META FINANCIAL GROUP INC
Form 10-K
December 20, 2011

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

FORM 10-K

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

For the fiscal year ended September 30, 2011

OR

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

For the transition period from _______ to _______

Commission file number 0-22140.

META FINANCIAL GROUP, INC.
(Name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	42-1406262 (I.R.S. Employer Identification No.)
121 East Fifth Street, Storm Lake, Iowa (Address of principal executive offices)	50588 (Zip Code)

Registrant’s telephone number: (712) 732-4117

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	NASDAQ Global 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 o NO T

Indicate by check mark if the Registrant is not required to be file reports pursuant Section 13 and Section 15(d) of the Act. YES o NO T

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 T NO o

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 during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES T NO o.

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 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. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller Reporting Company T

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o YES T NO

As of March 31, 2011, the aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the average of the closing bid and asked prices of such stock on the NASDAQ Global Market as of such date, was $39.2 million.

As of December 16, 2011, there were outstanding 3,190,765 shares of the Registrant’s Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

PART III of Form 10-K -- Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held January 30, 2012.

META FINANCIAL GROUP, INC.
FORM 10-K

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Forward-Looking Statements

Meta Financial Group, Inc.®, ("Meta Financial" or "the Company") and its wholly-owned subsidiary, MetaBank™ (the "Bank" or "MetaBank"), may from time to time make written or oral "forward-looking statements," including statements contained in its filings with the Securities and Exchange Commission ("SEC"), in its reports to stockholders, and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements with respect to the Company's beliefs, expectations, estimates, and intentions that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company's control. Such statements address, among others, the following subjects: future operating results; customer retention; loan and other product demand; important components of the Company's balance sheet and income statements; growth and expansion; new products and services, such as those offered by the Bank or Meta Payment Systems® ("MPS"), a division of the Bank; credit quality and adequacy of reserves; technology; and our employees. The following factors, among others, could cause the Company's financial performance to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve", the "FRB" or the "Board"), as well as efforts of the United States Treasury in conjunction with bank regulatory agencies to stimulate the economy and protect the financial system; inflation, interest rate, market, and monetary fluctuations; the timely development of and acceptance of new products and services offered by the Company as well as risks (including reputational and litigation) attendant thereto and the perceived overall value of these products and services by users; the risks of dealing with or utilizing third-party vendors; the scope of restrictions and compliance requirements imposed by the supervisory directives and/or the Consent Orders (as defined below) entered into by the Company and the Bank with the Office of Thrift Supervision ("OTS") and any other such actions which may be initiated; the impact of changes in financial services' laws and regulations, including but not limited to our relationship with our new regulators, the Office of the Comptroller of the Currency ("OCC") and the Federal Reserve; technological changes, including but not limited to the protection of electronic files or databases; acquisitions; litigation risk in general, including but not limited to those risks involving the MPS division; the growth of the Company's business as well as expenses related thereto; changes in consumer spending and saving habits; and the success of the Company at managing and collecting assets of borrowers in default.

The foregoing list of factors is not exclusive. Additional discussions of factors affecting the Company's business and prospects are contained in the Company's periodic filings with the SEC. The Company expressly disclaims any intent or obligation to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or its subsidiaries.

Available Information

The Company's website address is www.metabank.com. The Company makes available, through a link with the SEC's EDGAR database, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), and beneficial ownership reports on Forms 3, 4, and 5. The information found on the Company's website is not incorporated by reference in this or any other report the Company files or furnishes to the SEC.

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PART I

Item 1. Business

General

Meta Financial, a registered unitary savings and loan holding company, is a Delaware corporation, the principal assets of which are all the issued and outstanding shares of the Bank, a federal savings bank. Meta Financial, on September 20, 1993, acquired all of the capital stock of the Bank in connection with its conversion from the mutual to stock form ownership. Unless the context otherwise requires, references herein to the Company include Meta Financial and the Bank, and all subsidiaries on a consolidated basis.

The Bank, the only direct, active full service banking subsidiary of Meta Financial, is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities it serves and a payments company that provides services nationwide. The Bank provides a full range of financial services. The principal business of the Bank has historically consisted of attracting retail deposits from the general public and investing those funds primarily in one- to four-family residential mortgage loans, commercial and multi-family real estate, agricultural operations and real estate, construction, and consumer and commercial business loans primarily in the Bank's market areas. Due to local economic factors, originations of commercial and multi-family real estate loans and commercial business loans continue to be lower when compared to prior years. The Bank also purchases loan participations from time to time from other financial institutions, but at a lower level compared to prior years, as well as mortgage-backed securities and other investments permissible under applicable regulations. In addition to its community-oriented lending and deposit gathering activities, in 2004, the Bank created a division known as Meta Payment Systems, or MPS, which issues various prepaid cards, consumer credit products, and sponsors ATMs into various debit networks and offers other payment industry products and services. MPS generates fee income and low- and no-cost deposits for the Bank through its activities. As noted in the "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is included in Item 7 of this Annual Report on Form 10-K, MPS expanded and played a significant role in the Company's financial performance in fiscal 2010 and fiscal 2011.

The Company's revenues are derived primarily from interest on commercial and residential mortgage loans, mortgage-backed securities, fees generated through the activities of MPS, other investments, consumer loans, agricultural operating loans, commercial business loans, income from service charges, loan origination fees, and loan servicing fee income.

Meta Financial owned Meta Trust Company ("Meta Trust"), a South Dakota trust corporation. Meta Trust, established in April 2002 as a South Dakota corporation and a wholly-owned subsidiary of Meta Financial, provided a full range of trust services. On September 30, 2010, the Company sold Meta Trust.

First Midwest Financial Capital Trust, also a wholly-owned subsidiary of Meta Financial, was established in July 2001 for the purpose of issuing trust preferred securities.

Meta Financial and the Bank are subject to comprehensive regulation and supervision. See "Regulation" herein.

The home office of the Company is located at 121 East Fifth Street, Storm Lake, Iowa 50588. Its telephone number at that address is (712) 732-4117.

Market Areas

The Bank has four market areas and the MPS division: Northwest Iowa (“NWI”), Brookings, Central Iowa (“CI”), and Sioux Empire (“SE”). The Bank’s headquarters is located at 121 East Fifth Street in Storm Lake, Iowa. NWI operates two offices in Storm Lake, Iowa. Brookings operates one office in Brookings, South Dakota. CI operates a total of six offices in Iowa: Des Moines (3), West Des Moines (2) and Urbandale. SE operates three offices and one administrative office in Sioux Falls, SD. MPS, which offers prepaid cards and other payment industry products and services nationwide, operates out of Sioux Falls, South Dakota and has an administrative office in Omaha, Nebraska. See “Meta Payment Systems® Division.”

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The Company has a total of twelve full-service branch offices, and one non-retail service branch in Memphis, Tennessee.

The Company's primary commercial banking market area includes the Iowa counties of Buena Vista, Dallas and Polk, and the South Dakota counties of Brookings, Lincoln, Minnehaha and Moody. Iowa ranks 10th and South Dakota 17th in "The Best States for Business and Careers" (Forbes.com, November 2011). Iowa has low corporate income and franchise taxes. South Dakota has no corporate income tax, personal income tax, personal property tax, business inventory tax, or inheritance tax.

Storm Lake is located in Iowa's Buena Vista County approximately 150 miles northwest of Des Moines and 200 miles southwest of Minneapolis. Like much of the state of Iowa, Storm Lake and the surrounding market area are highly dependent upon farming and agricultural markets. Major employers in the area include Buena Vista Regional Medical Center, Tyson Foods, Sara Lee Foods, and Buena Vista University. The Northwest Iowa market operates two offices in Storm Lake.

Brookings is located in Brookings County, South Dakota, approximately 50 miles north of Sioux Falls and 200 miles west of Minneapolis. The Bank's market area encompasses approximately a 60-mile radius of Brookings. The area is generally rural, and agriculture is a significant industry in the community. South Dakota State University is the largest employer in Brookings. The community also has several manufacturing companies, including 3M, Larson Manufacturing, Daktronics, Falcon Plastics, Twin City Fan, and Rainbow Play Systems, Inc. The Brookings market operates from an office located in downtown Brookings.

