META FINANCIAL GROUP INC
Form 10-K/A
July 06, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 2

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

For the fiscal year ended September 30, 2008

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:

None

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

Common Stock, par value $0.01 per share

(Title of Class)

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 x

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 x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO 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. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12-b2 of the Exchange Act. (Check one):

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

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

As of June 26, 2009, there were outstanding 2,602,655 shares of the Registrant s Common Stock.

As of March 31, 2008, 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 System as of such date, was $34.6 million.

DOCUMENTS INCORPORATED BY REFERENCE

PART III of Form 10-K Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held January 26, 2009.

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META FINANCIAL GROUP, INC.

EXPLANATORY NOTE RESTATEMENT OF FINANCIAL INFORMATION

For the reasons stated by the Registrant in its Form 8-K filed on June 26, 2009, this Annual Report on Form 10-K/A for the fiscal year ended September 30, 2008, includes a restated consolidated statement of financial condition, consolidated statement of operations, consolidated statement of comprehensive income (loss), consolidated statement of shareholders equity and consolidated statement of cash flows as of and for the fiscal year ended September 30, 2008. Earnings per share, segment, and quarterly data have also been restated for all periods presented. For more information concerning these restatements, see Note 22 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/A. See also Part II, Item 9A(T) (Controls and Procedures) for a discussion of the impact of the matters described in the Form 8-K filed on June 26, 2009 on the Company s disclosure controls and procedures and internal control over financial reporting.

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Forward-Looking Statements

Meta Financial Group, Inc.®, (Meta Financial or the Company) and its wholly-owned subsidiaries, MetaBank (the Bank), and Meta Trust Company® (Meta Trust or the Trust Company), 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 shareholders, 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 MetaBank or Meta Payment Systems® (MPS), a division of MetaBank; 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 Federal Reserve Board; 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 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 impact of changes in financial services laws and regulations; 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.metacash.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 as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the SEC. 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. Description of 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 MetaBank, a federal savings bank. Meta Financial, on September 20, 1993, acquired all of the capital stock of MetaBank in connection with its conversion from the mutual to stock form ownership (the Conversion). On September 30, 1996, Meta Financial became a bank holding company for regulatory purposes upon its acquisition of MetaBank West Central (MetaBank WC) until its sale of MetaBank WC in March 2008, at which time Meta Financial became a unitary savings and loan holding company again, all as discussed below. Unless the context otherwise requires, references herein to the Company include Meta Financial and MetaBank, and all subsidiaries on a consolidated basis.

Since the Conversion, the Company has acquired several financial institutions. On March 28, 1994, Meta Financial acquired Brookings Federal Bank in Brookings, South Dakota (Brookings Federal). On December 29, 1995, Meta Financial acquired Iowa Savings Bank, FSB in Des Moines, Iowa (Iowa Savings). Brookings Federal and Iowa Savings were both merged with, and now operate as market areas of, MetaBank. On September 30, 1996, Meta Financial completed the acquisition of Central West Bancorporation (CWB), the holding company for MetaBank WC, which upon the merger of CWB into Meta Financial resulted in MetaBank WC becoming a stand-alone commercial bank subsidiary of Meta Financial. On March 28, 2008, the Company sold MetaBank WC and reclassified financial information as discontinued bank operations in the consolidated financial statements and the notes thereto in the Annual Report for fiscal 2007. As such, information in this Annual Report on Form 10-K has been adjusted to eliminate the effect of discontinued bank operations unless otherwise indicated.

MetaBank, 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 Company provides a full range of financial services. The principal business of MetaBank 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 MetaBank s market areas. MetaBank s lending activities have expanded in recent years to include an increased emphasis on originations of commercial and multi-family real estate loans and commercial business loans. MetaBank also purchases loan participations from time to time from other financial institutions. These loans typically are collateralized by commercial real estate and commercial businesses. In 2004, MetaBank created a division known as 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 MetaBank 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/A, MPS is expanding and playing a significant role in the Company s financial performance.

MetaBank also purchases mortgage-backed securities and other investments permissible under applicable regulations. Meta Financial also owns Meta Trust, a South Dakota trust corporation. At September 30, 2008, the Company had total assets of $756.4 million, deposits of $546.0 million, and shareholders equity of $45.7 million.

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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 Trust, established in April 2002 as a South Dakota corporation and a wholly-owned subsidiary of Meta Financial, provides a full range of trust services. 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, MetaBank and Meta Trust 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

MetaBank has four market areas and the MPS Division: Northwest Iowa (NWI), Brookings, Central Iowa (CI), and Sioux Empire (SE). MetaBank 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 four 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.

The Company also has a 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 and Minnehaha.

Iowa ranks sixth most livable state in the nation (Morgan Quinto State Rankings, 2007), and has low corporate income and franchise taxes.

