

## **Due Diligence Report: Acquisition Raises Eyebrows: Speed Bump to Roll Over for HFFC**

### **Summary**

HF Financial Corp., incorporated on November 26, 1991, is a bank holding company. The Company's banking subsidiary is Home Federal Bank (the Bank). The Company's primary business is to operate the Bank. The Company's segments include banking (including leasing activities) and other. The banking segment is conducted through the Bank and Mid America Capital Services, Inc. (Mid America Capital). The Bank provides full-service consumer and commercial business banking, including an array of financial products and services. The Bank attracts deposits from the general public and uses such deposits, together with borrowings and other funds to originate loans. Through its trust department, the Bank acts as trustee, personal representative, administrator, guardian, custodian, agent, advisor and manager for various accounts. The Bank purchases agency residential mortgage-backed securities and invests in the United States Government and agency obligations and other permissible investments. The Bank receives loan servicing income on loans serviced for others and commission income from credit life insurance on consumer loans. The Bank, through its subsidiaries, offers annuities, mutual funds, life insurance and other financial products and services, as well as equipment leasing services. The Bank originates a range of loans, including one- to four-family residential loans, commercial business loans, agriculture loans, consumer loans, multi-family and commercial real estate loans, and construction loans. Its consumer loans include loans for home equity loans and home improvement loans and student loans. The Bank engages in multi-family and commercial real estate lending primarily in South Dakota and the adjoining Midwestern states. These lending activities may include existing property or new construction development or purchased loans, including loans to builders and developers for the construction of one- to four-family residences and condominiums and the development of one- to four-family lots. The Bank originates adjustable-rate, short-term balloon payment, fixed-rate multi-family and commercial real estate loans. The Bank's multi-family and commercial real estate loan portfolio is secured primarily by apartment buildings and owner occupied and non-owner occupied commercial real estate. The Bank also makes loans to developers for the purpose of developing one- to four-family lots. The Bank's commercial business lending activities encompass loans with a range of purposes and security, including loans to finance accounts receivable, inventory and equipment and business expansion within the Bank's market area. The Bank originates commercial business loans directly and through programs sponsored by the Small Business Administration (SBA). The Bank generally originates commercial business loans for its portfolio and retains the servicing with respect to such loans. The Bank's commercial business loans are typically secured by the assets of the business, such as accounts receivable, equipment and inventory. The Bank originates agricultural loans through its agricultural division. The agricultural division offers loans to its customers, such as operating loans that are used to fund the borrower's operating expenses; term loans on machinery, equipment and breeding stock; agricultural farmland term loans that are used to finance (or refinance) land purchases; specialized loans to fund facilities and equipment for livestock confinement enterprises and loans to fund ethanol plant development. The Bank makes 15-, 20- and 30-year fixed and adjustable-rate one- to four-family residential mortgage (ARM) loans at loan-to-value ratios consistent with Federal National Mortgage Association (FNMA)/Federal Home Loan Mortgage

Corporation (FHLMC) guidelines. The Bank also originates fixed-rate one- to four-family residential mortgage loans through the South Dakota Housing Development Authority (SDHDA) program. The Bank offers online mortgage capabilities through QuickClick Online Mortgage Solutions, a service that allows customers to check rates, research loan options and mortgage applications via the Bank's Website. The Bank's consumer loan portfolio includes, among other types, automobile loans, recreational vehicle loans, boat loans and lines of credit and loans secured by deposit accounts. The Bank makes construction loans to individuals for the construction of their residences, as well as loans to builders and developers for the construction of single family and multi-family residential properties, in the Bank's primary market area. As of June 30, 2015, the total net loans and leases receivable amounted to \$903.18 million. The Bank invests in various types of liquid assets, including the United States Treasury obligations, securities of various federal agencies, certain certificates of deposit of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements and federal funds. As of June 30, 2015, the Bank's investments in agency residential mortgage-backed securities totaled \$130 million. As of June 30, 2015, the Bank also had a \$4.1 million investment in the stock of the Federal Home Loan Bank of Des Moines (FHLB or FHLB of Des Moines). As of June 30, 2015, the Bank had \$20.2 million of securities that are held to maturity and \$158.8 million of securities available for sale, including agency residential mortgage-backed securities of \$128.2 million.

