META FINANCIAL GROUP INC
Form 10-Q
February 06, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 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 x 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 x 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 x Non-accelerated filer o Smaller Reporting Company o

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

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 February 4, 2014:
Common Stock, $.01 par value	6,107,820 Common Shares

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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	December 31, 2013	September 30, 2013
Cash and cash equivalents	$31,865	$40,063
Investment securities available for sale	364,942	299,821
Mortgage-backed securities available for sale	605,387	581,372
Investment securities held to maturity	217,859	211,099
Mortgage-backed securities held to maturity	75,210	76,927
Loans receivable - net of allowance for loan losses of $4,258 at December 31, 2013 and $3,930 at September 30, 2013	402,478	380,428
Federal Home Loan Bank Stock, at cost	11,794	9,994
Accrued interest receivable	9,663	8,582
Insurance receivable	400	400
Premises, furniture, and equipment, net	17,269	17,664
Bank-owned life insurance	34,619	33,830
Foreclosed real estate and repossessed assets	116	116
Intangible assets	2,422	2,339
Prepaid assets	9,812	8,539
Deferred taxes	17,120	14,297
MPS accounts receivable	3,878	3,707
Assets held for sale	1,120	1,120
Other assets	1,005	1,691
Total assets	$1,806,959	$1,691,989
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Non-interest-bearing checking	$1,177,936	$1,086,258
Interest-bearing checking	32,399	31,181
Savings deposits	26,279	26,229
Money market deposits	39,041	40,016
Time certificates of deposit	105,479	131,599
Total deposits	1,381,134	1,315,283
Advances from Federal Home Loan Bank	7,000	7,000
Federal funds purchased	235,000	190,000
Securities sold under agreements to repurchase	15,249	9,146
Subordinated debentures	10,310	10,310
Accrued interest payable	250	291
Contingent liability	331	331
Accrued expenses and other liabilities	15,046	16,644
Total liabilities	1,664,320	1,549,005

STOCKHOLDERS’ EQUITY		
Preferred stock, 3,000,000 shares authorized, no shares issued or outstanding at December 31, 2013 and September 30, 2013, respectively Common stock, $.01 par value; 10,000,000 shares authorized,6,134,361 and 6,132,744 shares issued, 6,089,986 and 6,070,654 shares outstandingat December 31, 2013 and September 30, 2013, respectively	61	61
Additional paid-in capital	93,319	92,963
Retained earnings	74,479	71,268
Accumulated other comprehensive income (loss)	(24,493)	(20,285)
Treasury stock, 44,375 and 62,090 common shares, at cost, at December 31, 2013 and September 30, 2013, respectively	(727)	(1,023)
Total stockholders’ equity	142,639	142,984
Total liabilities and stockholders’ equity	$1,806,959	$1,691,989

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 December 31,	
	2013	2012
Interest and dividend income:		
Loans receivable, including fees	$4,471	$4,127
Mortgage-backed securities	3,683	2,934
Other investments	3,008	2,569
	11,162	9,630
Interest expense:		
Deposits	273	425
FHLB advances and other borrowings	376	408
	649	833
Net interest income	10,513	8,797
Provision (recovery) for loan losses	-	-
Net interest income after provision for loan losses	10,513	8,797
Non-interest income:		
Card fees	12,893	11,536
Gain (loss) on sale of securities available for sale, net (Includes ($1) reclassified from accumulated other comprehensive income for net gains on available for sale securities for the three months ended December 31, 2013)	(1)	1,654
Bank-owned life insurance	289	125
Loan fees	207	268
Deposit fees	157	168
Gain (loss) on foreclosed real estate	3	(400)
Other income	39	59
Total non-interest income	13,587	13,410
Non-interest expense:		
Compensation and benefits	8,951	8,277
Card processing	4,245	3,685
Occupancy and equipment	2,051	2,021
Legal and consulting	1,383	920
Data processing	334	320
Marketing	220	270
Other expense	1,877	2,585
Total non-interest expense	19,061	18,078
Income before income tax expense	5,039	4,129

Income tax expense (Includes $0 income tax expense reclassified from accumulated other comprehensive income for the three months ended December 31, 2013)	1,037	1,004
Net income	$4,002	$3,125
Earnings per common share:		
Basic	$0.66	$0.57
Diluted	$0.65	$0.57