Des Moines, Iowa's capital, is located in central Iowa. Des Moines was ranked 2nd in "The Best Places for Business and Careers" (Forbes.com, June 2011). The Des Moines market area encompasses Polk County and surrounding counties. The Bank's Central Iowa main office is located in the heart of downtown Des Moines. The Urbandale office is in a high growth area just off I-80 at the intersection of two major streets. The West Des Moines office operates near a high-traffic intersection, across from a major shopping mall. The Ingersoll office is located near the heart of Des Moines, on a major thoroughfare, in a densely populated area. The Highland Park facility is located in a historical district approximately five minutes north of downtown Des Moines. The Jordan Creek office is located near Jordan Creek Town Center in West Des Moines, one of the fastest growing communities in the State of Iowa and the Greater Des Moines area. The Des Moines metro area is one of the top three insurance centers in the world, with sixty-seven insurance company headquarters and over one hundred regional insurance offices. Major employers include Principal Life Insurance Company, Iowa Health – Des Moines, Mercy Hospital Medical Center, Hy-Vee Food Stores, Inc., City of Des Moines, United Parcel Service, Nationwide Mutual Insurance Co., Pioneer Hi Bred International Inc., and Wells Fargo Financial and Home Mortgage. Universities and colleges in the area include Des Moines Area Community College, Drake University, Simpson College, Des Moines University – Osteopathic Medical Center, Grand View College, AIB College of Business, and Upper Iowa University. The unemployment rate in the Des Moines metro area was 5.6% as of September 2011.

Sioux Falls is located at the crossroads of Interstates 29 and 90 in southeast South Dakota, 270 miles southwest of Minneapolis. The Sioux Falls market area encompasses Minnehaha and Lincoln counties. The main branch is located at the high growth area of 57th and Western. Other branches are located at 33rd and Minnesota and the intersection of 12th and Elmwood. On Forbes' July 2011 list of "The Best Places for Business and Careers," Sioux Falls ranked No. 2 among the best small cities. Major employers in the area include Sanford Health, Avera McKennan Hospital, John Morrell & Company, Citibank (South Dakota) NA, and Hy-Vee Food Stores. Sioux Falls is home to Augustana College and The University of Sioux Falls. The unemployment rate in Sioux Falls was 4.1% as of September 2011.

Several of the Company's market areas are dependent on agriculture and agriculture-related businesses, which are exposed to exogenous risk factors such as weather conditions and commodity prices. Presently, economic conditions

in the agricultural sector of the Company's market area are stronger than they have been for several years. Crop yields in 2011 were variable due to the abnormally wet spring followed by an extremely hot and dry July. Overall, in the Company's market areas, most crop yields were still average to above average. Near record crop and livestock prices in 2011 led to near record farm income, pushing farmland prices to all-time highs in the Company's market areas. The agricultural economy is accustomed to commodity price fluctuations and is generally able to handle such fluctuations without significant problems. Although there has been minimal effect observed to date, an extended period of low commodity prices, higher input costs or poor weather conditions could result in reduced profit margins in the agricultural sector, thus reducing demand for goods and services provided by agriculture-related businesses. This could also affect other businesses in the Company's market area.

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Lending Activities

General. Historically, the Company originated fixed-rate, one- to four-family mortgage loans. In the early 1980s, the Company began to focus on the origination of adjustable-rate mortgage (“ARM”) loans and short-term loans for retention in its portfolio in order to increase the percentage of loans in its portfolio with more frequent repricing or shorter maturities, and in some cases higher yields, than fixed-rate residential mortgage loans. While the Company still originates ARM loans, more recently it has pursued fixed-rate residential mortgage loan originations in response to consumer demand. Most such loans are generally sold in the secondary market. At September 30, 2011, the Company had $237.8 million in fixed-rate loans, and $81.6 million in adjustable rate loans. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which is included in Item 7 of this Annual Report on Form 10-K for further information on Asset/Liability Management.

In addition, the Company has more recently focused its lending activities on the origination of commercial and multi-family real estate loans and, to a lesser extent, commercial business loans. The Company also continues to originate one-to-four family mortgage loans, consumer loans and agriculturally related loans. The Company originates most of its loans in its primary market area. At September 30, 2011, the Company’s net loan portfolio totaled $314.4 million, or 24.6% of the Company’s total assets, as compared to $366.0 million, or 35.6% at September 30, 2010.

Loan applications are initially considered and approved at various levels of authority, depending on the type and amount of the loan. The Company has a loan committee consisting of senior lenders and Market Presidents, and is led by the Chief Lending Officer. Loans in excess of certain amounts require approval by at least two members of the entire loan committee, a majority of the entire loan committee, or by the Company’s Board Loan Committee, which has responsibility for the overall supervision of the loan portfolio. The Company reserves the right to discontinue, adjust or create new lending programs to respond to competitive factors.

At September 30, 2011, the Company’s largest lending relationship to a single borrower or group of related borrowers totaled $7.7 million. The Company had 24 other lending relationships in excess of $3.3 million as of September 30, 2011. At September 30, 2011, three of these loans totaling $14.8 million were classified as substandard. See “Non-Performing Assets, Other Loans of Concern, and Classified Assets.”

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Loan Portfolio Composition. The following table provides information about the composition of the Company's loan portfolio in dollar amounts and in percentages (before deductions for loans in process, deferred fees and discounts and allowances for losses) as of the dates indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

	At September 30,									
	2011		2010		2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Real Estate Loans:										
1-4 Family	$34,128	10.7 %	$40,454	10.9 %	$48,506	12.2 %	$55,669	13.0 %	$45,153	12.6 %
Commercial & Multi Family	194,414	60.9 %	204,820	55.1 %	232,750	58.4 %	222,651	51.2 %	169,877	47.1 %
Agricultural	20,320	6.4 %	25,895	7.0 %	26,755	6.7 %	30,046	6.9 %	16,582	4.6 %
Total Real Estate Loans	248,862	78.0 %	271,169	73.1 %	308,011	77.3 %	308,366	71.1 %	231,612	64.3 %
Other Loans:										
Consumer Loans:										
Home Equity	14,835	4.6 %	16,897	4.5 %	18,555	4.7 %	21,353	4.9 %	23,832	6.6 %
Automobile	794	0.2 %	737	0.2 %	928	0.2 %	922	0.2 %	1,241	0.4 %
Other (1)	18,769	5.9 %	30,479	8.2 %	16,516	4.1 %	27,054	6.3 %	11,690	3.2 %
Total Consumer Loans	34,398	10.7 %	48,113	13.0 %	35,999	9.0 %	49,329	11.4 %	36,763	10.2 %
Agricultural Operating	21,200	6.6 %	32,528	8.8 %	27,889	7.0 %	31,153	7.2 %	33,143	9.2 %
Commercial Business	14,955	4.7 %	19,709	5.3 %	26,869	6.7 %	44,972	10.3 %	58,705	16.3 %
Total Other Loans	70,553	22.0 %	100,350	26.9 %	90,757	22.7 %	125,454	28.9 %	128,611	35.7 %
Total Loans	319,415	100.0%	371,519	100.0%	398,768	100.0%	433,820	100.0%	360,223	100.0%
Less:										
Deferred Fees and Discounts	79		240		166		160		117	
Allowance for Loan Losses	4,926		5,234		6,993		5,732		4,493	

Total Loans Receivable, Net	$314,410	$366,045	$391,609	$427,928	$355,613

(1) Consist generally of various types of secured and unsecured consumer loans.

