META FINANCIAL GROUP INC
Form 10-Q
August 06, 2013

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

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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. ®
(Exact name of registrant as specified in its charter)

Delaware	42-1406262
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5501 South Broadband Lane, Sioux Falls, South Dakota 57108
(Address of principal executive offices)

(712) 732-4117
(Registrant's telephone number, including area code)

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 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class:	Outstanding at August 2, 2013:
Common Stock, $.01 par value	5,966,780 Common Shares

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FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition (Unaudited)
(Dollars in Thousands, Except Share and Per Share Data)

ASSETS	June 30, 2013	September 30, 2012
Cash and cash equivalents	$26,499	$145,051
Investment securities available for sale	291,717	435,250
Mortgage-backed securities available for sale	619,281	681,442
Investment securities held to maturity	208,371	-
Mortgage-backed securities held to maturity	79,439	-
Loans receivable - net of allowance for loan losses of $3,670 at June 30, 2013 and $3,971 at September 30, 2012	339,162	326,981
Federal Home Loan Bank Stock, at cost	5,318	2,120
Accrued interest receivable	8,788	6,710
Insurance receivable	539	581
Premises, furniture, and equipment, net	17,803	17,738
Bank-owned life insurance	33,539	14,832
Foreclosed real estate and repossessed assets	45	838
Intangible assets	2,337	2,035
MPS accounts receivable	3,793	5,763
Assets held for sale	1,347	-
Other assets	21,960	9,557
Total assets	$1,659,938	$1,648,898
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Non-interest-bearing checking	$1,198,411	$1,181,299
Interest-bearing checking	31,611	33,094
Savings deposits	27,696	26,053
Money market deposits	41,158	38,585
Time certificates of deposit	117,001	100,763
Total deposits	1,415,877	1,379,794
Advances from Federal Home Loan Bank	7,000	11,000
Federal funds purchased	65,000	-
Securities sold under agreements to repurchase	13,125	26,400
Subordinated debentures	10,310	10,310
Accrued interest payable	274	177
Contingent liability	331	1,719
Accrued expenses and other liabilities	19,986	73,639
Total liabilities	1,531,903	1,503,039

STOCKHOLDERS' EQUITY		
Preferred stock, 3,000,000 shares authorized, no shares issued or outstanding at June 30, 2013 and September 30, 2012, respectively	-	-
Common stock, $.01 par value; 10,000,000 shares authorized, 5,586,755 and 5,576,099 shares issued, 5,513,014 and 5,443,881 shares outstanding at June 30, 2013 and September 30, 2012, respectively	56	56
Additional paid-in capital	78,504	78,769
Retained earnings - substantially restricted	68,579	60,776
Accumulated other comprehensive income (loss)	(17,895)	8,513
Treasury stock, 73,741 and 132,218 common shares, at cost, at June 30, 2013 and September 30, 2012, respectively	(1,209)	(2,255)
Total stockholders' equity	128,035	145,859
Total liabilities and stockholders' equity	$1,659,938	$1,648,898

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (Unaudited)
(Dollars in Thousands, Except Share and Per Share Data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Interest and dividend income:				
Loans receivable, including fees	$4,091	$4,615	$11,953	$13,647
Mortgage-backed securities	3,024	3,848	9,069	13,833
Other investments	2,710	686	8,151	1,583
	9,825	9,149	29,173	29,063
Interest expense:				
Deposits	286	516	995	1,722
FHLB advances and other borrowings	380	341	1,317	1,000
	666	857	2,312	2,722
Net interest income	9,159	8,292	26,861	26,341
Provision (recovery) for loan losses	-	150	(300)	1,049
Net interest income after provision for loan losses	9,159	8,142	27,161	25,292
Non-interest income:				
Card fees	12,547	12,232	38,043	41,836
Gain (loss) on sale of securities available for sale, net	525	(401)	2,501	12,030
Bank-owned life insurance income	289	131	707	389
Loan fees	188	358	690	977
Deposit fees	150	154	472	459
Gain (loss) on foreclosed real estate	39	1,135	(274)	170
Other income	(179)	97	(75)	308
Total non-interest income	13,559	13,706	42,064	56,169
Non-interest expense:				
Compensation and benefits	8,524	8,236	25,917	23,469
Card processing expense	3,480	3,672	12,143	13,970
Occupancy and equipment expense	2,188	2,083	6,195	6,269
Legal and consulting expense	1,183	861	2,957	4,146
Data processing expense	299	294	910	847
Marketing	276	317	747	809
Impairment on assets held for sale	-	-	361	-
Other expense	2,074	2,608	7,457	7,565
Total non-interest expense	18,024	18,071	56,687	57,075
Income before income tax expense	4,694	3,777	12,538	24,386