HF Financial Corp. has a current market capitalization of \$113.99 M with 7.05 M outstanding shares. Its daily average volume traded is 2,564 shares.

**Key Indicators (Q3 2015)**

Shares Outstanding	7.05 M
Revenue	Nil
Gross Profit	Nil
Net Income (basic/diluted)	3.85 M
Cash and Short-term Inv	Nil
Total Debt	24.66 M

**Performance (6 months)**



**Recent News and Analysis:**

Great Western Bancorp Inc. recently announced plans to acquire HF Financial Corp., the parent company of Home Federal Bank. The deal involving the two Sioux Falls-based banking companies will create an entity with \$11.3 billion in assets, \$8.5 billion in loans and \$8.6 billion in deposits. It will serve 127 communities in nine states. The cash and stock transaction is valued at \$19.70 per share, or about \$140 million total. It's pending regulatory approval and expected to be complete by next summer. Great Western Bancorp is the holding company for Great Western Bank, which has locations in South Dakota, Iowa, Nebraska, Colorado, Arizona, Kansas and Missouri. Home Federal Bank has locations in South Dakota, Minnesota and North Dakota. The deal means four of 12 Home Federal and Great Western

branches in Sioux Falls will close, according to the Argus Leader newspaper. It was not immediately clear how many of the two companies' 505 employees in the city would be affected.

Though this initially sounds positive for the company moving forward, some have gone as far as to begin legal investigations into whether the HF Financial board of directors is fulfilling its fiduciary duties, maximizing the value of the Company, disclosing all material benefits and costs, and obtaining full and fair consideration for Company stockholders. Harwood Feffer LLP, Robbins Arroyo LLP and Levi & Korsinsky LLP are investigating potential claims against the board of directors of HF Financial Corp. Time will tell how this investigation develops.

### **Conclusions:**

Despite the positive news coming from the company that they have been acquired by Great Western Bancorp Inc., not all is well in the investing community. Several law firms have launched investigations into whether the HF Financial board of directors is fulfilling its fiduciary duties, maximizing the value of the Company, disclosing all material benefits and costs, and obtaining full and fair consideration for Company stockholders. This could spell trouble for the Company or it can just be another speed bump for this coming to roll over; follow this one closely to watch the story unfold.

## Sources:

1. <http://www.reuters.com/finance/stocks/companyProfile?rpc=66&symbol=HFFC.O#uKtpmhPvq2zwZcKU.97>
2. <https://www.google.ca/finance?q=NASDAQ:HFFC&hl=en&gl=ca&ei=YdhdVsiXGo-P2AbR95ugDw>
3. <https://ca.finance.yahoo.com/q?s=HFFC>
4. <http://stockcharts.com/h-sc/ui?s=HFFC&p=D&b=5&g=0&id=p17473922164>
5. <http://finance.yahoo.com/news/harwood-feffer-llp-announces-investigation-201500683.html>

## Risk Factors

An investment in the common stock of the company is subject to a number of risks. The information below contains latest filings and risk factors that should be considered by all investors. Investors should carefully consider the risk factors set out below and consider all other information contained herein, and in the company's SEC filings, before making an investment decision. We assume no obligation to update or revise any such forward looking statements to reflect events or circumstances that occur after such statements are made. A complete list of filings including the risk factors for the company can be found here: <http://www.sec.gov/cgi-bin/browse-edgar?CIK=prgn&Find=Search&owner=exclude&action=getcompany>

Disclosure: I, Robert Borowski, research analyst have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions and I have no business relationship with any company whose stock is mentioned in the article.

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**(NASDAQ: HFFC)**

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