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The following table shows the composition of the Company's loan portfolio by fixed and adjustable rate at the dates indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

	September 30,									
	2011		2010		2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Fixed Rate Loans:										
Real Estate:										
1-4 Family	$30,410	9.5 %	$34,513	9.3 %	$42,310	10.6 %	$42,952	9.9 %	$34,157	9.5 %
Commercial & Multi Family	155,786	48.8 %	163,843	44.0 %	180,891	45.3 %	171,114	39.4 %	128,495	35.6 %
Agricultural	16,416	5.1 %	16,937	4.6 %	17,317	4.4 %	20,262	4.6 %	11,610	3.2 %
Total Fixed-Rate Real Estate Loans	202,612	63.4 %	215,293	57.9 %	240,518	60.3 %	234,328	53.9 %	174,262	48.3 %
Consumer	15,494	4.9 %	19,066	5.1 %	17,398	4.4 %	42,192	9.7 %	21,470	6.0 %
Agricultural Operating	12,570	3.9 %	22,490	6.0 %	15,752	3.9 %	16,840	3.9 %	16,519	4.6 %
Commercial Business	7,138	2.3 %	11,147	3.1 %	15,576	3.9 %	25,224	5.8 %	31,386	8.7 %
Total Fixed-Rate Loans	237,814	74.5 %	267,996	72.1 %	289,244	72.5 %	318,584	73.3 %	243,637	67.6 %
Adjustable Rate Loans:										
Real Estate:										
1-4 Family	3,718	1.2 %	5,941	1.6 %	6,196	1.6 %	12,717	2.9 %	10,996	3.1 %
Commercial & Multi Family	38,628	12.1 %	40,977	11.0 %	51,859	13.0 %	51,537	11.9 %	41,382	11.5 %
Agricultural	3,904	1.2 %	8,958	2.5 %	9,438	2.4 %	9,784	2.3 %	4,972	1.4 %
Total Adjustable Real Estate Loans	46,250	14.5 %	55,876	15.1 %	67,493	17.0 %	74,038	17.1 %	57,350	16.0 %
Consumer	18,904	5.9 %	29,047	7.8 %	18,601	4.7 %	7,137	1.7 %	15,293	4.2 %
Agricultural Operating	8,630	2.7 %	10,038	2.7 %	12,137	3.0 %	14,313	3.3 %	16,624	4.6 %
Commercial Business	7,817	2.4 %	8,562	2.3 %	11,293	2.8 %	19,748	4.6 %	27,319	7.6 %
Total Adjustable Loans	81,601	25.5 %	103,523	27.9 %	109,524	27.5 %	115,236	26.7 %	116,586	32.4 %

Total Loans	319,415	100.0%	371,519	100.0%	398,768	100.0%	433,820	100.0%	360,223	100.0%
Less:										
Deferred Fees and Discounts	79		240		166		160		117	
Allowance for Loan Losses	4,926		5,234		6,993		5,732		4,493	
Total Loans Receivable, Net	$314,410		$366,045		$391,609		$427,928		$355,613	

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The following table illustrates the interest rate sensitivity of the Company's loan portfolio at September 30, 2011. Mortgages which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract reprices. The table reflects management's estimate of the effects of loan prepayments or curtailments based on data from the Company's historical experiences and other third party sources.

	Real Estate (1)		Consumer		Commercial Business		Agricultural Operating		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)									
Due During Years Ending September 30,										
2012 (2)	$ 19,705	5.27 %	$ 8,156	5.39 %	$ 5,564	4.93 %	$ 15,211	5.30 %	$ 48,636	5.26 %
2013-2014	55,436	5.93 %	4,990	5.77 %	5,256	5.26 %	2,239	5.97 %	67,921	5.87 %
2015 and following	173,721	6.03 %	21,252	6.31 %	4,135	6.28 %	3,750	5.32 %	202,858	6.05 %
Total	$ 248,862		$ 34,398		$ 14,955		$ 21,200		$ 319,415	

(1) Includes one-to-four family, multi family, commercial and agricultural real estate loans.
(2) Includes demand loans, loans having no stated maturity and overdraft loans.

One- to Four-Family Residential Mortgage Lending. One- to four-family residential mortgage loan originations are generated by the Company’s marketing efforts, its present customers, walk-in customers and referrals. At September 30, 2011, the Company’s one- to four-family residential mortgage loan portfolio totaled $34.1 million, or 11% of the Company’s total gross loan portfolio. See “Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities.” At September 30, 2011, the average outstanding principal balance of a one- to four-family residential mortgage loan was approximately $61,000.

The Company offers fixed-rate and ARM loans for both permanent structures and those under construction. During the year ended September 30, 2011, the Company originated $4.8 million of adjustable-rate loans and $33.6 million of fixed-rate loans secured by one- to four-family residential real estate. The Company’s one- to four-family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas.

The Company originates one- to four-family residential mortgage loans with terms up to a maximum of 30-years and with loan-to-value ratios up to 100% of the lesser of the appraised value of the security property or the contract price. The Company generally requires that private mortgage insurance be obtained in an amount sufficient to reduce the Company’s exposure to at or below the 80% loan-to-value level, unless the loan is insured by the Federal Housing Administration, guaranteed by Veterans Affairs or guaranteed by the Rural Housing Administration. Residential loans generally do not include prepayment penalties.

The Company currently offers one, three, five, seven and ten year ARM loans. These loans have a fixed-rate for the stated period and, thereafter, such loans adjust annually. These loans generally provide for an annual cap of up to a 200 basis points and a lifetime cap of 600 basis points over the initial rate. As a consequence of using an initial fixed-rate and caps, the interest rates on these loans may not be as rate sensitive as is the Company's cost of funds. The Company’s ARMs do not permit negative amortization of principal and are not convertible into a fixed rate loan. The Company’s delinquency experience on its ARM loans has generally been similar to its experience on fixed rate residential loans. Current market conditions make ARM loans unattractive and very few are originated.

Due to consumer demand, the Company also offers fixed-rate mortgage loans with terms up to 30 years, most of which conform to secondary market, i.e., Fannie Mae, Ginnie Mae, and Freddie Mac standards. Interest rates charged on these fixed-rate loans are competitively priced according to market conditions. The Company currently sells most, but not all, of its fixed-rate loans with terms greater than 15 years.

In underwriting one- to four-family residential real estate loans, the Company evaluates both the borrower’s ability to make monthly payments and the value of the property securing the loan. Properties securing real estate loans made by the Company are appraised by independent appraisers approved by the Board of Directors. The Company generally requires borrowers to obtain an attorney’s title opinion or title insurance, and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. Real estate loans originated by the Company generally contain a “due on sale” clause allowing the Company to declare the unpaid principal balance due and payable upon the sale of the security property. The Company has not engaged in sub-prime residential mortgage originations.

Commercial and Multi-Family Real Estate Lending. The Company engages in commercial and multi-family real estate lending in its primary market area and surrounding areas and, in order to supplement its loan portfolio, has purchased whole loan and participation interests in loans from other financial institutions. At September 30, 2011, the Company’s commercial and multi-family real estate loan portfolio totaled $194.4 million, or 61% of the Company’s total gross loan portfolio. The purchased loans and loan participation interests are generally secured by properties located in the Midwest and West. See “Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities.” The Company purchased $5.5 million, $4.8 million, and $41.7 million, of such loans during fiscal 2011, 2010 and 2009, respectively. At September 30, 2011, $13.0 million, or 6.7% of the Company’s commercial and

multi-family real estate loans, was non-performing. See “Non-Performing Assets, Other Loans of Concern and Classified Assets.”

The Company’s commercial and multi-family real estate loan portfolio is secured primarily by apartment buildings, office buildings, and hotels. Commercial and multi-family real estate loans generally have terms that do not exceed 20 years, have loan-to-value ratios of up to 80% of the appraised value of the security property, and are typically secured by personal guarantees of the borrowers. The Company has a variety of rate adjustment features and other terms in its commercial and multi-family real estate loan portfolio. Commercial and multi-family real estate loans provide for a margin over a number of different indices. In underwriting these loans, the Company currently analyzes the financial condition of the borrower, the borrower’s credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. Appraisals on properties securing commercial real estate loans originated by the Company are performed by independent appraisers.

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At September 30, 2011, the Company's largest commercial and multi-family real estate loan was a $7.7 million loan secured by real estate. At September 30, 2011, the average outstanding principal balance of a commercial or multi-family real estate loan held by the Company was approximately $698,000.

Commercial and multi-family real estate loans generally present a higher level of risk than loans secured by one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial and multi-family real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, or a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired. At September 30, 2011, the Bank's nonresidential real estate loans totaled 195% of risk-based capital.

