

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

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

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:										
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.

Due During Years Ending September 30,	Real Estate (1)		Consumer		Commercial Business		Agricultural Operating		Total	
	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

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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	2006
	(Dollars in Thousands)		
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.

	30-59 Days		Loans Delinquent For:				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	4	27	1%				1	1	0%
Agricultural Operating							1	121	2%
Commercial Business	4	2,062	53%	2	2,384	38%	6	5,118	68%
Total	9	\$ 3,901	100%	5	\$ 6,272	100%	14	\$ 7,496	100%

Delinquencies 90 days and over constituted 1.7% of total gross loans and 1.0% of total assets.

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The table below sets forth the amounts and categories of non-performing assets in the Company's loan portfolio. Loans, with some exceptions, are typically placed on non-accrual status when the loan becomes 90 days or more delinquent or when the collection of principal and/or interest becomes doubtful. For all years presented, the Company's troubled debt restructurings (which involved forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates) are included in the table and were performing as agreed. Balances related to discontinued bank operations have been eliminated for all periods presented.

	2008	2007	At September 30, 2006		2005	2004
	(Dollars in Thousands)					
Non-Accruing Loans:						
1-4 Family	\$ 942	\$ 243	\$ 22		\$	
Commercial & Multi Family	1,302					399
Agricultural Real Estate	12	13				
Consumer	1	5			1	59
Agricultural Operating			182		218	254
Commercial Business	538	1,867	5,076		2,204	
Total	2,795	2,128	5,280		2,423	712
Accruing Loans Delinquent:						
90 Days or More						
Total	4,600					
Restructured Loans:						
Consumer						
Agricultural Operating	121	150			7	9
Commercial Business		15				8
Total	121	165			7	17
Foreclosed Assets:						
1-4 Family						
Commercial & Multi Family		229	35		1,841	
Consumer		24				
Commercial Business		65			2,865	
Total		318	50		4,706	
Less: Allowance for Losses						
Total Foreclosed Assets, Net		318	50		4,706	
Total Non-Performing Assets	\$ 7,516	\$ 2,611	\$ 5,330		\$ 7,136	\$ 729
Total as a Percentage of Total Assets	0.99%	0.38%	0.72%		0.92%	0.09%

For the year ended September 30, 2008, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately \$622,000, of which none was included in interest income.

Non-Accruing Loans. At September 30, 2008, the Company had \$2.8 million in non-accruing loans, which constituted 0.6% of the Company's gross loan portfolio.

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Accruing Loans Delinquent 90 Days or More. At September 30, 2008, the Company had \$4.6 million in accruing loans delinquent 90 days or more, which constituted 1.1% of the Company's gross loan portfolio.

Classified Assets. Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by the Office of Thrift Supervision (the OTS) 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 savings association will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such minimal value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When assets are classified as either substandard or doubtful, MetaBank may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When assets are classified as loss, MetaBank is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. MetaBank's determinations as to the classification of their assets and the amount of their valuation allowances are subject to review by their regulatory authorities, who may order the establishment of additional general or specific loss allowances.

On the basis of management's review of its assets, at September 30, 2008, the Company had classified a total of \$15.8 million of its assets as substandard, \$88,000 as doubtful and none as loss. There were no real estate owned or other foreclosed assets at September 30, 2008.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in its loan portfolio and changes in the nature and volume of its loan activity, including those loans which are being specifically monitored by management. Such evaluation, which includes a review of loans for which full collectibility may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for an adequate loan loss allowance.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses. While the Company has no direct exposure to sub-prime loans, management is concerned that developments over the past 18 months in the sub-prime mortgage market may have a ripple effect on residential real estate prices. In addition, the current recessionary environment may strain the financial condition of some borrowers. Management therefore believes that future losses in the residential portfolio may be somewhat higher than historical experience. Over the past six years, loss rates in the commercial and multi-family real estate market have remained moderate. Management recognizes that low charge-off rates over the past several years reflect the formerly strong economic environment and are not indicative of likely losses over a full business cycle. This observation, as well as the aforementioned concerns regarding the economic slowdown, has led management to the conclusion that future losses in this portfolio may be somewhat higher than recent historical experience, excluding loan losses related to fraud by borrowers. On the other hand, current trends in agricultural markets remain reasonable. Higher commodity prices as well as

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average to above average yields created positive economic conditions for most farmers in our markets in 2008. Nonetheless, management still expects that future losses in this portfolio, which have been very low, could be higher than recent historical experience. Management believes that the aforementioned recession may also negatively impact consumers' repayment capacities. Additionally, a sizable portion of the Company's consumer loan portfolio is secured by residential real estate, as discussed above, which is an area to be closely monitored by management in view of its stated concerns.

Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current economic conditions, the size of the loan portfolio, and other factors, the current level of the allowance for loan losses at September 30, 2008 reflects an adequate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level that it considers to be adequate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Company's determination of the allowance for loan losses is subject to review by its regulatory agencies, which can require the establishment of additional general or specific allowances.

Real estate properties acquired through foreclosure are recorded at the lower of cost or fair value. If fair value at the date of foreclosure is lower than the balance of the related loan, the difference will be charged-off to the allowance for loan losses at the time of transfer. Valuations are periodically updated by management and, if the value declines, a specific provision for losses on such property is established by a charge to operations.

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The following table sets forth an analysis of the Company's allowance for loan losses.

	2008	2007	September 30, 2006 (Dollars in Thousands)	2005	2004
Balance at Beginning of Period	\$ 4,493	\$ 6,391	\$ 6,793	\$ 5,144	\$ 4,668
Charge Offs:					
1-4 Family	(2)				(7)
Agricultural Operating					
Commercial & Multi Family		(1,762)		(141)	
Consumer	(5)	(50)	(6)	(13)	(19)
Commercial Business	(1,542)	(3,803)	(1,036)	(3,057)	
Total Charge Offs	(1,549)	(5,615)	(1,042)	(3,211)	(26)
Recoveries:					
1-4 Family	7				2
Consumer	12	3	5	33	25
Commercial Business	38	546	324		2
Commercial & Multi Family				114	
Agricultural Operating	16				
Total Recoveries	73	549	329	147	29
Net Charge Offs (Recoveries)	(1,476)	(5,066)	(713)	(3,064)	3
Additions Charged to Operations	2,715	3,168	311	4,713	473
Balance at End of Period	\$ 5,732	\$ 4,493	\$ 6,391	\$ 6,793	\$ 5,144
Ratio of Net Charge Offs During the Period to Average Loans Outstanding During the Period					
	0.42%	1.43%	0.18%	0.75%	0.00%
Ratio of Net Charge Offs During the Period to Non-Performing Assets					
	19.64%	194.03%	13.38%	42.94%	-0.41%

For more information on the Provision for Loan Losses, see 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.

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The distribution of the Company's allowance for losses on loans at the dates indicated is summarized as follows:

	2008		2007		At September 30, 2006		2005		2004	
	Amount	Percent of Loans in Each Category of Total Loans	Amount	Percent of Loans in Each Category of Total Loans	Amount	Percent of Loans in Each Category of Total Loans	Amount	Percent of Loans in Each Category of Total Loans	Amount	Percent of Loans in Each Category of Total Loans
One-to-Four Family	\$ 98	12.96%	\$ 111	12.59%	\$ 120	15.41%	\$ 93	15.76%	\$ 88	18.30%
Commercial & Multi Family Real Estate	3,236	51.24%	1,246	47.13%	1,403	42.17%	2,243	46.59%	2,767	47.99%
Agricultural Real Estate	94	6.91%	70	4.60%	101	3.74%	130	2.95%	166	2.62%
Consumer	207	11.36%	153	10.20%	116	7.97%	416	7.05%	373	7.43%
Agricultural Operating	1,645	7.18%	178	9.19%	205	7.60%	454	5.34%	466	4.82%
Commercial Business	148	10.35%	2,404	16.29%	4,140	23.11%	3,288	22.31%	1,258	18.84%
Unallocated	304		331		306		169		26	
Total	\$ 5,732	100.00%	\$ 4,493	100.00%	\$ 6,391	100.00%	\$ 6,793	100.00%	\$ 5,144	100.00%

Investment Activities

General. The investment policy of the Company generally is to invest funds among various categories of investments and maturities based upon the Company's need for liquidity, to achieve the proper balance between its desire to minimize risk and maximize yield, to provide collateral for borrowings, and to fulfill the Company's asset/liability management policies. The Company's investment and mortgage-backed securities portfolios are managed in accordance with a written investment policy adopted by the Board of Directors, which is implemented by members of the Company's Investment Committee. The Company is aware that, due to higher levels of concentration risk, the low- and no-cost checking deposits generated through MPS may carry a greater degree of liquidity risk than traditional consumer checking deposits. As a result, the Company closely monitors balances in these accounts, and maintains a portfolio of highly liquid assets to fund potential deposit outflows. To date, the Company has not experienced any inordinate or unusual outflows related to MPS, though no assurance can be given that this will continue to be the case.