South Dakota ranks first in students per computer (Education Weekly, Technology Counts 2006), ninth most livable state in the nation (Morgan Quitno State Rankings, 2007 and 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 30-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,

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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. The Des Moines market area encompasses Polk County and surrounding counties. MetaBank 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 3.47% as of September 2008.

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, the intersection of 12th and Elmwood, and on North Minnesota Avenue just north of Russell Road. 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 2.5% as of September 2008 (ties for the national lead with Bismarck, ND, Casper, WY, and Logan, UT).

Several of the Company s market areas are dependent on 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 relatively strong. Agricultural commodity prices will serve to offset slightly more modest yields this year. 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 a reduced demand for goods and services provided by agriculture-related businesses, which could also affect other businesses in the Company s market area.

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. The Company, however, has continued to originate fixed-rate residential mortgage loans in response to consumer demand, although most such loans are generally sold in the secondary market. See Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included in Item 7 of this Annual Report on 10-K for further information on Asset/Liability Management.

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More recently, the Company has focused its lending activities on the origination of commercial and multi-family real estate loans, commercial business loans, and, to a lesser extent, commercial construction 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, 2008, the Company s net loan portfolio totaled $427.9 million, or 56.6% of the Company s total assets.

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 of Directors, 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 its needs and to competitive factors.

At September 30, 2008, the Company s largest lending relationship to a single borrower or group of related borrowers totaled $8.1 million. The Company had 24 other lending relationships in excess of $3.5 million as of September 30, 2008. At September 30, 2008, two of these loans were classified as substandard totaling $12.7 million.

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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,									
	2008		2007		2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Real Estate Loans:										
1-4 Family	$ 56,362	13.0%	$ 45,407	12.6%	$ 58,165	15.4%	$ 68,138	15.8%	$ 72,186	18.3%
Commercial & Multi Family	222,651	51.2%	169,877	47.1%	159,107	42.2%	201,431	46.6%	189,141	48.0%
Agricultural	30,046	6.9%	16,582	4.6%	14,098	3.7%	12,773	3.0%	10,308	2.6%
Total Real Estate Loans	309,059	71.1%	231,866	64.3%	231,370	61.3%	282,342	65.3%	271,635	68.9%
Other Loans:										
Consumer Loans:										
Home Equity	21,353	4.9%	23,832	6.6%	24,559	6.5%	24,140	5.6%	21,522	5.5%
Automobile	922	0.2%	1,241	0.3%	1,708	0.5%	2,135	0.5%	2,513	0.6%
Other (1)	27,054	6.2%	11,690	3.2%	3,800	1.0%	4,203	1.0%	5,232	1.3%
Total Consumer Loans	49,329	11.4%	36,763	10.2%	30,067	8.0%	30,478	7.0%	29,267	7.4%
Agricultural Operating	31,153	7.2%	33,143	9.2%	28,661	7.6%	23,084	5.3%	18,993	4.8%
Commercial Business	44,972	10.3%	58,705	16.3%	87,202	23.1%	96,467	22.3%	74,267	18.8%
Total Other Loans	125,454	28.9%	128,611	35.7%	145,930	38.7%	150,029	34.7%	122,527	31.1%
Total Loans	434,513	100.0%	360,477	100.0%	377,300	100.0%	432,371	100.0%	394,162	100.0%
Less:										
Loans in Process	693		254		1,773		9,733		7,342	
Deferred Fees and Discounts	160		117		177		277		270	
Allowance for Losses	5,732		4,493		6,391		6,793		5,144	
Total Loans Receivable, Net	$ 427,928		$ 355,612		$ 368,959		$ 415,568		$ 381,406	