Agricultural Lending. The Company originates loans to finance the purchase of farmland, livestock, farm machinery and equipment, seed, fertilizer and other farm related products. At September 30, 2011, the Company had agricultural real estate loans secured by farmland of $20.3 million or 6% of the Company's gross loan portfolio. At the same date, $21.2 million, or 7% of the Company's gross loan portfolio, consisted of secured loans related to agricultural operations. Agricultural related lending constituted 13% of the gross loan portfolio.

Agricultural operating loans are originated at either an adjustable or fixed rate of interest for up to a one year term or, in the case of livestock, upon sale. Most agricultural operating loans have terms of one year or less. Such loans provide for payments of principal and interest at least annually or a lump sum payment upon maturity if the original term is less than one year. Loans secured by agricultural machinery are generally originated as fixed-rate loans with terms of up to seven years. At September 30, 2011, the average outstanding principal balance of an agricultural operating loan held by the Company was $112,000. At September 30, 2011, none of the Company's agricultural operating loans was non-performing.

Agricultural real estate loans are frequently originated with adjustable rates of interest. Generally, such loans provide for a fixed rate of interest for the first one to five years, which then balloon or adjust annually thereafter. In addition, such loans generally amortize over a period of ten to 20 years. Adjustable-rate agricultural real estate loans provide for a margin over the yields on the corresponding U.S. Treasury security or prime rate. Fixed-rate agricultural real estate loans generally have terms up to five years. Agricultural real estate loans are generally limited to 75% of the value of the property securing the loan. At September 30, 2011, none of the Company's agricultural real estate portfolio was non-performing.

Agricultural lending affords the Company the opportunity to earn yields higher than those obtainable on one- to four-family residential lending. Nevertheless, agricultural lending involves a greater degree of risk than one- to four-family residential mortgage loans because of the typically larger loan amount. In addition, payments on loans are dependent on the successful operation or management of the farm property securing the loan or for which an operating loan is utilized. The success of the loan may also be affected by many factors outside the control of the farm borrower.

Weather presents one of the greatest risks as hail, drought, floods, or other conditions, can severely limit crop yields and thus impair loan repayments and the value of the underlying collateral. This risk can be reduced by the farmer with a variety of insurance coverages which can help to ensure loan repayment. Government support programs and the Company generally require that farmers procure crop insurance coverage. Grain and livestock prices also present a risk as prices may decline prior to sale resulting in a failure to cover production costs. These risks may be reduced by the farmer with the use of futures contracts or options to mitigate price risk. The Company frequently requires borrowers to use future contracts or options to reduce price risk and help ensure loan repayment. Another risk is the

uncertainty of government programs and other regulations. During periods of low commodity prices, the income from government programs can be a significant source of cash to make loan payments and if these programs are discontinued or significantly changed, cash flow problems or defaults could result. Finally, many farms are dependent on a limited number of key individuals upon whose injury or death may result in an inability to successfully operate the farm.

Consumer Lending- Retail Bank. The “Retail Bank” (generally referring to operations in our four market areas discussed earlier) offers a variety of secured consumer loans, including home equity, home improvement, automobile, boat and loans secured by savings deposits. In addition, the Retail Bank offers other secured and unsecured consumer loans. The Retail Bank currently originates most of its consumer loans in its primary market area and surrounding areas. The Retail Bank originates consumer loans on both a direct and indirect basis. At September 30, 2011, the Retail Bank’s consumer loan portfolio totaled $18.2 million, or 6% of its total gross loan portfolio. Of the consumer loan portfolio at September 30, 2011, $11.4 million were short- and intermediate-term, fixed-rate loans, while $6.8 million were adjustable-rate loans.

The largest component of the Retail Bank’s consumer loan portfolio consists of home equity loans and lines of credit. Substantially all of the Retail Bank’s home equity loans and lines of credit are secured by second mortgages on principal residences. The Retail Bank will lend amounts which, together with all prior liens, typically may be up to 100% of the appraised value of the property securing the loan. Home equity loans and lines of credit generally have maximum terms of five years.

The Retail Bank primarily originates automobile loans on a direct basis. Direct loans are loans made when the Retail Bank extends credit directly to the borrower, as opposed to indirect loans, which are made when the Retail Bank purchases loan contracts, often at a discount, from automobile dealers which have extended credit to their customers. The Retail Bank’s automobile loans typically are originated at fixed interest rates with terms up to 60 months for new and used vehicles. Loans secured by automobiles are generally originated for up to 80% of the N.A.D.A. book value of the automobile securing the loan.

Consumer loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The underwriting standards employed by the Company for consumer loans include an application, a determination of the applicant’s payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower’s continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. At September 30, 2011, none of the Company’s consumer loan portfolio was non-performing.

Consumer Lending - MPS. MPS has a loan committee consisting of members of Executive Management. This committee, known as the MPS Credit Committee (the “Committee”), is charged with monitoring, evaluating, and reporting portfolio performance and the overall credit risk posed by its credit products. All proposed credit programs must first be reviewed and approved by the Committee before such programs are presented to the Company’s Board of Directors for approval. The Board of Directors is ultimately responsible for final approval of any credit program. Among other things, under the terms of a Consent Order, the Bank, absent prior permission from its primary federal regulator, may not originate tax refund anticipation loans or offer a tax refund processing service. See “Regulation – Bank Supervision and Regulation – OTS Consent Orders and Related Matters.”

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At September 30, 2011, MPS' consumer loan portfolio totaled $16.2 million, or 5% of the Company's total gross loan portfolio. Of the consumer loan portfolio at September 30, 2011, $4.1 million were short- and intermediate-term, fixed-rate loans, while $12.1 million were adjustable-rate loans.

The Company believes that well-managed, nationwide credit programs can help meet legitimate credit needs for prime and sub-prime borrowers, and affords the Company an opportunity to diversify the loan portfolio and minimize earnings exposure due to economic downturns. Therefore, subject to the Consent Order, MPS designs and administers certain credit programs that seek to accomplish these objectives. For a summary of the Consent Orders and related matters; see "Regulation - Bank Supervision and Regulation – OTS Consent Orders and Related Matters."

MPS has strived to offer consumers innovative payment products, including credit products. Most credit products have fallen into one of two general categories: (1) sponsorship lending and (2) portfolio lending. In a sponsorship lending model, MPS typically originates loans and sells (without recourse) the resulting receivables to third party investors equipped to take the associated credit risk. MPS's sponsorship lending programs are governed by the Policy for Sponsorship Lending which has been approved by the Board of Directors. A Portfolio Credit Policy which has been approved by the Board of Directors governs portfolio credit initiatives undertaken by MPS, whereby the Company retains some or all receivables and relies on the borrower as the underlying source of repayment. Several portfolio lending programs also have a contractual provision that has indemnified MPS and the Bank for credit losses that meet or exceed predetermined levels. Such a program carries additional risks not commonly found in sponsorship programs, specifically funding and credit risk. Therefore, MPS has strived to employ policies, procedures, and information systems that are commensurate with the added risk and exposure. Due to supervisory directives issued by our regulator, an MPS lending program - iAdvance – was eliminated effective October 13, 2010. In addition, our third party relationship programs have been limited to third party relationships in existence at the time the directives were issued, absent prior approval to engage in new relationships. For additional discussion, see "Regulation - Bank Supervision and Regulation – OTS Consent Orders and Related Matters."

The Company recognizes that concentrations of credit may naturally occur and may take the form of a large volume of related loans to an individual, a specific industry, a geographic location, or an occupation. Credit concentration is a direct, indirect, or contingent obligation that has a common bond where the aggregate exposure equals or exceeds a certain percentage of the Bank's Tier 1 Capital plus the Allowance for Loan Losses.

The MPS Credit Committee monitors and identifies the credit concentrations and evaluates the specific nature of each concentration to determine the potential risk to the Bank. An evaluation includes the following:

- A recommendation regarding additional controls needed to mitigate the concentration exposure.
- A limitation or cap placed on the size of the concentration.
- The potential necessity of increased capital and/or credit reserves to cover the increased risk caused by the concentration(s).
- A strategy to reduce to acceptable levels those concentration(s) that are determined to create undue risk to the Bank.

Pursuant to the terms of its Consent Order, the Bank adopted a new concentration policy including enhanced risk analysis, monitoring and management for its respective concentration limits.