Income tax expense	1,022	1,390	2,594	8,938
Net income	$3,672	$2,387	$9,944	$15,448
Earnings per common share:				
Basic	$0.67	$0.67	$1.81	$4.66
Diluted	$0.66	$0.66	$1.80	$4.64

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(Dollars in Thousands)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Net income	$3,672	$2,387	$9,944	$15,448
Other comprehensive income (loss):				
Change in net unrealized gain (loss) on securities	(29,219)	5,440	(40,666)	7,449
Losses (gains) realized in net income	(525)	401	(2,501)	(12,030)
	(29,744)	5,841	(43,167)	(4,581)
Deferred income tax effect	(11,624)	2,234	(16,759)	(1,753)
Total other comprehensive income (loss)	(18,120)	3,607	(26,408)	(2,828)
Total comprehensive income (loss)	$(14,448)	$5,994	$(16,464)	$12,620

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the Nine Months Ended June 30, 2013 and 2012
(Dollars in Thousands, Except Share and Per Share Data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, September 30, 2011	$ 34	$ 32,471	$ 45,494	$ 6,336	$ (3,758)	$ 80,577
Cash dividends declared on common stock ($.39 per share)	-	-	(1,332)	-	-	(1,332)
Issuance of 640,000 common shares from the sales of equity securities	6	12,782	-	-	-	12,788
Issuance of 59,750 common shares from treasury stock due to issuance of restricted stock	-	50	-	-	969	1,019
Stock compensation	-	27	-	-	-	27
Change in net unrealized gains (losses) on securities available for sale	-	-	-	(2,828)	-	(2,828)
Net income	-	-	15,448	-	-	15,448
Balance, June 30, 2012	$ 40	$ 45,330	$ 59,610	$ 3,508	$ (2,789)	$ 105,699
Balance, September 30, 2012	$ 56	$ 78,769	$ 60,776	$ 8,513	$ (2,255)	$ 145,859
Cash dividends declared on common stock ($0.13 per share)	-	-	(2,141)	-	-	(2,141)
Issuance of common shares from the sales of equity securities	-	(318)	-	-	-	(318)
Issuance of common shares from treasury stock due to exercise of stock options	-	(72)	-	-	1,046	974
Stock compensation	-	125	-	-	-	125
Net change in unrealized losses on on securities, net of income taxes	-	-	-	(26,408)	-	(26,408)

Net income	-	-	9,944	-	-	9,944
Balance, June 30, 2013	$ 56	$ 78,504	$ 68,579	$ (17,895)	$ (1,209)	$ 128,035

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in Thousands)