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 December 31,	
	2013	2012
Net income	$4,002	$3,125
Other comprehensive income (loss):		
Change in net unrealized gain (loss)on securities	(6,541)	(3,143)
Losses (gains) realized in net income	1	(1,654)
	(6,540)	(4,797)
Deferred income tax effect	(2,332)	(1,835)
Total other comprehensive income (loss)	(4,208)	(2,962)
Total comprehensive income (loss)	$(206)	$163

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 Three Months Ended December 31, 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, 2012	$ 56	$ 78,769	$ 60,776	$ 8,513	$ (2,255)	$ 145,859
Cash dividends declared on common stock ($.39 per share)	-	-	(712)	-	-	(712)
Issuance of common shares from the sales of equity securities	-	(62)	-	-	-	(62)
Issuance of 37,846 common shares from treasury stock due to issuance of restricted stock	-	48	-	-	693	741
Stock compensation	-	5	-	-	-	5
Net change in unrealized losses on securities, net of income taxes	-	-	-	(2,962)	-	(2,962)
Net income	-	-	3,125	-	-	3,125
Balance, December 31, 2012	$ 56	$ 78,760	$ 63,189	$ 5,551	$ (1,562)	$ 145,994
Balance, September 30, 2013	$ 61	$ 92,963	$ 71,268	$ (20,285)	$ (1,023)	$ 142,984
Cash dividends declared on common stock ($0.13 per share)	-	-	(791)	-	-	(791)
Issuance of common shares from the sales of equity securities	-	(47)	-	-	-	(47)
Issuance of common shares from treasury stock due to exercise of stock options	-	401	-	-	296	697
Stock compensation	-	2	-	-	-	2
Net change in unrealized losses on securities, net of income taxes	-	-	-	(4,208)	-	(4,208)

Net income	-	-	4,002	-	-	4,002
Balance, December 31, 2013	$ 61	$ 93,319	$ 74,479	$ (24,493)	$ (727)	$ 142,639

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended December 31, 2013	2012
Cash flows from operating activities:		
Net income	$4,002	$3,125
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion, net	4,446	5,057
Provision (recovery) for deferred taxes	(492)	-
(Gain) loss on other assets	(29)	(7)
(Gain) loss on sale of securities available for sale, net	1	(1,654)
Net change in accrued interest receivable	(1,081)	(2,090)
Net change in other assets	(1,687)	(257)
Net change in accrued interest payable	(41)	41
Net change in accrued expenses and other liabilities	(1,598)	(16,171)
Net cash provided by (used in) operating activities	3,521	(11,956)
Cash flows from investing activities:		
Purchase of securities available for sale	(122,273)	(363,998)
Proceeds from sales of securities available for sale	4,596	110,516
Proceeds from maturities and principal repayments of securities available for sale	19,905	38,783
Purchase of securities held to maturity	(7,410)	-
Proceeds from securities held to maturity	1,430	-
Purchase of bank owned life insurance	(500)	(18,000)
Loans purchased	(250)	(1,075)
Net change in loans receivable	(21,800)	10,798
Proceeds from sales of foreclosed real estate	-	427
Federal Home Loan Bank stock purchases	(114,600)	(116,901)
Federal Home Loan Bank stock redemptions	112,800	107,646
Proceeds from the sale of premises and equipment	39	5
Purchase of premises and equipment	(471)	(725)
Other, net	-	1,835
Net cash provided by (used in) investing activities	(128,534)	(230,689)
Cash flows from financing activities:		
Net change in checking, savings, and money market deposits	91,971	(47,756)
Net change in time deposits	(26,120)	(15,780)
Repayment of FHLB and other borrowings	-	208,000
Proceeds from federal funds purchased	45,000	-
Net change in securities sold under agreements to repurchase	6,103	(14,097)
Cash dividends paid	(791)	(712)
Stock compensation	2	5
Proceeds from issuance of common stock	650	679
Net cash provided by (used in) financing activities	116,815	130,339

Net change in cash and cash equivalents	(8,198)	(112,306)
Cash and cash equivalents at beginning of period	40,063	145,051
Cash and cash equivalents at end of period	$31,865	$32,745
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$690	$793
Income taxes	1,205	3,315

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, 2013 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 16, 2013. 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 month period ended December 31, 2013, are not necessarily indicative of the results expected for the year ending September 30, 2014.