Commercial Business Lending. The Company also originates commercial business loans. Most of the Company's commercial business loans have been extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory and accounts receivable. Commercial loans also involve the

extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies. At September 30, 2011, $15.0 million, or 5% of the Company's total gross loan portfolio, was comprised of commercial business loans.

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The maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Generally, the maximum term on non-mortgage lines of credit is one year. The loan-to-value ratio on such loans and lines of credit generally may not exceed 80% of the value of the collateral securing the loan. The Company’s commercial business lending policy includes credit file documentation and analysis of the borrower’s character, capacity to repay the loan, the adequacy of the borrower’s capital and collateral as well as an evaluation of conditions affecting the borrower. Analysis of the borrower’s past, present and future cash flows is also an important aspect of the Company’s current credit analysis. Nonetheless, such loans are believed to carry higher credit risk than more traditional investments.

The largest commercial business loan outstanding at September 30, 2011 was a $4.4 million loan secured by assets of the borrower. The next largest commercial business loan outstanding at September 30, 2011 was a $3.5 million loan secured by assets of the borrower. At September 30, 2011, the average outstanding principal balance of a commercial business loan held by the Company was approximately $76,000.

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 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 (which, in turn, is likely to be dependent upon the general economic environment). The Company’s commercial business loans are usually, but not always, secured by business assets and personal guarantees. However, 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. At September 30, 2011, $30,000, or 0.2%, of the Company’s commercial business loan portfolio was non-performing. Commercial business loans have been a declining percentage of the Company’s loan portfolio since 2005.

Originations, Purchases, Sales and Servicing of Loans

Loans are generally originated by the Company’s staff of loan officers. Loan applications are taken and processed in the branches and the main office of the Company. While the Company originates both adjustable-rate and fixed-rate loans, its ability to originate loans is dependent upon the relative customer demand for loans in its market. Demand is affected by the interest rate and economic environment.

The Company, from time to time, sells whole loans and loan participations, generally without recourse. At September 30, 2011, there were no loans outstanding sold with recourse. When loans are sold, the Company sometimes retains the responsibility for collecting and remitting loan payments, making certain that real estate tax payments are made on behalf of borrowers, and otherwise servicing the loans. The servicing fee is recognized as income over the life of the loans. The Company services loans that it originated and sold totaling $24.8 million at September 30, 2011, of which $16.0 million were sold to Fannie Mae and $8.8 million were sold to others.

In periods of economic uncertainty, the Company’s ability to originate large dollar volumes of loans may be substantially reduced or restricted, with a resultant decrease in related loan origination fees, other fee income and operating earnings. In addition, the Company’s ability to sell loans may substantially decrease as potential buyers (principally government agencies) reduce their purchasing activities.

The following table shows the loan originations (including undisbursed portions of loans in process), purchases, and sales and repayment activities of the Company for the periods indicated. During fiscal 2011, MPS increased sponsorship lending activity by $445 million under two programs due primarily to originating loans under these programs for the full fiscal year as compared to a partial year in fiscal 2010. This increase in volume was partially offset by a decrease in iAdvance loans, which caused the Non-Real Estate Consumer loan originations to decrease in

fiscal 2011. During fiscal 2010, the Company originated $415 million of iAdvance loans as compared to only $18 million during fiscal year 2011 as the Company ceased making iAdvance loans on October 13, 2010.

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	Years Ended September 30,		
	2011	2010	2009
	(Dollars in Thousands)		
Originations by Type:			
Adjustable Rate:			
Real Estate - 1-4 Family	$4,793	$4,298	$5,783
-Commercial and Multi-Family	3,169	18,157	13,168
-Agricultural Real Estate	2,242	3,012	6,847
Non-Real Estate - Consumer	6,219	10,612	60,393
-Commercial Business	22,492	20,020	27,224
-Agricultural Operating	31,318	20,345	22,374
Total Adjustable Rate	70,233	76,444	135,789
Fixed Rate:			
Real Estate - 1-4 Family	33,563	28,007	49,566
-Commercial and Multi-Family	28,282	45,863	43,688
-Agricultural Real Estate	9,158	4,133	3,106
Non-Real Estate - Consumer	969,203	984,415	405,001
-Commercial Business	3,444	7,797	9,471
-Agricultural Operating	49,883	54,760	39,512
Total Fixed-Rate	1,093,533	1,124,975	550,344
Total Loans Originated	1,163,766	1,201,419	686,133
Purchases:			
Real Estate - 1-4 Family	-	-	1,116
-Commercial and Multi-Family	5,523	4,795	41,745
- Agricultural Real Estate	61	392	7,497
Non-Real Estate - Commercial Business	-	400	-
- Agricultural Operating	236	3,343	-
Total Loans Purchased	5,820	8,930	50,358
Sales and Repayments:			
Sales:			
Real Estate - 1-4 Family	3,439	2,383	3,158
Real Estate - Commercial and Multi-Family	-	505	-
Non-Real Estate - Consumer	894,605	804,171	268,730
Total Loan Sales	898,044	807,059	271,888
Repayments:			
Loan Principal Repayments	324,128	430,321	500,084
Total Principal Repayments	324,128	430,321	500,084
Total Reductions	1,222,172	1,237,380	771,972
Increase (decrease) in other items, net	951	1,467	(838)
Net Decrease	$(51,635)	$(25,564)	$(36,319)

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At September 30, 2011, approximately $23.2 million, or 7.3%, of the Company's gross loan portfolio consisted of purchased loans. The Company believes that purchasing loans outside of its market area assists the Company in diversifying its portfolio and may lessen the adverse affects on the Company's business or operations which could result in the event of a downturn or weakening of the local economy in which the Company conducts its primary operations. However, additional risks are associated with purchasing loans outside of the Company's market area, including the lack of knowledge of the local market and difficulty in monitoring and inspecting the property securing the loans.

At September 30, 2011, the Company's purchased loans were secured by properties located, as a percentage of total loans, as follows: 2% in Iowa and Oregon, 1% each in Washington and Minnesota and the remaining 1% in seven other states.

Non-Performing Assets, Other Loans of Concern, and Classified Assets

When a borrower fails to make a required payment on real estate secured loans and consumer loans within 16 days after the payment is due, the Company generally initiates collection procedures by mailing a delinquency notice. The customer is contacted again, by written notice or telephone, before the payment is 30 days past due and again before 60 days past due. Generally, delinquencies are cured promptly; however, if a loan has been delinquent for more than 90 days, satisfactory payment arrangements must be adhered to or the Company will initiate foreclosure or repossession.

The following table sets forth the Company's loan delinquencies by type, before allowance for loan losses, by amount and by percentage of type at September 30, 2011.

	Loans Delinquent For:								
	30-59 Days			60-89 Days			90 Days and Over		
	Number	Amount	Percent of Category	Number	Amount	Percent of Category	Number	Amount	Percent of Category
	(Dollars in Thousands)								
Real Estate:									
1-4 Family	1	$51	2.0 %	1	$30	68.2 %	6	$127	1.4 %
Commercial & Multi-Family	1	2,460	97.0 %	-	-	0.0 %	4	9,075	98.4 %
Agricultural Real Estate	-	-	0.0 %	-	-	0.0 %	-	-	0.0 %
Consumer	2	26	1.0 %	1	14	31.8 %	1	24	0.2 %
Agricultural Operating	-	-	0.0 %	-	-	0.0 %	-	-	0.0 %
Commercial Business	-	-	0.0 %	-	-	0.0 %	-	-	0.0 %
Total	4	$2,537	100.0 %	2	$44	100.0 %	11	$9,226	100.0 %

Delinquencies 90 days and over constituted 2.9% of total gross loans and 0.7% of total assets.

Generally, when a loan becomes delinquent 90 days or more or when the collection of principal or interest becomes doubtful, the Company will place the loan on a non-accrual status and, as a result, previously accrued interest income on the loan is taken out of current income. The loan will remain on a non-accrual status until the loan becomes

current. For all years presented, the Company's troubled debt restructurings (which involved forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates) are included in the table and were performing as agreed.

The table below sets forth the amounts and categories of non-performing assets in the Company's loan portfolio. Balances related to the sale of a bank subsidiary in March 2008 treated as discontinued bank operations have been eliminated for all periods presented.

