

META FINANCIAL GROUP INC
Form 10-K
January 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2007

OR

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

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)

121 East Fifth Street, Storm Lake, Iowa
(Address of principal executive offices)

42-1406262
(I.R.S. Employer
Identification No.)

50588
(Zip Code)

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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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12-b2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of January 9, 2008, there were outstanding 2,589,717 shares of the Registrant's Common Stock.

As of March 31, 2007, 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 \$61.2 million.

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DOCUMENTS INCORPORATED BY REFERENCE

PARTS II and IV of Form 10-K Portions of the Annual Report to Shareholders for the fiscal year ended September 30, 2007.

PART III of Form 10-K Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held February 12, 2008.

META FINANCIAL GROUP, INC.

FORM 10-K

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Signatures

Forward-Looking Statements

Meta Financial Group, Inc.[®], (Meta Financial or the Company) and its wholly-owned subsidiaries, MetaBank (the Bank), MetaBank West Central (MetaBank WC) 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 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; new products and expansion 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: competition; 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 impact of changes in financial services laws and regulations; technological changes; acquisitions; 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.

PART I

Item 1. Description of Business

General

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Meta Financial is a Delaware corporation, the principal assets of which are all the issued and outstanding shares of MetaBank and MetaBank WC. 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 WC as discussed below. Unless the context otherwise requires, references herein to the Company include Meta Financial, MetaBank WC and MetaBank, and all subsidiaries on a consolidated basis. MetaBank and MetaBank WC may sometimes collectively be referred to as the Banks.

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 banking subsidiary of Meta Financial.

MetaBank and MetaBank WC are the only direct, active full service banking subsidiaries of Meta Financial. The Banks are community-oriented financial institutions offering a variety of financial services to meet the needs of the communities they serve. The Company, through the Banks, provides a full range of financial services. The principal business of MetaBank has 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 area. 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 prepaid cards, debit cards, consumer credit products, 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 in the Annual Report, MPS is expanding and playing a more significant role in the Company's revenues and profits. The principal business of MetaBank WC has been and continues to be attracting retail deposits from the general public and investing those funds in commercial and multi-family real estate and commercial operating loans and, to a lesser extent, one- to four-family residential, consumer and agriculture loans. The Banks also purchase mortgage-backed securities and other investments permissible under applicable regulations. Meta Financial also owns Meta Trust, a South Dakota trust corporation. At September 30, 2007, the Company had total assets of \$686.1 million, deposits of \$523.0 million, and shareholders' equity of \$48.1 million. On November 29, 2007, the Company announced an agreement to sell MetaBank WC. The Company reclassified financial information as discontinued bank operations in the consolidated financial statements and the notes thereto in the Annual Report. 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.

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The Company's revenues are derived primarily from interest on commercial and residential mortgage loans, mortgage-backed securities, commercial business loans, 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.

The Trust Company, 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, the Banks and the Trust Company are subject to comprehensive regulation. 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 Area

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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. See Meta Payment Systems® Division.

MetaBank WC operates its business through three full-service offices in Casey, Menlo and Stuart, Iowa.

The Company also has a non-retail service branch in Memphis, Tennessee.

The Company's primary market area includes the Iowa counties of Adair, Buena Vista, Dallas, Guthrie, and Polk, and the South Dakota counties of Brookings, Lincoln and Minnehaha.

Iowa ranks in the top ten states for its low cost of doing business (Economy.com Inc 2005), among the top ten states for technology sophistication in K-12 schools (Market Data Retrieval), third most favorable business liability climate in the nation (Harris Interactive Survey, U.S. Chamber of Commerce, 2003), 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), is the second safest state (Uniform Crime Report, FBI, 2005) 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 east central 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, 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, Des Moines Community Schools, Central Iowa Hospital Corporation, Mercy Hospital Medical Center, Hy-Vee Food Stores, Inc., Wells Fargo Home Mortgage Inc., Pioneer Hi Bred International Inc., Bridgestone/Firestone, Communications Data Services Inc., and Meredith Corporation. 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 3.4% as of September 2007.

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. Sioux Falls ranks third in a national list of top cities to start a company according to a report by Cognetics, Inc. (Kiplinger Report, April 2001). Sioux Falls received an A+ on Zero Population Growth's 2001 Kid-Friendly Cities Report Card, excelling in health, public safety, education, economics, environment, and community life, ranking third out of 140 cities. The city was called a Diamond in the Rough as a great smaller market for businesses to make a move. The magazine cited the community's growth rates as a huge opportunity and recognized the state's friendly tax laws. (Sales & Marketing Management April 2002.) 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 2.4% as of September 2007.

MetaBank WC's main office operates in Stuart, which is located in west-central Iowa on the border of Adair and Guthrie counties, approximately 40 miles west of Des Moines. MetaBank WC's market area is highly dependent on farming and agriculture. Local businesses include Agri-Drain Corporation, Cardinal Glass, Rose Acre Farms, Wausau Supply and Schafer Systems, Inc. In addition, a large number of area residents commute to the Des Moines metro area for work. In recent years, efforts of the Midwest Partnership Corporation have resulted in significant development of new service-related businesses in the area, associated with the westward expansion of Des Moines and direct interstate highway access. Seven industrial parks exist in these two counties with rail access recently added to the Stuart area. This development provides economic diversity to MetaBank WC's market area.

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. Recent rises in agricultural commodity prices will serve to offset 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 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 Asset/Liability Management in the Annual Report.

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 has increased its emphasis, both in absolute dollars and as a percentage of its gross loan portfolio, on all types of commercial lending. 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, 2007, the Company's net loan portfolio totaled \$355.6 million, or 51.8% 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 loan committee, or by the Bank'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, 2007, the Company's largest lending relationship to a single borrower or group of related borrowers totaled \$10.4 million, of which \$1.7 million has been sold to another participant. The Company had 24 other lending relationships in excess of \$3.0 million as of September 30, 2007. At September 30, 2007, none of these loans were classified.

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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.

	2007		2006		At September 30, 2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in Thousands)										
<u>Real Estate</u>										
<u>Loans:</u>										
1-4 Family	\$ 45,407	12.6%	\$ 58,165	15.4%	\$ 68,138	15.8%	\$ 72,186	18.3%	\$ 68,699	19.9%
Commercial & Multi Family	169,877	47.1%	159,107	42.2%	201,431	46.6%	189,141	48.0%	165,907	48.0%
Agricultural	16,582	4.6%	14,098	3.7%	12,773	3.0%	10,308	2.6%	9,008	2.6%
Total Real Estate Loans	231,866	64.3%	231,370	61.3%	282,342	65.3%	271,635	68.9%	243,614	70.4%

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