

META FINANCIAL GROUP INC
Form 10-K
December 12, 2008
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

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)

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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 NO

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

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 NO

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.

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 Accelerated filer Non-accelerated filer Smaller Reporting Company

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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 December 9, 2008, there were outstanding 2,601,103 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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Forward-Looking Statements

Meta Financial Group, Inc.®, (Meta Financial or the Company) and its wholly-owned subsidiaries, MetaBank 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

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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, 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 \$757.3 million, deposits of \$546.0 million, and shareholders' equity of \$46.8 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

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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 Quinto 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

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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 56.5% 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.

	2008		2007		At September 30, 2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
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.

	2008		2007		September 30, 2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
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:										