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	At September 30,				
	2011	2010	2009	2008	2007
Non-Performing Loans	(Dollars in Thousands)				
Non-Accruing Loans:					
1-4 Family	$85	$39	$266	$942	$243
Commercial & Multi Family	13,025	4,137	11,512	1,302	-
Agricultural Real Estate	-	2,650	-	12	13
Consumer	-	-	-	1	5
Agricultural Operating	-	400	-	-	-
Commercial Business	30	241	871	538	1,867
Total	13,140	7,467	12,649	2,795	2,128
Accruing Loans Delinquent 90 Days or More:					
1-4 Family	-	404	-	-	-
Commercial & Multi Family	-	257	-	-	-
Consumer	24	124	-	-	-
Commercial Business	-	-	-	4,600	-
Total	24	785	-	4,600	-
Restructured Loans:					
1-4 Family	42	-	-	-	-
Agricultural Operating	-	-	-	121	150
Commercial Business	-	-	-	-	15
Total	42	-	-	121	165
Total Non-Performing Loans	13,206	8,252	12,649	7,516	2,293
Other Assets					
Non-Accruing Investments:					
Trust Preferred Securities	-	150	-	-	-
Total	-	150	-	-	-
Foreclosed Assets:					
1-4 Family	451	143	-	-	-
Commercial & Multi Family	181	606	957	-	229
Agricultural Real Estate	2,020	-	-	-	-
Consumer	-	-	-	-	24
Commercial Business	19	546	1,096	-	65
Total	2,671	1,295	2,053	-	318
Total Other Assets	2,671	1,445	2,053	-	318
Total Non-Performing Assets	$15,877	$9,697	$14,702	$7,516	$2,611
Total as a Percentage of Total Assets	1.24 %	0.94 %	1.76 %	1.06 %	0.38 %

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For the year ended September 30, 2011, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately $1.5 million, of which none was included in interest income.

Non-Accruing Loans. At September 30, 2011, the Company had $13.2 million in non-accruing loans, which constituted 4.1% of the Company's gross loan portfolio, or 1.0% of total assets. At September 30, 2010, the Company had $7.5 million in non-accruing loans which constituted 2.0% of its gross loan portfolio, or 0.8% of total assets. The fiscal 2011 increase in non-performing loans relates to an increase in non-accruing loans in the commercial and multifamily category from $4.1 million to $13.0 million. There are 5 commercial and multi-family loans in non-accrual status at September 30, 2011.

Accruing Loans Delinquent 90 Days or More. At September 30, 2011, the Company had $24,000 in accruing loans delinquent 90 days or more.

Classified Assets. Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by our regulator, the OCC, to be of lesser quality as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the savings association will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such minimal value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When assets are classified as "loss," the Bank is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. The Banks' determinations as to the classification of their assets and the amount of their valuation allowances are subject to review by their regulatory authorities, who may order the establishment of additional general or specific loss allowances.

On the basis of management's review of its assets, at September 30, 2011, the Company had classified a total of $42.7 million of its assets as substandard, $60,000 as doubtful and none as loss. There were $2.7 million real estate owned or other foreclosed assets at September 30, 2011.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in its loan portfolio and changes in the nature and volume of its loan activity, including those loans which are being specifically monitored by management. Such evaluation, which includes a review of loans for which full collectibility may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for an adequate loan loss allowance.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses. While the Company has no direct exposure to sub-prime mortgage loans, management recognizes that the current slow economic recovery may continue to strain the financial condition of some borrowers. Management therefore believes that future losses in the residential portfolio may be somewhat higher than historical experience. Concerns regarding the recovery, have led management to the conclusion that future losses in its commercial and multi-family and commercial business portfolio may be somewhat higher than historical experience. On the other hand, current trends in agricultural markets remain reasonable. Reasonable

commodity prices and yields created positive economic conditions for most farmers in our markets in 2011. Nonetheless, management still expects that future losses in this portfolio, which have been very low, could be higher than recent historical experience. Management believes that the aforementioned recovery may also negatively impact consumers' repayment capacities. Additionally, a sizable portion of the Company's consumer loan portfolio is secured by residential real estate, as discussed above, which is an area to be closely monitored by management in view of its stated concerns.

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The allowance for loan losses established by MPS results from an estimation process that evaluates relevant characteristics of its credit portfolio(s). MPS also considers other internal and external environmental factors such as changes in operations or personnel and economic events that may affect the adequacy of the allowance for credit losses. Adjustments to the allowance for loan losses are recorded periodically based on the result of this estimation process. Due to the varied and unknown nature and structures of future credit programs, the exact methodology to determine the allowance for loan losses for each program will not be identical. Each program may have differing attributes including such factors as levels of risk, definitions of delinquency and loss, inclusion/exclusion of credit bureau criteria, roll rate migration dynamics, and other factors. Similarly, the additional capital required to offset the increased risk in subprime lending activities may vary by credit program. Each program will need to be evaluated separately and with potentially different methodologies. The increased charge-offs in fiscal 2010 for MPS credit resulted primarily from borrowers in a pre-season tax-related program that peaked in January 2010. Management pro-actively established a provision for loan losses for these loans during the tax pre-season offering period. The majority of the charge-offs for these pre-season tax loans were recorded against the allowance for loan losses in the third quarter of fiscal 2010. The charge-offs were in accordance with management’s expectations of the pre-season tax loan program. A reduction in charge offs in the MPS loan portfolio during fiscal 2011 is due to the discontinuance of iAdvance and tax-related loan programs in October 2010.

Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current economic conditions, the size of the loan portfolio, and other factors, the current level of the allowance for loan losses at September 30, 2011 reflects an adequate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level that it considers to be adequate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Company's determination of the allowance for loan losses is subject to review by its bank regulator, the OCC, which can require the establishment of additional general or specific allowances.

Real estate properties acquired through foreclosure are recorded at the lower of cost or fair value. If fair value at the date of foreclosure is lower than the balance of the related loan, the difference will be charged-off to the allowance for loan losses at the time of transfer. Valuations are periodically updated by management and, if the value declines, a specific provision for losses on such property is established by a charge to operations.

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The following table sets forth an analysis of the Company's allowance for loan losses. Balances related to the sale of a bank subsidiary in March 2008 treated as discontinued bank operations have been eliminated for all periods presented.

	September 30,				
	2011	2010	2009	2008	2007
	(Dollars in Thousands)				
Balance at Beginning of Period	$5,234	$6,993	$5,732	$4,493	$6,391
Charge Offs:					
1-4 Family	(229)	(185)	(28)	(2)	-
Commercial & Multi Family	(61)	(6,979)	(2,052)	-	(1,762)
Consumer	(774)	(12,139)	(8,168)	(5)	(50)
Commercial Business	(43)	(102)	(7,685)	(1,542)	(3,803)
Agricultural Operating	-	-	(151)	-	-
Total Charge Offs	(1,107)	(19,405)	(18,084)	(1,549)	(5,615)
Recoveries:					
1-4 Family	-	1	465	7	-
Commercial & Multi Family	102	-	-	-	-
Consumer	419	1,242	90	12	3
Commercial Business	-	402	39	38	546
Agricultural Operating	-	210	38	16	-
Total Recoveries	521	1,855	632	73	549
Net Charge Offs	(586)	(17,550)	(17,452)	(1,476)	(5,066)
Provision Charged to Expense	278	15,791	18,713	2,715	3,168
Balance at End of Period	$4,926	$5,234	$6,993	$5,732	$4,493
Ratio of Net Charge Offs During the Period to Average Loans Outstanding During the Period	0.17%	4.36%	4.12%	0.36%	1.43%
Ratio of Net Charge Offs During the Period to Non-Performing Assets at Year End	3.69%	180.98%	118.70%	19.64%	194.03%

For more information on the Provision for Loan Losses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is included in Item 7 of this Annual Report on Form 10-K.

