconcile net income to net cash used in operating activities	4,438	(3,337)

Net cash provided by (used in) operating activities	4,448	(2,445)
Net cash investing activities	(8,337)	(15,573)
Net cash financing activities	425	7,801
Net increase (decrease) in cash and cash equivalents	(3,464)	(10,217)
Cash and cash equivalents at beginning of year	10,412	17,983
Cash and cash equivalents at end of period	\$ 6,948	\$ 7,766

</TABLE>

The largest difference in the adjustments to reconcile net income to net cash provided by or used in operating activities between 1996 and 1995 was the change in the portfolio of mortgage loans held for sale. Mortgages held for sale decreased \$3.1 million during the nine months ended September 30, 1996 as compared to an increase of \$3.6 million during the nine months ended September 30, 1995. The held for sale portfolio totaled \$1.6 million at September 30, 1996. The portfolio declined largely due to declining aggregate origination volumes and a shift of some origination volumes into adjustable mortgages that are currently being placed into the Bank's loan portfolio. The average held for sale portfolio for 1996 has been \$5.3 million as compared to the 1995 average of \$3.1 million. Another significant adjustment to reconcile net income to operating net cash operating activities was the accrual of the \$2.0 million SAIF assessment during 1996.

Cash investing activities utilized \$8.3 million during 1996 and \$15.6 million during 1995. The more significant differences in cash activities between the two years were loan related activities. The use of cash from loan originations net of principal repayments declined to \$4.2 million in 1996 from \$16.0 million in 1995. Originations increased in 1996 although such increase was more than offset by increased repayment activity. Most of the increased repayments were experienced in the consumer portfolio, which is to be expected as the automobile loan portfolio seasons. Repayments increased within the mortgage-backed securities portfolio as well, increasing to \$4.7 million in 1996 from \$3.2 million in 1995.

Purchases of participating interests in multi-family and commercial real estate loans declined in 1996 to \$5.2 million from \$8.2 million in 1995. Purchases of investment securities and securities available for sale increased in 1996 to \$1.5 million and \$7.0 million, respectively. Total 1995 purchases were \$282,000. A total of \$4.5 million of securities from the investment and available for sale portfolios matured during 1996.

Financing activities provided \$425,000 in cash in 1996 as compared to \$7.8 million in the prior year. Deposits declined \$6.5 million in 1996 as compared to growth of \$6.6 million in 1995. Borrowings were used to a

greater extent in 1996, with an \$8.3 million increase in borrowings noted during the nine months ended September 30, 1996. Borrowings increased \$2.0 million during the same nine month period of 1995. Borrowings totaled \$8.3 million at September 30, 1996, represented totally by Federal Home Loan Bank advances. Management anticipates the continued use of advances as a funding source, primarily on a short term basis.

As noted earlier, the Bank did not meet the regulatory risk-based capital level at September 30, 1996. The Bank's capital ratios at September 30, 1996 were: 4.52% tangible and leverage and 7.74% risk based. These compare to Office of thrift Supervision requirements of 3.00% tangible and leverage and 8.00% risk based. The difference in ratios equates to a regulatory shortfall of \$560,000. Management is planning for the sale of real estate from the Bank's real estate development subsidiary during the fourth quarter as a means of generating a large portion of the necessary risk-based capital. Additionally, the sale of held for sale mortgage loans and available for sale securities may be used to repay advances outstanding at September 30, 1996. Management anticipates returning to capital compliance by December 31, 1996.

The Bank is subject to a wide variety of regulatory sanctions as a result of its regulatory capital shortfall; however, management does not anticipate that any sanctions or restrictions will be imposed provided that the Bank achieves capital compliance by December 31, 1996.

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HEMECORP, INC.
AND SUBSIDIARY

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Bank's suit in the United States Court of Federal Claims against the United States for breach of contract with regard to the utilization as capital of the supervisory goodwill, which was created when the Bank acquired failing institutions in the 1980's, has been stayed pending the outcome of an appeal in another case that was heard by the U.S. Supreme Court. While the Supreme Court ruled favorably on the issue in the other case, the Company's suit has yet to be heard.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Index to exhibits

(11) Statement regarding computation of earnings per share
(included in Note 3)

(27) Financial Data Schedule (attached)

(b) Reports on Form 8-K

HomeCorp filed the following Form 8-K during the quarter ended September 30, 1996.

July 30, 1996 - The registrant issued a release on July 16, 1996 announcing the results of operations for the second quarter of 1996.

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HOMECORP, INC.
AND SUBSIDIARY

SIGNATURES

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

HOMECORP, INC.

(Registrant)

Date: November 12, 1996

/s/ C. Steven Sjogren

C. Steven Sjogren

President

Chief Executive Officer

Date: November 12, 1996

/s/ John R. Perkins

John R. Perkins

Executive Vice President

Chief Financial Officer

Date: November 12, 1996

/s/ Dirk J. Meminger

Dirk J. Meminger

Treasurer

Chief Accounting Officer

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