As of September 30, 2008, the Company's entire investment and mortgage-backed securities portfolios were classified as available for sale. For additional information regarding the Company's investment and mortgage-backed securities portfolios, see Notes 1 and 4 to the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

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As of September 30, 2008, investment and mortgage-backed securities with fair values of approximately \$82.1 million were pledged as collateral for MetaBank's FHLB advances and reverse repurchase agreements. For additional information regarding the Company's collateralization of borrowings, see Notes 9 and 10 to the Notes to Consolidated Financial Statement, which is included in Part II, Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Investment Securities. It is the Company's general policy to purchase investment securities which are U.S. Government securities and federal agency obligations, state and local government obligations, commercial paper, corporate debt securities and overnight federal funds.

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The following table sets forth the carrying value of the Company's investment security portfolio, excluding mortgage-backed securities and other equity securities, at the dates indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

	2008	At September 30, 2007 (Dollars in Thousands)	2006
Investment Securities			
Trust Preferred & Corporate Securities (1)	\$ 18,174	\$ 24,410	\$ 26,279
Municipal Bonds	1,537	1,550	95
Other			109
Subtotal	19,711	25,960	26,483
FHLB Stock	8,092	4,015	5,053
Total Investment Securities and FHLB Stock	\$ 27,803	\$ 29,975	\$ 31,536
Other Interest-Earning Assets:			
Interest bearing deposits in other financial institutions and Federal Funds Sold (2)	\$ 5,188	\$ 85,110	\$ 100,243

(1) Within the trust preferred securities presented above, there are no securities from individual issuers that exceed 10% of the Company's total equity. The name and the aggregate market value of securities of each individual issuer as of September 30, 2008 are as follows: Key Corp Capital I, \$3.3 million; Bank Boston Capital Trust IV, \$4.1 million; BankAmerica Capital III, \$3.7 million; PNC Capital Trust, \$4.2 million; Huntington Capital Trust II, \$1.8 million.

(2) The Company at times maintains balances in excess of insured limits at various financial institutions including the Federal Home Loan Bank of Des Moines, the Federal Reserve Bank, and other private institutions. At September 30, 2008, the Company had no interest bearing deposits held at the Federal Home Loan Bank of Des Moines (FHLB). At September 30, 2008, the Company had \$5.2 million of federal funds sold at a private institution. The Company does not believe this deposit carries a significant risk of loss, but cannot provide assurances that no loss could occur if this institution were to become insolvent.

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The composition and maturities of the Company's investment securities portfolio, excluding equity securities, FHLB stock and mortgage-backed securities, are indicated in the following table.

	September 30, 2008					
	1 Year or Less Carrying Value	After 1 Year Through 5 Years Carrying Value	After 5 Years Through 10 Years Carrying Value (Dollars in Thousands)	After 10 Years Carrying Value	Total Investment Securities Amortized Cost	Fair Value
Trust Preferred & Corporate Securities	\$	\$	\$	\$ 18,174	\$ 25,795	\$ 18,174
Municipal Bonds		658	879		1,534	1,537
Total Investment Securities	\$	\$ 658	\$ 879	\$ 18,174	\$ 27,329	\$ 19,711
Weighted Average Yield (1)	0.00%	3.96%	3.93%	3.31%	3.75%	3.85%

(1) Yields on tax-exempt obligations have not been computed on a tax-equivalent basis.