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The distribution of the Company's allowance for losses on loans at the dates indicated is summarized as follows:

	At September 30,									
	2011		2010		2009		2008		2007	
	Amount	Percent of Loans in Each Category of Total Loans	Amount	Percent of Loans in Each Category of Total Loans	Amount	Percent of Loans in Each Category of Total Loans	Amount	Percent of Loans in Each Category of Total Loans	Amount	Percent of Loans in Each Category of Total Loans
	(Dollars in Thousands)									
One-to-Four Family Real Estate	$165	10.68 %	$50	11.00 %	$59	12.21 %	$98	12.96 %	$111	12.59 %
Commercial & Multi Family Real Estate	3,901	60.87 %	3,053	55.06 %	4,231	58.33 %	3,236	51.24 %	1,246	47.13 %
Agricultural Real Estate	-	6.36 %	111	6.97 %	111	6.70 %	94	6.91 %	70	4.60 %
Consumer	16	10.77 %	738	12.93 %	243	9.03 %	207	11.36 %	153	10.20 %
Agricultural Operating	67	6.64 %	125	8.74 %	569	7.00 %	1,645	7.18 %	178	9.19 %
Commercial Business	36	4.68 %	131	5.30 %	792	6.73 %	148	10.35 %	2,404	16.29 %
Unallocated	741	-	1,026	-	988	-	304	-	331	-
Total	$4,926	100.00 %	$5,234	100.00 %	$6,993	100.00 %	$5,732	100.00 %	$4,493	100.00 %

Investment Activities

General. The investment policy of the Company generally is to invest funds among various categories of investments and maturities based upon the Company's need for liquidity, to achieve the proper balance between its desire to minimize risk and maximize yield, to provide collateral for borrowings, and to fulfill the Company's asset/liability management policies. The Company's investment and mortgage-backed securities portfolios are managed in accordance with a written investment policy adopted by the Board of Directors, which is implemented by members of the Company's Investment Committee. As a result, the Company closely monitors balances in these accounts, and maintains a portfolio of highly liquid assets to fund potential deposit outflows. To date, the Company has not experienced any significant outflows related to MPS over the past six years, though no assurance can be given that this will continue to be the case.

As of September 30, 2011, the Company's entire investment and mortgage-backed securities portfolios were classified as available for sale. For additional information regarding the Company's investment and mortgage-backed securities portfolios, see Notes 1 and 3 to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Consolidated Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

As of September 30, 2011, investment and mortgage-backed securities with fair values of approximately $172.4 million were pledged as collateral for the Bank's Federal Home Loan Bank of Des Moines ("FHLB") advances and

reverse repurchase agreements. For additional information regarding the Company's collateralization of borrowings, see Notes 8 and 9 to the "Notes to Consolidated Financial Statement," which is included in Part II, Item 8 " Consolidated Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Investment Securities. It is the Company's general policy to purchase investment securities which are U.S. Government securities and federal agency obligations, state and local government obligations, commercial paper, corporate debt securities and overnight federal funds.

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The following table sets forth the carrying value of the Company's investment security portfolio, excluding mortgage-backed securities and other equity securities, at the dates indicated.

	At September 30, 2011	2010	2009
	(Dollars in Thousands)		
Investment Securities			
Trust Preferred & Corporate Securities (1)	$22,112	$17,551	$15,201
Municipal Bonds	6,218	3,916	2,365
Subtotal	28,330	21,467	17,566
FHLB Stock	4,737	5,283	7,050
Total Investment Securities and FHLB Stock	$33,067	$26,750	$24,616
Other Interest-Earning Assets:			
Interest bearing deposits in other financial institutions and Federal Funds Sold (2)	$271,621	$80,811	$1,198

(1) Within the trust preferred securities presented above, there are no securities from individual issuers that exceed 10% of the Company's total equity. The name and the aggregate market value of securities of each individual issuer as of September 30, 2011 are as follows: Key Corp Capital I, $3.3 million; Bank Boston Capital Trust IV, $3.0 million; BankAmerica Capital III, $3.1 million; PNC Capital Trust, $3.6 million; Huntington Capital Trust II, $3.4 million.

(2) The Company at times maintains balances in excess of insured limits at various financial institutions including the FHLB, the FRB and private institutions. At September 30, 2011, the Company had no interest bearing deposits held at the FHLB and $271.6 million in interest bearing deposits held at the FRB, respectively. At September 30, 2011, the Company had no federal funds sold at any private institution.

The composition and maturities of the Company's investment securities portfolio, excluding equity securities, FHLB stock and mortgage-backed securities, are indicated in the following table.

	September 30, 2011					
	1 Year or Less Carrying Value	After 1 Year Through 5 Years Carrying Value	After 5 Years Through 10 Years Carrying Value	After 10 Years Carrying Value	Total Investment Securities Amortized Cost	Total Investment Securities Fair Value
	(Dollars in Thousands)					
Trust Preferred & Corporate Securities	$-	$5,713	$-	$16,399	$30,582	$22,112
Municipal Bonds	458	1,324	2,311	2,125	5,937	6,218
Total Investment Securities	$458	$7,037	$2,311	$18,524	$36,519	$28,330
Weighted Average Yield (1)	6.09 %	3.46 %	3.94 %	1.56 %	1.97 %	2.30 %

(1) Yields on tax-exempt obligations have not been computed on a tax-equivalent basis.

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Mortgage-Backed Securities. The Company's mortgage-backed and related securities portfolio consists primarily of securities issued under government-sponsored agency programs, including those of Ginnie Mae, Fannie Mae and Freddie Mac. The Company historically has held Collateralized Mortgage Obligations ("CMOs"), as well as a limited amount of privately issued mortgage pass-through certificates. The Ginnie Mae, Fannie Mae and Freddie Mac certificates are modified pass-through mortgage-backed securities that represent undivided interests in underlying pools of fixed-rate, or certain types of adjustable-rate, predominantly single-family and, to a lesser extent, multi-family residential mortgages issued by these government-sponsored entities. Fannie Mae and Freddie Mac generally provide the certificate holder a guarantee of timely payments of interest, whether or not collected. Ginnie Mae's guarantee to the holder is timely payments of principal and interest, backed by the full faith and credit of the U.S. Government. Privately issued mortgage pass-through certificates generally provide no guarantee as to timely payment of interest or principal, and reliance is placed on the creditworthiness of the issuer, which the Company monitors on a regular basis.

At September 30, 2011, the Company had mortgage-backed securities with an amortized cost of $520.2 million, representing 85% of the total portfolio, which had fixed rates of interest and $52.0 million, representing 8.4% of the total portfolio, which had adjustable rates of interest.

Mortgage-backed securities generally increase the quality of the Company's assets by virtue of the insurance or guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Company. At September 30, 2011, $302.1 million or 51% of the Company's mortgage-backed securities were pledged to secure various obligations of the Company.

While mortgage-backed securities carry a reduced credit risk as compared to whole loans, such securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and so affect both the prepayment speed, and value, of such securities. The prepayment risk associated with mortgage-backed securities is monitored periodically, and prepayment rate assumptions adjusted as appropriate to update the Company's mortgage-backed securities accounting and asset/liability reports.

The following table sets forth the carrying value of the Company's mortgage-backed securities at the dates indicated.

	At September 30,		
	2011	2010	2009
	(Dollars in Thousands)		
CMO	$-	$-	$-
Freddie Mac	20,558	13,590	53,353
Fannie Mae	257,612	41,015	118,805
Ginnie Mae	312,748	430,780	175,114
Privately Issued Mortgages Pass-Through Certificates	-	-	-
Total	$590,918	$485,385	$347,272

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The following table sets forth the contractual maturities of the Company's mortgage-backed securities at September 30, 2011. Not considered in the preparation of the table below is the effect of prepayments, periodic principal repayments and the adjustable-rate nature of these instruments.