NOTE 2. CREDIT DISCLOSURES

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.

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 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 is 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 homogenous 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. Often this is associated with a delay or shortfall in payments of 90 days or more. Non-accrual loans and all troubled debt restructurings are considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

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Loans receivable at December 31, 2013 and September 30, 2013 are as follows:

	December 31, 2013	September 30, 2013
	(Dollars in Thousands)	
One to four family residential mortgage loans	$92,202	$82,287
Commercial and multi-family real estate loans	204,246	192,786
Agricultural real estate loans	33,774	29,552
Consumer loans	27,895	30,314
Commercial operating loans	18,296	16,264
Agricultural operating loans	31,008	33,750
Total Loans Receivable	407,421	384,953
Less:		
Allowance for loan losses	(4,258)	(3,930)
Net deferred loan origination fees	(685)	(595)
Total Loans Receivable, Net	$402,478	$380,428

Activity in the allowance for loan losses and balances of loans receivable by portfolio segment for the three month periods ended December 31, 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 December 31, 2013								
Allowance for loan losses:								
Beginning balance	$ 333	$ 1,937	$ 112	$ 74	$ 49	$ 267	$ 1,158	$3,930
Provision (recovery) for loan losses	8	(713)	12	(2)	7	(19)	707	-
Loan charge offs	-	-	-	-	-	-	-	-
Recoveries	-	328	-	-	-	-	-	328
Ending balance	$ 341	$ 1,552	$ 124	$ 72	$ 56	$ 248	$ 1,865	$4,258
Ending balance: individually evaluated for impairment	25	421	-	-	-	-	-	446
Ending balance: collectively evaluated for impairment	316	1,131	124	72	56	248	1,865	3,812
Total	$ 341	$ 1,552	$ 124	$ 72	$ 56	$ 248	$ 1,865	$4,258
Loans:								
	678	8,417	-	-	41	-	-	9,136

Ending balance: individually evaluated for impairment								
Ending balance: collectively evaluated for impairment	91,524	195,829	33,774	27,895	18,255	31,008	-	398,285
Total	$ 92,202	$ 204,246	$ 33,774	$ 27,895	$ 18,296	$ 31,008	$ -	$407,421

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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 December 31, 2012								
Allowance for loan losses:								
Beginning balance	$ 193	$ 3,113	$ 1	$ 3	$ 49	$ -	$ 612	$ 3,971
Provision (recovery) for loan losses	(5)	(235)	-	-	1	18	221	-
Loan charge offs	-	(8)	-	-	-	-	-	(8)
Recoveries	-	-	-	-	-	-	-	-
Ending balance	$ 188	$ 2,870	$ 1	$ 3	$ 50	$ 18	$ 833	$ 3,963
Ending balance: individually evaluated for impairment	10	443	-	-	-	-	-	453
Ending balance: collectively evaluated for impairment	178	2,427	1	3	50	18	833	3,510
Total	$ 188	$ 2,870	$ 1	$ 3	$ 50	$ 18	$ 833	$ 3,963
Loans:								
Ending balance: individually evaluated for impairment	351	8,798	-	-	16	-	-	9,165
Ending balance: collectively evaluated for impairment	55,613	168,086	23,446	30,736	13,553	20,926	-	312,360
Total	$ 55,964	$ 176,884	$ 23,446	$ 30,736	$ 13,569	$ 20,926	$ -	$ 321,525

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 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 little value that their continuance as "bankable" assets is not warranted and that "it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future."

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

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

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The asset classification of loans at December 31, 2013 and September 30, 2013 are as follows:

December 31, 2013

	1-4 Family Residential	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Total
Pass	$ 91,596	$ 192,886	$ 30,572	$ 27,895	$ 18,119	$ 23,906	$384,974
Watch	277	4,025	3,202	-	177	1,858	9,539
Special Mention	84	3,195	-	-	-	5,244	8,523
Substandard	245	4,140	-	-	-	-	4,385
Doubtful	-	-	-	-	-	-	-
	$ 92,202	$ 204,246	$ 33,774	$ 27,895	$ 18,296	$ 31,008	$407,421

September 30, 2013

	1-4 Family Residential	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Total
Pass	$ 81,719	$ 177,513	$ 26,224	$ 30,314	$ 16,251	$ 26,362	$358,383
Watch	239	7,791	3,328	-	13	1,690	13,061