Mortgage-Backed Securities. The Company's mortgage-backed and related securities portfolio consists primarily of securities issued under government-sponsored agency programs, including those of Ginnie Mae, Fannie Mae and Freddie Mac. The Company historically has held Collateralized Mortgage Obligations (CMOs), as well as a limited amount of privately issued mortgage pass-through certificates. The Ginnie Mae, Fannie Mae and Freddie Mac certificates are modified pass-through mortgage-backed securities that represent undivided interests in underlying pools of fixed-rate, or certain types of adjustable-rate, predominantly single-family and, to a lesser extent, multi-family residential mortgages issued by these government-sponsored entities. Fannie Mae and Freddie Mac generally provide the certificate holder a guarantee of timely payments of interest, whether or not collected. Ginnie Mae's guarantee to the holder is timely payments of principal and interest, backed by the full faith and credit of the U.S. Government. Privately issued mortgage pass-through certificates generally provide no guarantee as to timely payment of interest or principal, and reliance is placed on the creditworthiness of the issuer, which the Company monitors on a regular basis.

At September 30, 2008, the Company had mortgage-backed securities with a carrying value of \$176.6 million, representing 96% of the total portfolio, which had fixed rates of interest and \$7.5 million, representing 4% of the total portfolio, which had adjustable rates of interest.

Mortgage-backed securities generally increase the quality of the Company's assets by virtue of the insurance or guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Company. At September 30, 2008, \$116.1 million or 63% of the Company's mortgage-backed securities were pledged to secure various obligations of the Company.

While mortgage-backed securities carry a reduced credit risk as compared to whole loans, such securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and so affect both the prepayment speed, and value, of such securities. The prepayment risk associated

with mortgage-backed securities is monitored periodically, and prepayment

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rate assumptions adjusted as appropriate to update the Company's mortgage-backed securities accounting and asset/liability reports.

The following table sets forth the carrying value of the Company's mortgage-backed securities at the dates indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

	2008	At September 30, 2007 (Dollars in Thousands)	2006
CMO	\$ 4	\$ 4	\$ 6
Freddie Mac	59,479	73,749	88,486
Fannie Mae	124,577	58,921	56,455
Privately Issued Mortgages Pass-Through Certificates	63	67	73
Total	\$ 184,123	\$ 132,741	\$ 145,020

The following table sets forth the contractual maturities of the Company's mortgage-backed securities at September 30, 2008. Not considered in the preparation of the table below is the effect of prepayments, periodic principal repayments and the adjustable-rate nature of these instruments.

	September 30, 2008					
	1 Year or Less Carrying Value	After 1 Year Through 5 Years Carrying Value	After 5 Years Through 10 Years Carrying Value	After 10 Years Carrying Value	Total Investment Securities Amortized Cost	Fair Value
	(Dollars in Thousands)					
CMO	\$	\$	\$	\$ 4	\$ 4	\$ 4
Freddie Mac		39,032	7,693	12,754	59,558	59,479
Fannie Mae	1	37,868	13,118	73,590	124,895	124,577
Privately Issued Mortgages Pass-Through Certificates			63		58	63
Total Investment Securities	\$ 1	\$ 76,900	\$ 20,874	\$ 86,348	\$ 184,515	\$ 184,123
Weighted Average Yield	4.55%	4.15%	4.69%	4.72%	4.58%	4.58%

At September 30, 2008, the contractual maturity of 46.9% of all of the Company's mortgage-backed securities was in excess of ten years. The actual maturity of a mortgage-backed security is typically less than its stated maturity due to scheduled principal payments and prepayments of the underlying mortgages. Prepayments that are different than anticipated will affect the yield to maturity. The yield is based upon the interest income and the amortization of any premium or discount related to the mortgage-backed security. In accordance with Generally Accepted Accounting Principles (GAAP), premiums and discounts are amortized over the estimated lives of the loans, which decrease and increase interest income, respectively. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of the mortgage-backed security, and these assumptions are reviewed periodically to reflect actual prepayments. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of

the rate of prepayments. During periods of falling mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security.

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Under such circumstances, the Company may be subject to reinvestment risk because, to the extent that the Company's mortgage-backed securities amortize or prepay faster than anticipated, the Company may not be able to reinvest the proceeds of such repayments and prepayments at a comparable rate.

Sources of Funds

General. The Company's sources of funds are deposits, borrowings, amortization and repayment of loan principal, interest earned on or maturation of investment securities and short-term investments, and funds provided from operations.