	Nine Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$9,944	$15,448
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion, net	15,850	13,876
Disbursement of non-real estate consumer loans originated for sale	-	(617,928)
Proceeds from sale of non-real estate consumer loans	-	617,806
Proceeds from sale of 1-4 family residential mortgage loans	-	368
Loss on sale of loans	-	7
Provision (recovery) for loan losses	(300)	1,049
(Gain) loss on other assets	67	(166)
Gain on sale of securities available for sale, net	(2,501)	(12,030)
Net change in accrued interest receivable	(2,078)	(1,732)
Impairment on assets held for sale	361	-
Net change in other assets	(22,435)	2,332
Net change in accrued interest payable	97	(7)
Net change in accrued expenses and other liabilities	(26,797)	(92)
Net cash provided by (used in) operating activities	(27,792)	18,931
Cash flows from investing activities:		
Purchase of securities available for sale	(468,103)	(898,546)
Proceeds from sales of securities available for sale	182,156	386,859
Proceeds from maturities and principal repayments of securities available for sale	155,390	158,738
Purchase of securities held to maturity	(5,576)	-
Purchase of bank owned life insurance	(18,000)	-
Loans purchased	(10,446)	(6,320)
Net change in loans receivable	(1,435)	(16,560)
Proceeds from sales of foreclosed real estate	431	4,919
Federal Home Loan Bank stock purchases	(309,358)	(58,331)
Federal Home Loan Bank stock redemptions	306,160	60,948
Proceeds from the sale of premises and equipment	-	24
Purchase of premises and equipment	(4,427)	(3,554)
Other, net	-	1,754
Net cash provided by (used in) investing activities	(173,208)	(370,069)
Cash flows from financing activities:		
Net change in checking, savings, and money market deposits	19,845	224,610
Net change in time deposits	16,238	(15,691)
Repayment of FHLB and other borrowings	(4,000)	-
Proceeds from federal funds purchased	65,000	-
Net change in securities sold under agreements to repurchase	(13,275)	19,259
Cash dividends paid	(2,141)	(1,332)

Proceeds from issuance of common shares, net of issuance costs	-	12,788
Stock compensation	125	27
Proceeds from issuance of common stock	656	1,019
Net cash provided by (used in) financing activities	82,448	240,680
Net change in cash and cash equivalents	(118,552)	(110,458)
Cash and cash equivalents at beginning of period	145,051	276,893
Cash and cash equivalents at end of period	$26,499	$166,435
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$2,763	$2,729
Income taxes	3,408	5,624
Supplemental schedule of non-cash investing activities:		
Loans transferred to foreclosed real estate	$48	$3,040
Assets transferred to held for sale	1,708	-
Securities transferred from available for sale to held to maturity	282,195	-

See Notes to Condensed Consolidated Financial Statements.

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NOTE 1. BASIS OF PRESENTATION

The interim unaudited condensed consolidated financial statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended September 30, 2012 included in Meta Financial Group, Inc.'s ("Meta Financial" or the "Company") Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on December 21, 2012. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the audited consolidated financial statements have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments), that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the three - and nine - periods ended June 30, 2013, are not necessarily indicative of the results expected for the year ending September 30, 2013.

NOTE 2. CREDIT DISCLOSURES

Loans are considered impaired if full principal or interest payments are not probable in accordance with the contractual loan terms. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent.

The allowance for loan losses consists of specific, general, and unallocated components. The specific component relates to impaired loans. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. The general component covers loans not considered impaired and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Smaller-balance homogeneous loans are collectively evaluated for impairment. Such loans include residential first mortgage loans secured by one-to-four family residences, residential construction loans, and automobile, manufactured homes, home equity and second mortgage loans. Commercial and agricultural loans and mortgage loans secured by other properties are evaluated individually for impairment. When analysis of borrower operating results and financial condition indicates that underlying cash flows of the borrower's business are not adequate to meet its debt service requirements, the loan is evaluated for impairment. Generally, non-accrual loans are considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

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Loans receivable at June 30, 2013 and September 30, 2012 are as follows:

	June 30, 2013	September 30, 2012
	(Dollars in Thousands)	
One to four family residential mortgage loans	$76,162	$49,134
Commercial and multi-family real estate loans	161,970	191,905
Agricultural real estate loans	28,567	19,861
Consumer loans	30,763	32,838
Commercial operating loans	15,819	16,452
Agricultural operating loans	29,941	20,981
Total Loans Receivable	343,222	331,171
Less:		
Allowance for loan losses	(3,670)	(3,971)
Net deferred loan origination fees	(390)	(219)
Total Loans Receivable, Net	$339,162	$326,981

Activity in the allowance for loan losses and balances of loans receivable by portfolio segment for the three and nine month periods ended June 30, 2013 and 2012 is as follows:

	1-4 Family Residential	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Unallocated	Total
Three Months Ended June 30, 2013								
Allowance for loan losses:								
Beginning balance	$ 265	$ 2,329	$ 1	$ 4	$ 25	$ 17	$ 1,065	$ 3,706
Provision (recovery) for loan losses	92	(563)	34	-	(47)	154	330	-
Loan charge offs	(25)	(128)	-	-	-	-	-	(153)
Recoveries	-	94	-	-	23	-	-	117
Ending balance	$ 332	$ 1,732	$ 35	$ 4	$ 1	$ 171	$ 1,395	$ 3,670
Nine Months Ended June 30, 2013								
Allowance for loan losses:								
Beginning balance	$ 193	$ 3,113	$ 1	$ 3	$ 49	$ -	$ 612	$ 3,971
Provision (recovery) for loan losses	164	(1,341)	34	-	(111)	171	783	(300)
Loan charge offs	(25)	(136)	-	-	-	-	-	(161)
Recoveries	-	96	-	1	63	-	-	160

Ending balance	$ 332	$ 1,732	$ 35	$ 4	$ 1	$ 171	$ 1,395	$ 3,670
Ending balance: individually evaluated for impairment	$ 25	$ 409	$ -	$ -	$ -	$ -	$ -	$ 434
Ending balance: collectively evaluated for impairment	$ 307	$ 1,323	$ 35	$ 4	$ 1	$ 171	$ 1,395	$ 3,236
Loans:								
Ending balance: individually evaluated for impairment	$ 618	$ 8,383	$ -	$ -	$ 53	$ -	$ -	$ 9,054
Ending balance: collectively evaluated for impairment	$ 75,544	$ 153,587	$ 28,567	$ 30,763	$ 15,766	$ 29,941	$ -	$ 334,168

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	1-4 Family Residential	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Unallocated	Total
Three Months Ended June 30, 2012								
Allowance for loan losses:								
Beginning balance	$ 147	$ 3,975	$ -	$ 27	$ 37	$ -	$ 576	$ 4,762
Provision (recovery) for loan losses	17	182	-	(12)	(1)	-	(36)	150
Loan charge offs	-	(502)	-	(4)	-	-	-	(506)
Recoveries	-	20	-	-	-	-	-	20
Ending balance	$ 164	$ 3,675	$ -	$ 11	$ 36	$ -	$ 540	$ 4,426
Nine Months Ended June 30, 2012								
Allowance for loan losses:								
Beginning balance	$ 165	$ 3,901	$ -	$ 16	$ 36	$ 67	$ 741	$ 4,926
Provision (recovery) for loan losses	1	1,322	-	(3)	(3)	(67)	(201)	1,049
Loan charge offs	(3)	(1,568)	-	(6)	-	-	-	(1,577)
Recoveries	1	20	-	4	3	-	-	28
Ending balance	$ 164	$ 3,675	$ -	$ 11	$ 36	$ -	$ 540	$ 4,426
Ending balance: individually evaluated for impairment	$ 4	$ 1,157	$ -	$ -	$ 2	$ -	$ -	$ 1,163
Ending balance: collectively evaluated for impairment	$ 160	$ 2,518	$ -	$ 11	$ 34	$ -	$ 540	$ 3,263
Loans:								
Ending balance: individually evaluated for impairment	$ 78	$ 10,830	$ -	$ 1	$ 78	$ -	$ -	$ 10,987
Ending balance: collectively evaluated for impairment	$ 43,895	$ 180,585	$ 20,572	$ 39,058	$ 14,945	$ 25,132	$ -	$ 324,187

Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by our regulator, the Office of the Comptroller of the Currency (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 MetaBank (the “Bank”) 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,” MetaBank 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 Bank’s determinations as to the classification of its assets and the amount of its valuation allowances are subject to review by its regulatory authorities, which may direct management to establish additional general or specific loss allowances.