	September 30, 2011					
	1 Year or Less Carrying Value	After 1 Year Through 5 Years Carrying Value	After 5 Years Through 10 Years Carrying Value	After 10 Years Carrying Value	Total Investment Securities Amortized Cost	Total Investment Securities Fair Value
	(Dollars in Thousands)					
Freddie Mac	$-	$-	$-	$20,558	$19,930	$20,558
Fannie Mae	-	-	77,201	180,411	251,834	257,612
Ginnie Mae	-		15,007	297,741	300,703	312,748
Total Investment Securities	$-	$-	$92,208	$498,710	$572,467	$590,918
Weighted Average Yield	0.00 %	0.00 %	2.56 %	3.52 %	3.36 %	3.37 %

At September 30, 2011, the contractual maturity of 84.4% of all of the Company's mortgage-backed securities was in excess of ten years. The actual maturity of a mortgage-backed security is typically less than its stated maturity due to scheduled principal payments and prepayments of the underlying mortgages. Prepayments that are different than anticipated will affect the yield to maturity. The yield is based upon the interest income and the amortization of any premium or discount related to the mortgage-backed security. In accordance with Generally Accepted Accounting Principles ("GAAP"), premiums and discounts are amortized over the estimated lives of the loans, which decrease and increase interest income, respectively. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of the mortgage-backed security, and these assumptions are reviewed periodically to reflect actual prepayments. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of falling mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Under such circumstances, the Company may be subject to reinvestment risk because, to the extent that the Company's mortgage-backed securities amortize or prepay faster than anticipated, the Company may not be able to reinvest the proceeds of such repayments and prepayments at a comparable rate.

Management has implemented a process to identify securities that could potentially have a credit impairment that is other-than-temporary. This process involves evaluation of the length of time and extent to which the fair value has been less than the amortized cost basis, review of available information regarding the financial position of the issuer, monitoring the rating of the security, cash flow projections, and the Company's intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity. To the extent we determine that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized.

For all securities that are considered temporarily impaired, the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost,

which may occur at maturity. The Company believes that it will collect all principal and interest due on all investments that have amortized cost in excess of fair value that are considered only temporarily impaired.

In fiscal 2011, there were no other-than-temporary impairments recorded. In fiscal 2010, the other-than-temporary impairments recorded against the trust preferred securities were $350,000. No other-than-temporary impairments were recorded against earnings during fiscal 2009.

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Sources of Funds

General. The Company's sources of funds are deposits, borrowings, amortization and repayment of loan principal, interest earned on or maturation of investment securities and short-term investments, mortgage-backed securities, and funds provided from operations.

Borrowings, including FHLB advances, repurchase agreements and FRB Discount Window, may be used at times to compensate for seasonal reductions in deposits or deposit inflows at less than projected levels, may be used on a longer-term basis to support expanded lending activities, and may also be used to match the funding of a corresponding asset.

Deposits. The Company offers a variety of deposit accounts having a wide range of interest rates and terms. The Company's deposits consist of statement savings accounts, money market savings accounts, NOW and regular checking accounts, deposits related to prepaid cards that are primarily categorized as checking accounts, and certificate accounts currently ranging in terms from fourteen days to 60 months. The Retail Bank solicits deposits from its primary market area and relies primarily on competitive pricing policies, advertising and high-quality customer service to attract and retain these deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates, and competition.

The variety of deposit accounts offered by the Company has allowed it to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. The Company endeavors to manage the pricing of its deposits in keeping with its asset/liability management and profitability objectives. Based on its experience, the Company believes that its savings, money market accounts, NOW and regular checking accounts are relatively stable sources of deposits. However, the ability of the Company to attract and maintain certificates of deposit and the rates paid on these deposits has been and will continue to be significantly affected by market conditions and potentially by the restrictions imposed under the supervisory directives.

At September 30, 2011, $925.2 million of the Company's deposit portfolio was attributable to MPS. The majority of these deposits represent un-spent funds on prepaid debit cards and other stored value products. $925.1 million are included with non-interest-bearing checking accounts and $0.1 million are included with money market accounts on the Company's Consolidated Statement of Financial Condition. Generally, these deposits do not pay interest. MPS originates debit card programs through outside sales agents and other financial institutions. As such, these deposits carry a somewhat higher degree of concentration risk than traditional consumer products. If a major client or card program were to leave the Bank, deposit outflows could be more significant than if the bank were to lose a more traditional customer, although it is considered unlikely that all deposits related to a program would leave the Bank without significant advance notification. MPS has not experienced any significant outflows thus far related to card programs over the six years prior to the imposition of the supervisory directive implemented during the first quarter of fiscal 2011, and, although the potential for migration is higher now due to restrictions on the Bank, the Company's low cost and no cost deposits have grown, as demonstrated below. See "Regulation - Bank Supervision and Regulation – OTS Consent Orders and Related Matters." The Company takes this additional risk into account when planning its investment and liquidity strategies, but no assurance can be given that our efforts will remain successful. See "Risk Factors" which is included in Item 1A of this Annual Report on Form 10-K. The increase in deposits arising from MPS has also allowed the Bank to reduce its reliance on higher costing certificates of deposits and public funds.

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The following table sets forth the deposit flows at the Company during the periods indicated.

	September 30, 2011	2010	2009
	(Dollars in Thousands)		
Opening Balance	$897,454	$653,747	$499,804
Deposits	124,923,489	112,086,496	91,862,382
Withdrawals	(124,681,473)	(111,845,663)	(91,713,207)
Sale of Deposits	-	-	-
Interest Credited	2,150	2,874	4,768
Ending Balance	$1,141,620	$897,454	$653,747
Net Increase	$244,166	$243,707	$153,943
Percent Increase	27.21 %	37.28 %	30.80 %

The following table sets forth the dollar amount of savings deposits in the various types of deposit programs offered by the Company for the periods indicated.

	September 30, 2011		2010		2009	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)					
Transactions and Savings Deposits:						
Non-Interest Bearing Demand Accounts	$945,956	82.86 %	$675,163	75.23 %	$442,158	67.63 %
Interest Bearing Demand Accounts	31,249	2.74	29,976	3.34	15,602	2.39
Savings Accounts	11,136	0.97	10,821	1.20	10,001	1.53
Money Market Accounts	36,717	3.22	35,422	3.95	39,823	6.09
Total Non-Certificate	1,025,058	89.79	751,382	83.72	507,584	77.64
Certificates:						
Variable	284	0.03	380	0.04	524	0.08
0.00 - 1.99%	74,145	6.49	82,716	9.22	36,523	5.59
2.00 - 3.99%	35,189	3.08	51,852	5.78	78,288	11.98
4.00 - 5.99%	6,944	0.61	11,114	1.24	30,806	4.71
6.00 - 7.99%	-	-	10	0.00	22	0.00
Total Certificates	116,562	10.21	146,072	16.28	146,163	22.36
Total Deposits	$1,141,620	100.00 %	$897,454	100.00 %	$653,747	100.00 %

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The following table shows rate and maturity information for the Company's certificates of deposit as of September 30, 2011.

	Variable	0.00-1.99 %	2.00-3.99 %	4.00-5.99 %	6.00-7.99 %	Total	Percent of Total
	(Dollars in Thousands)						
Certificate accounts maturing in quarter ending:							
December 31, 2011	$ 47	$ 30,300	$ 2,214	$ 497	$ -	$ 33,058	28.4
March 31, 2012	106	5,703	1,394	1,223	-	8,426	7.2
June 30, 2012	48	12,201	1,373	1,018	-	14,640	12.6
September 30, 2012	40	4,564	811	819	-	6,234	5.3
December 31, 2012	22	12,453	16,636	2,803	-	31,914	27.4
March 31, 2013	21	1,257	1,368	151	-	2,797	2.4
June 30, 2013	-	3,177	1,922	20	-	5,119	4.4
September 30, 2013	-	1,375	517	-	-	1,892	1.6
December 31, 2013	-	1,244	889	413	-	2,546	2.2
March 31, 2014	-	285	637	-	-	922	0.8
June 30, 2014	-	297	614	-	-	911	0.8
September 30, 2014	-	170	1,057	-	-	1,227	1.0
Thereafter	-	1,119	5,757	-	-	6,876	5.9
Total	$ 284	$ 74,145	$ 35,189	$ 6,944	$ -	$ 116,562	100.0 %
Percent of total	0.2 %	63.6 %	30.2 %	6.0 %	0.0 %	100.0 %	

The following table indicates the amount of the Company's certificates of deposit and other deposits by time remaining until maturity as of September 30, 2011.

	3 Months or Less	After 3 to 6 Months	Maturity After 6 to 12 Months	After 12 Months	Total

	(Dollars in Thousands)				
Certificates of deposit less than $100,000	$20,998	$6,717	$13,607	$37,279	$78,601