Borrowings, including Federal Home Loan Bank (FHLB) of Des Moines advances and repurchase agreements, may be used at times to compensate for seasonal reductions in deposits or deposit inflows at less than projected levels, may be used on a longer-term basis to support expanded lending activities, and may also be used to match the funding of a corresponding asset.

Deposits. The Company offers a variety of deposit accounts having a wide range of interest rates and terms. The Company's deposits consist of passbook and statement savings accounts, money market savings accounts, NOW and regular checking accounts, deposits related to prepaid cards that are primarily categorized as checking accounts, and certificate accounts currently ranging in terms from fourteen days to 60 months. The Company solicits deposits from its primary market area and does not currently use brokers to obtain deposits. The Company relies primarily on competitive pricing policies, advertising and high-quality customer service to attract and retain these deposits. The Company has no brokered deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates, and competition.

The variety of deposit accounts offered by the Company, and the expanding activities of MPS, has allowed it to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. The Company endeavors to manage the pricing of its deposits in keeping with its asset/liability management and profitability objectives. Based on its experience, the Company believes that its passbook savings, money market savings accounts, NOW and regular checking accounts are relatively stable sources of deposits. However, the ability of the Company to attract and maintain certificates of deposit and the rates paid on these deposits has been and will continue to be significantly affected by market conditions.

\$331.0 million of the Company's deposit portfolio is attributable to MPS. The majority of these deposits represent un-spent funds on prepaid debit cards and other stored value products. \$330.2 million are included with non-interest-bearing checking accounts and \$800,000 are included with money market accounts on the Company's Consolidated Statement of Financial Condition. Generally, these deposits do not earn interest. MPS originates debit card programs through outside sales agents and other financial institutions. As such, these deposits carry a somewhat higher degree of liquidity risk than traditional consumer products. If a major client or card program were to leave the Bank, deposit outflows would be more significant than if the bank were to lose a more traditional customer. The Company takes this additional risk into account when planning its investment and liquidity strategies. The increase in deposits arising from MPS has also allowed MetaBank to reduce its reliance on higher costing certificates of deposits and public funds.

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The following table sets forth the savings flows at the Company during the periods indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

	2008	September 30, 2007 (Dollars in Thousands)	2006
Opening Balance	\$ 522,978	\$ 538,169	\$ 510,459
Deposits	42,199,490	21,679,955	11,675,007
Withdrawals	(42,172,568)	(21,663,212)	(11,654,804)
Sale of Deposit	(9,313)	(39,172)	
Interest Credited	5,385	7,238	7,507
Ending Balance	\$ 545,972	\$ 522,978	\$ 538,169
Net Increase (Decrease)	\$ 22,994	\$ (15,191)	\$ 27,710
Percent Increase (Decrease)	4.40%	-2.82%	5.43%

The following table sets forth the dollar amount of savings deposits in the various types of deposit programs offered by the Company for the periods indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

	2008		September 30, 2007 (Dollars in Thousands)		2006	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
<u>Transactions and Savings Deposits:</u>						
Non-Interest Bearing Demand						
Accounts	\$ 355,020	65.03%	\$ 260,098	49.73%	\$ 186,135	34.59%
Interest Bearing Demand Accounts	15,029	2.75	14,600	2.79	24,524	4.56
Passbook Savings Accounts	9,394	1.72	10,265	1.96	28,178	5.24
Money Market Accounts	43,038	7.88	81,292	15.54	98,697	18.34
Total Non-Certificate	422,481	77.38	366,255	70.03	337,534	62.72
<u>Certificates:</u>						
Variable	779	0.14	1,085	0.21	1,501	0.28
0.00 - 1.99%	7,039	1.29	18	0.00	1,370	0.03
2.00 - 3.99%	57,977	10.62	24,696	4.72	62,788	11.67
4.00 - 5.99%	57,686	10.57	130,914	25.03	134,966	25.08
6.00 - 7.99%	10	0.00	10	0.00	10	0.00
Total Certificates	123,491	22.62	156,723	29.97	200,635	37.28
Total Deposits	\$ 545,972	100.00%	\$ 522,978	100.00%	\$ 538,169	100.00%

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The following table shows rate and maturity information for the Company's certificates of deposit as of September 30, 2008.