(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,									
	2008		2007		2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Fixed Rate Loans:										
Real Estate:										
1-4 Family	$ 42,952	9.9%	$ 34,157	9.5%	$ 45,593	11.8%	$ 38,921	8.9%	$ 46,331	11.7%
Commercial & Multi Family	171,114	39.4%	128,495	35.6%	113,072	29.1%	126,275	28.7%	102,557	25.2%
Agricultural	20,262	4.7%	11,610	3.2%	8,229	2.4%	6,347	1.7%	3,992	1.3%
Total Fixed-Rate Real Estate Loans	234,328	53.9%	174,262	48.3%	166,894	43.3%	171,543	39.3%	152,880	38.2%
Consumer	42,192	9.7%	21,470	6.0%	21,128	5.6%	17,066	3.9%	14,694	3.7%
Agricultural Operating	16,840	3.9%	16,519	4.6%	15,145	4.1%	7,161	1.8%	5,315	1.4%
Commercial Business	25,224	5.8%	31,386	8.7%	36,701	9.6%	35,252	8.0%	22,553	5.8%
Total Fixed-Rate Loans	318,584	73.3%	243,637	67.6%	239,868	62.6%	231,022	52.9%	195,442	49.1%
Adjustable Rate Loans:										
Real Estate:										
1-4 Family	13,410	3.1%	11,250	3.1%	12,572	3.2%	29,217	6.5%	25,855	6.3%
Commercial & Multi Family	51,537	11.9%	41,382	11.5%	46,035	13.1%	75,156	18.1%	86,584	22.0%
Agricultural	9,784	2.3%	4,972	1.4%	5,869	1.7%	6,426	1.6%	6,316	1.8%
Total Adjustable Real Estate Loans	74,731	17.2%	57,604	16.0%	64,476	18.0%	110,799	26.2%	118,755	30.1%
Consumer	7,137	1.6%	15,293	4.2%	8,939	2.3%	13,412	3.0%	14,573	3.5%
Agricultural Operating	14,313	3.3%	16,624	4.6%	13,516	3.5%	15,923	3.6%	13,678	3.6%
Commercial Business	19,748	4.5%	27,319	7.6%	50,500	13.6%	61,215	14.4%	51,714	13.7%
Total Adjustable Loans	115,929	26.7%	116,840	32.4%	137,431	37.4%	201,349	47.1%	198,720	50.9%
Total Loans	434,513	100.0%	360,477	100.0%	377,300	100.0%	432,371	100.0%	394,162	100.0%
Less:										
Loans in Process	693		254		1,773		9,733		7,342	
Deferred Fees and Discounts	160		117		177		277		270	
Allowance for Losses	5,732		4,493		6,391		6,793		5,144	
Total Loans Receivable, Net	$ 427,928		$ 355,612		$ 368,959		$ 415,568		$ 381,406	

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The following table illustrates the interest rate sensitivity of the Company s loan portfolio at September 30, 2008. 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. Balances related to discontinued bank operations have been eliminated for all periods presented.

	Real Estate (1)		Consumer		Commercial Business		Agricultural Operating		Total	
Due During Years Ending September 30,	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**
					(Dollars in Thousands)					
2009 (2)	$ 36,606	5.78%	$ 4,836	4.38%	$ 16,475	7.05%	$ 20,278	5.79%	$ 78,195	5.96%
2010-2011	39,597	6.01%	6,413	6.97%	13,647	5.85%	2,331	6.47%	61,988	6.08%
2012 and following	232,856	6.30%	38,080	5.04%	14,850	6.55%	8,544	6.55%	294,330	5.84%
Total	$ 309,059		$ 49,329		$ 44,972		$ 31,153		$ 434,513	

(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.

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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, 2008, the Company s one- to four-family residential mortgage loan portfolio totaled $56.4 million, or 13% of the Company s total gross loan portfolio. See Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities. At September 30, 2008, the average outstanding principal balance of a one- to four-family residential mortgage loan was approximately $71,000.

The Company offers fixed-rate and ARM loans for both permanent structures and those under construction. During the year ended September 30, 2008, the Company originated $14.1 million of adjustable-rate loans and $38.1 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 97% 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. 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.

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. Most properties securing real estate loans made by the Company are appraised by independent fee 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 has purchased whole loan and participation interests in loans from other financial institutions. At September 30, 2008, the Company s commercial and multi-family real estate loan portfolio totaled $222.7 million, or 51% 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, in order to supplement its loan

portfolio and consistent with management s objectives to expand the Company s commercial and multi-family loan portfolio, purchased $39.8 million, $19.8 million, and $8.9 million, of such loans during fiscal 2008, 2007 and 2006, respectively. At September 30, 2008, $1.3 million, or 0.6%, 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.

At September 30, 2008, the Company s largest commercial and multi-family real estate loan was an $8.0 million loan secured by assets of the borrower. At September 30, 2008, the average outstanding principal balance of a commercial or multi-family real estate loan held by the Company was approximately $714,000.

Multi-family and commercial 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 multi-family and commercial 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, 2008, MetaBank s nonresidential real estate loans totaled 329% 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, 2008, the Company had agricultural real estate loans secured by farmland of $30.0 million or 7% of the Company s gross loan portfolio. At the same date, $31.2 million, or 7% of the Company s gross loan portfolio, consisted of secured loans related to agricultural operations.

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, 2008, the average outstanding principal balance of an agricultural operating loan held by the Company was $83,000. At September 30, 2008, $121,000, or 0.4%, 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.