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The asset classification of loans at June 30, 2013 and September 30, 2012, are as follows:

June 30, 2013

	1-4 Family Residential	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Total
Pass	$ 75,754	$ 141,253	$ 25,092	$ 30,763	$ 15,735	$ 24,219	$312,816
Watch	78	11,466	3,475	-	84	29	15,132
Special Mention	85	1,703	-	-	-	5,693	7,481
Substandard	245	7,548	-	-	-	-	7,793
Doubtful	-	-	-	-	-	-	-
	$ 76,162	$ 161,970	$ 28,567	$ 30,763	$ 15,819	$ 29,941	$343,222

September 30, 2012

	1-4 Family Residential	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Total
Pass	$ 48,566	$ 167,697	$ 19,783	$ 32,837	$ 16,036	$ 20,981	$305,900
Watch	228	12,932	78	-	-	-	13,238
Special Mention	15	3,730	-	-	399	-	4,144
Substandard	295	7,546	-	1	17	-	7,859
Doubtful	30	-	-	-	-	-	30
	$ 49,134	$ 191,905	$ 19,861	$ 32,838	$ 16,452	$ 20,981	$331,171

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. The Company offers fixed-rate and adjustable rate mortgage (“ARM”) loans for both permanent structures and those under construction. 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 generally up to ten years and a maximum of 30 years with loan-to-value ratios up to 100% of the lesser of the appraised value of the security property or the contract price at the time of origination. 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 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.

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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.

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. The purchased loans and loan participation interests are generally secured by properties located in the Midwest and West.

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 are underwritten with terms that do not exceed 20 years, have loan-to-value ratios of up to 80% of the appraised value of the security property at the time of origination, 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 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.

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.

Agricultural Lending. The Company originates loans to finance the purchase of farmland, livestock, farm machinery and equipment, seed, fertilizer and other farm related products. 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. 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.

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 15 to 30 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 20 years. Agricultural real estate loans are generally limited to 75% of the value of the property securing the loan.

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Agricultural lending affords the Company the opportunity to earn yields higher than those obtainable on one- to four-family residential lending. 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 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 futures 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 for the borrower 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.

Management believes that various levels of drought weather conditions within our markets has the potential to negatively impact potential yields which would have a negative economic effect on our agricultural markets in fiscal 2013.

Consumer Lending- Retail Bank. The “Retail Bank” (generally referring to traditional banking operations in our four market areas) 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 a direct basis.

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, may be up to 90% 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 Bank 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 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.

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Consumer Lending- Meta Payment Systems ("MPS"). MPS offers portfolio lending on a nationwide basis. In portfolio lending, the Company retains some or all receivables and relies on the borrower as the underlying source of repayment.

Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances.

The Company monitors concentrations of credit which 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.

The Company discontinued four of its credit sponsorship lending programs by September 30, 2012. For the three and nine months ended June 30, 2012, these relationships provided approximately $0.8 and $2.6 million, respectively, in total revenue (interest income plus non-interest income) to the Company. There were no loans outstanding as of September 30, 2012 and June 30, 2013.

Commercial Operating Lending. The Company also originates commercial operating loans. Most of the Company's commercial operating 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.

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 operating 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.

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 operating 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 operating 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 operating 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.

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 of this action, previously accrued interest income on the loan is reversed against current income. The loan will remain on non-accrual status until the loan has been brought current and demonstrated a period of satisfactory performance or until other circumstances occur that provide adequate assurance of full repayment of interest and principal.

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Past due loans at June 30, 2013 and September 30, 2012 are as follows:

June 30, 2013	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Non-Accrual Loans	Total Loans Receivable
Residential 1-4 Family	$ 78	$ -	$ -	$ 78	$ 75,839	$ 245	$ 76,162
Commercial Real Estate and Multi-Family	-	-	-	-	161,408	562	161,970
Agricultural Real Estate	-	-	-	-	28,567	-	28,567
Consumer	13	10	19	42	30,721	-	30,763
Commercial Operating	84	-	-	84	15,726	9	15,819
Agricultural Operating	-	-	-	-	29,941	-	29,941
Total	$ 175	$ 10	$ 19	$ 204	$ 342,202	$ 816	$ 343,222