Certificate accounts maturing in quarter ending:	Variable	0.00- 1.99%	2.00- 3.99%	Maturity		Total	Percent of Total
				4.00- 5.99%	6.00- 7.99%		
(Dollars in Thousands)							
December 31, 2008	\$ 77	\$ 3,744	\$ 12,142	\$ 11,671	\$	\$ 27,634	22.4%
March 31, 2009	279	1,396	8,639	5,554		15,868	12.8
June 30, 2009	122	1,460	10,339	8,794		20,715	16.8
September 30, 2009	99	166	13,871	3,131		17,267	14.0
December 31, 2009	120	128	1,208	5,050		6,506	5.3
March 31, 2010	82	27	1,722	10,525		12,356	10.0
June 30, 2010		102	1,915	2,248		4,265	3.5
September 30, 2010		16	1,516	1,664		3,196	2.6
December 31, 2010			3,087	984		4,071	3.3
March 31, 2011			433	973		1,406	1.1
June 30, 2011			513	685		1,198	1.0
September 30, 2011			378	1,101	10	1,489	1.2
Thereafter			2,214	5,306		7,520	6.1
Total	\$ 779	\$ 7,039	\$ 57,977	\$ 57,686	\$ 10	\$ 123,491	100.0%
Percent of total	0.6%	5.7%	46.9%	46.7%	0.0%	100.0%	

The following table indicates the amount of the Company's certificates of deposit and other deposits by time remaining until maturity as of September 30, 2008.

	Maturity				Total
	3 Months or Less	After 3 to 6 Months	After 6 to 12 Months	After 12 Months	
(Dollars in Thousands)					
Certificates of deposit less than \$100,000	\$ 21,175	\$ 13,100	\$ 29,714	\$ 32,787	\$ 96,776
Certificates of deposit of \$100,000 or more	6,459	2,768	8,268	9,220	\$ 26,715
Total certificates of deposit	\$ 27,634	\$ 15,868	\$ 37,982	\$ 42,007	\$ 123,491

At September 30, 2008, there were \$1.0 million in deposits from governmental and other public entities included in certificates of deposit.

Borrowings. Although deposits are the Company's primary source of funds, the Company's policy has been to utilize borrowings when they are a less costly source of funds, can be invested at a positive interest rate spread, or when the Company desires additional capacity to fund loan demand.

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The Company's borrowings historically have consisted primarily of advances from the FHLB of Des Moines upon the security of a blanket collateral agreement of a percentage of unencumbered loans and the pledge of specific investment securities. Such advances can be made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. At September 30, 2008, the Bank had \$132.0 million of advances from the FHLB of Des Moines and the ability to borrow up to an approximate additional \$74.8 million. At September 30, 2008, advances totaling \$91.0 million (including \$20.0 million in overnight federal funds purchased) had terms to maturity of one year or less. The remaining \$41.0 million had maturities ranging up to 12 years.

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On July 16, 2001, the Company issued all of the 10,000 authorized shares of Company Obligated Mandatorily Redeemable Preferred Securities of First Midwest Financial Capital Trust I (preferred securities of subsidiary trust) holding solely subordinated debt securities. Distributions are paid semi-annually. Cumulative cash distributions are calculated at a variable rate of the London Interbank Offered Rate (LIBOR) plus 3.75%, not to exceed 12.5%. The Company may, at one or more times, defer interest payments on the capital securities for up to 10 consecutive semi-annual periods, but not beyond July 25, 2031. At the end of any deferral period, all accumulated and unpaid distributions will be paid. The capital securities are required to be redeemed on July 25, 2031; however, the Company has a semi-annual option to shorten the maturity date to a date not earlier than July 25, 2007. The option has not been exercised as of the date of this filing. The redemption price is \$1,000 per capital security plus any accrued and unpaid distributions to the date of redemption plus, if redeemed prior to July 25, 2011, a redemption premium as defined in the Indenture Agreement. Holders of the capital securities have no voting rights, are unsecured and rank junior in priority of payment to all of the Company's indebtedness and senior to the Company's common stock. The trust preferred securities have been includable in the Company's capital calculations since they were issued.

From time to time, the Company has offered retail repurchase agreements to its customers. These agreements typically range from 14 days to five years in term, and typically have been offered in minimum amounts of \$100,000. The proceeds of these transactions are used to meet cash flow needs of the Company. At September 30, 2008, the Company had \$5.3 million of retail repurchase agreements outstanding.