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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, 2008, $12,000, or 0.04%, 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. The Company offers a variety of secured consumer loans, including home equity, home improvement, automobile, boat and loans secured by savings deposits. In addition, the Company offers other secured and unsecured consumer loans. The Company currently originates most of its consumer loans in its primary market area and surrounding areas. The Company originates consumer loans on both a direct and indirect basis. At September 30, 2008, the Company s consumer loan portfolio totaled $49.3 million, or 11% of its total gross loan portfolio. Of the consumer loan portfolio at September 30, 2008, $42.2 million were short- and intermediate-term, fixed-rate loans, while $7.1 million were adjustable-rate loans.

The largest component of the Company s consumer loan portfolio consists of home equity loans and lines of credit. Substantially all of the Company s home equity loans and lines of credit are secured by second mortgages on principal residences. The Company 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 Company primarily originates automobile loans on a direct basis, but also originates indirect automobile loans on a very limited basis. Direct loans are loans made when the Company extends credit directly to the borrower, as opposed to indirect loans, which are made when the Company purchases loan contracts, often at a discount, from automobile dealers which have extended credit to their customers. The Company 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.

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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, 2008, $1,000, or 0%, of the Company s consumer loan portfolio was non-performing.

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, 2008, $45.0 million, or 10% of the Company s total gross loan portfolio, was comprised of commercial business loans.

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, 2008 was a $3.0 million loan secured by assets of the borrower. The next largest commercial business loan outstanding at September 30, 2008 was a $2.4 million loan secured by assets of the borrower. At September 30, 2008, the average outstanding principal balance of a commercial business loan held by the Company was approximately $157,000.

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.

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At September 30, 2008, $538,000, or 1.2%, of the Company s commercial business loan portfolio was non-performing.

Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities

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, 2008, 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 $28.7 million at September 30, 2008, of which $18.7 million were sold to Fannie Mae and $10.0 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 advances on purchased loans, and repayment activities of the Company for the periods indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

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	2008	September 30, 2007 (Dollars in Thousands)	2006
Originations by Type:			
Adjustable Rate:			
Real Estate - 1-4 Family	$ 14,068	$ 5,850	$ 5,849
-Commercial and Multi-Family	34,894	18,874	33,300
-Agricultural Real Estate	2,058	551	565
Non-Real Estate - Consumer	183,643	1,287	1,480
-Commercial Business	60,502	59,798	83,831
-Agricultural Operating	27,674	31,188	32,413
Total Adjustable Rate	322,839	117,548	157,438
Fixed Rate:			
Real Estate - 1-4 Family	38,090	50,114	29,206
-Commercial and Multi-Family	107,296	55,518	36,942
-Agricultural Real Estate	8,978	3,599	7,500
Non-Real Estate - Consumer	180,210	3,224	2,292
-Commercial Business	29,647	22,153	58,930
-Agricultural Operating	39,143	22,320	14,248
Total Fixed-Rate	403,364	156,928	149,118
Total Loans Originated	726,203	274,476	306,556
Purchases:			
Real Estate - 1-4 Family	1,079	156	599
-Commercial and Multi-Family	39,830	19,826	8,924
- Agricultural Real Estate	215	342	
Non-Real Estate - Commercial Business	7,561	22,321	50,257
- Agricultural Operating	6,605	400	(851)
Total Loans	55,290	43,045	58,929
Total Mortgage-Backed Securities	102,790	11,682	
Total Purchased	158,080	54,727	58,929
Sales and Repayments:			
Sales:			
Real Estate - 1-4 Family	6,152	10,695	1,737
Real Estate - Commercial and Multi-Family	2,296	3,587	
Non-Real Estate - Consumer	257,119		
Total Loans	265,567	14,282	1,737
Mortgage-Backed Securities	16,990		
Total Sales	282,557	14,282	1,737
Repayments:			
Loan Principal Repayments	148,815	333,283	428,190
Mortgage-Backed Securities Repayments	34,417	26,893	37,144
Total Principal Repayments	183,232	360,176	465,334
Total Reductions	465,789	374,458	467,071
Increase (decrease) in other items, net	(4,682)	26,559	16,206
Net Increase (Decrease)	$ 131,255	$ (32,978)	$ (87,117)

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At September 30, 2008, approximately $38.6 million, or 8.9%, 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, 2008, the Company s purchased loans were secured by properties located, as a percentage of total loans, as follows: 4% in Iowa, 2% in Washington, 1% each in Colorado, Florida, and Oregon, and the remaining 1% in eleven 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. In most cases, 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.

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.

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, 2008.

	Loans Delinquent For:								
	30-59 Days			60-89 Days			90 Days and Over		
	42192	Amount	Percent of Category	Number	Amount	Percent of Category	Number	Amount	Percent of Category
					(Dollars in Thousands)				
Real Estate:									
1-4 Family		$		1	$ 16	0%	3	$ 942	13%
Commercial & Multi-Family	1	1,812	46%	1	3,785	60%	2	1,302	17%
Agricultural Real Estate				1	87	1%	1	12	0%
Consumer									