September 30, 2012	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Non-Accrual Loans	Total Loans Receivable
Residential 1-4 Family	$ -	$ -	$ -	$ -	$ 48,827	$ 307	$ 49,134
Commercial Real Estate and Multi-Family	-	-	-	-	190,482	1,423	191,905
Agricultural Real Estate	-	-	-	-	19,861	-	19,861
Consumer	21	16	63	100	32,738	-	32,838
Commercial Operating	-	-	-	-	16,434	18	16,452
Agricultural Operating	-	-	-	-	20,981	-	20,981
Total	$ 21	$ 16	$ 63	$ 100	$ 329,323	$ 1,748	$ 331,171

Impaired loans at June 30, 2013 and September 30, 2012 are as follows:

June 30, 2013	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance			
Residential 1-4 Family	$ 336	$ 336	$ -
Commercial Real Estate and Multi-Family	6,150	6,150	-
Agricultural Real Estate	-	-	-
Consumer	-	-	-
Commercial Operating	53	67	-
Agricultural Operating	-	-	-
Total	$ 6,539	$ 6,553	$ -
Loans with a specific valuation allowance			
Residential 1-4 Family	$ 282	$ 282	$ 25
Commercial Real Estate and Multi-Family	2,233	2,233	409
Agricultural Real Estate	-	-	-
Consumer	-	-	-
Commercial Operating	-	-	-

Agricultural Operating	-	-	-
Total	$ 2,515	$ 2,515	$ 434

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September 30, 2012	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance			
Residential 1-4 Family	$ -	$ -	$ -
Commercial Real Estate and Multi-Family	-	-	-
Agricultural Real Estate	-	-	-
Consumer	-	-	-
Commercial Operating	-	-	-
Agricultural Operating	-	-	-
Total	$ -	$ -	$ -
Loans with a specific valuation allowance			
Residential 1-4 Family	$ 352	$ 393	$ 16
Commercial Real Estate and Multi-Family	8,815	12,707	346
Agricultural Real Estate	-	-	-
Consumer	1	1	-
Commercial Operating	17	32	1
Agricultural Operating	-	-	-
Total	$ 9,185	$ 13,133	$ 363

The following table provides the average recorded investment in impaired loans for the three and nine month periods ended June 30, 2013 and 2012.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
	Average Recorded Investment	Average Recorded Investment	Average Recorded Investment	Average Recorded Investment
Residential 1-4 Family	$661	$ 77	$586	$ 116
Commercial Real Estate and Multi-Family	9,049	12,129	8,707	14,609
Agricultural Real Estate	-	-	-	-
Consumer	-	1	1	5
Commercial Operating	57	80	51	79
Agricultural Operating	-	-	-	-
Total	$9,767	$ 12,287	$9,345	$ 14,809

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The Company's troubled debt restructurings ("TDR") typically involve forgiving a portion of interest or principal on existing loans or making loans at a rate materially less than current market rates. There were no loans modified in a TDR during the three and nine month periods ended June 30, 2013 and two loans modified in a TDR during the three and nine month periods ended June 30, 2012:

	For the Three Months Ended June 30, 2013			For the Three Months Ended June 30, 2012		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Residential 1-4 Family	-	$ -	$ -	1	$ 16	$ 16
Commercial Real Estate and Multi Family	-	-	-	-	-	-
Agricultural Real Estate	-	-	-	-	-	-
Consumer	-	-	-	1	1	1
Commercial Operating	-	-	-	-	-	-
Agricultural Operating	-	-	-	-	-	-
Total	-	$ -	$ -	2	$ 17	$ 17

	For the Nine Months Ended June 30, 2013			For the Nine Months Ended June 30, 2012		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Residential 1-4 Family	-	$ -	$ -	1	$ 16	$ 16
Commercial Real Estate and Multi-Family	-	-	-	-	-	-
Agricultural Real Estate	-	-	-	-	-	-
Consumer	-	-	-	1	1	1
Commercial Operating	-	-	-	-	-	-
Agricultural Operating	-	-	-	-	-	-
Total	-	$ -	$ -	2	$ 17	$ 17

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As the following table shows, there were no TDR loans for which there was a payment default during the three and nine month periods ended June 30, 2013 and 2012, that had been modified during the 12-month period prior to the default:

	During the Three Months Ended			
	June 30, 2013		June 30, 2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential 1-4 Family	-	$ -	-	$ -
Commercial Real Estate and Multi Family	-	-	-	-
Agricultural Real Estate	-	-	-	-
Consumer	-	-	-	-
Commercial Operating	-	-	-	-
Agricultural Operating	-	-	-	-
Total	-	$ -	-	$ -

	During the Nine Months Ended			
	June 30, 2013		June 30, 2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential 1-4 Family	-	$ -	-	$ -
Commercial Real Estate and Multi-Family	-	-	-	-
Agricultural Real Estate	-	-	-	-
Consumer	-	-	-	-
Commercial Operating	-	-	-	-
Agricultural Operating	-	-	-	-
Total	-	$ -	-	$ -

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NOTE 3. ALLOWANCE FOR LOAN LOSSES

At June 30, 2013, the Company's allowance for loan losses was $3.7 million, a decrease of $0.3 million from $4.0 million at September 30, 2012. During the three months ended June 30, 2013, the Company did not record a provision for loan loss, as the Company's analysis indicated the balance in the allowance for loan losses reflected probable losses in the loan portfolio.

During the nine months ended June 30, 2013, the Company recorded a negative provision for its Retail Bank division in the amount of $0.3 million due to decreases in the general reserves caused by decreases in the historical loss rates for commercial real estate and multi-family loans, compared to a provision in the amount of $1.0 million for the nine months ended June 30, 2012.

The Company's total net charge-offs for the three and nine months ended June 30, 2013 were $36,000 and $1,000, respectively.

The allowance for loan losses represents management's estimate of probable loan losses which have been incurred as of the date of the consolidated financial statements. The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Estimating the risk of loss and the amount of loss on any loan is necessarily subjective. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. While management may periodically allocate portions of the allowance for specific problem loan situations, the entire allowance is available for any loan charge-offs that occur.

The Company establishes its provision for loan losses, and evaluates the adequacy of its allowance for loan losses based upon a systematic methodology consisting of a number of factors including, among others, historic loss experience, the overall level of classified assets, non-performing loans, TDR loans, the composition of its loan portfolio and the general economic environment within which the Company and its borrowers operate.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses.

NOTE 4. EARNINGS PER COMMON SHARE ("EPS")

Basic EPS is computed by dividing income available to common stockholders (the numerator) by the weighted average number of common shares outstanding (the denominator) during the period. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period that they were outstanding. Allocated ESOP shares are considered outstanding for earnings per common share calculations as they are committed to be issued; unallocated ESOP shares are not considered outstanding. All ESOP shares were allocated as of June 30, 2013 and September 30, 2012. Diluted EPS shows the dilutive effect of additional common shares issuable pursuant to stock option agreements.

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A reconciliation of net income and common stock share amounts used in the computation of basic and diluted EPS for the three and nine months ended June 30, 2013 and 2012 is presented below.

Three Months Ended June 30,	2013	2012
(Dollars in Thousands, Except Share and Per Share Data)		
Earnings		
Net Income	$3,672	$2,387
Basic EPS		
Weighted average common shares outstanding	5,499,506	3,565,159
Less weighted average unallocated ESOP and nonvested shares	-	-
Weighted average common shares outstanding	5,499,506	3,565,159
Earnings Per Common Share		
Basic	$0.67	$0.67
Diluted EPS		
Weighted average common shares outstanding for basic earnings per common share	5,499,506	3,565,159
Add dilutive effect of assumed exercises of stock options, net of tax benefits	54,118	24,942
Weighted average common and dilutive potential common shares outstanding	5,553,624	3,590,101
Earnings Per Common Share		
Diluted	$0.66	$0.66

Nine Months Ended June 30,	2013	2012
(Dollars in Thousands, Except Share and Per Share Data)		
Earnings		
Net Income	$9,944	$15,448
Basic EPS		
Weighted average common shares outstanding	5,484,060	3,313,636
Less weighted average unallocated ESOP and nonvested shares	-	-
Weighted average common shares outstanding	5,484,060	3,313,636