Historically, the Company has entered into wholesale repurchase agreements through nationally recognized broker-dealer firms. These agreements are accounted for as borrowings by the Company and are secured by certain of the Company's investment and mortgage-backed securities. The broker-dealer takes possession of the securities during the period that the reverse repurchase agreement is outstanding. The terms of the agreements have usually ranged from 7 days to six months, but on occasion longer term agreements have been entered into. At September 30, 2008, the Company had no wholesale repurchase agreements outstanding.

The following table sets forth the maximum month-end balance and average balance of FHLB advances, retail and reverse repurchase agreements and Subordinated Debentures for the periods indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

	2008	September 30, 2007 (Dollars in Thousands)	2006
<u>Maximum Balance:</u>			
FHLB advances	\$ 162,525	\$ 89,300	\$ 147,450
Repurchase agreements	51,439	15,470	19,469
Subordinated debentures	10,310	10,310	10,310
<u>Average Balance:</u>			
FHLB advances	\$ 103,768	\$ 77,433	\$ 115,102
Retail and reverse repurchase agreements	9,794	7,862	16,536
Subordinated debentures	10,310	10,310	10,310

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The following table sets forth certain information as to the Company's FHLB advances and other borrowings at the dates indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

	2008	September 30, 2007 (Dollars in Thousands)	2006
FHLB advances	\$ 132,025	\$ 68,000	\$ 89,300
Repurchase agreements	5,348	224	15,179
Subordinated debentures	10,310	10,310	10,310
Total borrowings	\$ 147,683	\$ 78,534	\$ 114,789
Weighted average interest rate of FHLB advances	4.28%	5.43%	4.96%
Weighted average interest rate of repurchase agreements	3.00%	3.37%	3.13%
Weighted average interest rate of subordinated debentures	7.83%	9.06%	9.30%

Subsidiary Activities

The subsidiaries of the Company are MetaBank, Meta Trust and First Midwest Financial Capital Trust I. MetaBank has one service corporation subsidiary, First Services Financial Limited (First Services). At September 30, 2008, the net book value of MetaBank's investment in First Services was approximately \$115,000. MetaBank organized First Services, its sole service corporation, in 1983. First Services currently has no active operations.

Meta Payment Systems® Division

Meta Financial, through its subsidiary MetaBank, operating under the divisional name Meta Payment Systems, is focused on the electronic payments industry and offers a complement of open-loop prepaid cards, consumer credit products and other payment industry related products and services that are marketed to consumers through financial institutions and other commercial entities. The products and services offered by Meta Payment Systems are generally designed to facilitate the processing and settlement of authorized electronic transactions involving the movement of funds some of which were previously deposited at MetaBank. Meta Payment Systems offers specific product solutions in the following areas: (i) prepaid cards, (ii) consumer credit products, and (iii) ATM sponsorship. Meta Payment Systems' products and services generally target banks, card processors and third party marketers who distribute the cards.

Each segment of Meta Payment System's business is discussed generally below. With respect to the segments, there can be a significant amount of cross-selling and cross-utilization of personnel and resources (e.g., a client asks Meta Payment Systems to develop products for both prepaid and credit card needs).

Prepaid Cards. Prepaid cards take the form of credit card-sized plastics embedded with a magnetic stripe which encodes relevant card data (which may or may not include information about the user and/or purchaser of such card). When the holder of such a card attempts a permitted transaction,

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necessary information, including the authorization for such transaction, is shared between the point of use or point of sale and authorization systems maintaining the account of record.

The funds associated with such cards are held in pooled accounts at MetaBank representing the aggregate value of all cards issued in connection with particular products or programs, further described below. The cards may work in a closed loop (*e.g.*, the card will only work at one particular merchant and will not work anywhere else), a semi-closed loop (*e.g.*, the card will only work at a specific set of merchants such as a shopping mall), or open loop which function as a Visa, MasterCard, or Discover branded debit card that will work wherever such cards are accepted for payment. Most of MPS prepaid cards are open-loop.

This segment of Meta Payment Systems business can generally be divided into three categories: reloadable cards, non-reloadable cards, and benefit/insurance cards. Government benefits are another growing application for prepaid cards; however, MPS has not focused on this category to date.

Reloadable cards. The most common reloadable prepaid card programs are payroll cards, whereby an employee's payroll is loaded to the card by their employer utilizing direct deposit, or General Purpose Reloadable (GPR) whereby cards are usually distributed by retailers and can be reloaded an indefinite number of times at participating retail load networks. Other examples of reloadable cards are travel cards which are used to replace travelers checks and can be reloaded a predetermined number of times and tax cards where a taxpayer's refund, refund anticipation loan, or pre-season tax loan proceeds are placed on the card. Reloadable cards are generally open loop cards that consumers can use to obtain cash at ATMs or purchase goods and services wherever such cards are accepted for payment.

Non-reloadable cards. Non-reloadable prepaid cards are sometimes referred to as disposable and may only be used until the relevant funds initially loaded to the card have been exhausted. These include gift cards, rebate cards, and promotional or incentive cards. These cards may be closed loop or open loop but are generally not available to obtain cash. Under certain conditions, these cards may be anonymous, whereby no customer relationship is created and the identity of the cardholder is unknown. Except for gift cards, many non-reloadable card programs are funded by a corporation as a marketing expense rather than from consumer funds.

Benefit/insurance cards. Benefit/insurance cards are traditionally used by employers and large commercial companies (such as property insurers) to distribute benefits to persons entitled to such funds. Possible uses of benefit cards could be the distribution of money for qualified expenses related to an employer sponsored flexible spending account program (FSA) or the distribution of insurance claim proceeds to insureds who have made a payable claim against an existing insurance policy. These cards are generally open loop or semi-closed loop as in the case of an FSA card that can only be used for qualified medical expenses.

Consumer Credit Products. MPS is offering various consumer credit products including credit cards, short term/micro loan products, and installment loans targeted at various consumers across the credit spectrum. Under such programs, MPS

typically utilizes vendors to market and service loans, sells a significant portion of the receivables and revenue stream to third parties without recourse, and remains the owner of the consumer account relationship. MPS collects fee income from each account and interest income from its share of receivable balances.

ATM Sponsorship. Meta Payment Systems sponsors financial institutions into various networks to enable them to issue network-branded debit cards and accept cards issued by other financial institutions at their ATM terminals. The division also sponsors ATM independent sales organizations (ISOs) into various networks and provides associated sponsorships of encryption support organizations and third

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party processors in support of the financial institutions and the ATM ISO sponsorships. Sponsorship consists of the review and oversight of entities participating in debit and credit networks. In certain instances, Meta Payment Systems also has certain leasehold interests in certain ATMs which require bank ownership and registration for compliance with applicable state law.

While the Company believes that it has adopted policies and procedures to manage and monitor the risks attendant to this line of business, and while the executives who manage the Company's program have years of experience, no guarantee can be made that the Company will not experience losses in this division.

Regulation

Emergency Economic Stabilization Act of 2008. On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (EESA), giving the US Treasury authority to take certain actions to restore liquidity and stability to the U.S. banking markets. Based upon its authority in the EESA, a number of programs to implement the EESA have been announced. Those programs include the following:

- Capital Purchase Program (CPP). Pursuant to this program, the US Treasury, on behalf of the US government, will purchase up to \$250 billion of preferred stock, along with warrants to purchase common stock, from certain financial institutions, including bank holding companies, savings and loan holding companies and banks or savings associations not controlled by a holding company. The investment will have a dividend rate of 5% per year, until the fifth anniversary of the US Treasury's investment and a dividend of 9% thereafter.
- Temporary Liquidity Guarantee Program. That program contains both a debt guarantee component, whereby the FDIC will guarantee until June 30, 2012, the senior unsecured debt issued by eligible financial institutions between October 14, 2008 and June 30, 2009, and an account transaction guarantee component, whereby the FDIC will insure 100% of non-interest bearing deposit transaction accounts held at eligible financial institutions, such as payment processing accounts, payroll accounts and working capital accounts through December 31, 2009. The deadline for participation in this program has been extended to December 5, 2008. Institutions that do not opt out before December 5, 2008, will be required to pay fees related to participation in the program; institutions that exercise their opt out right will not be required to pay such fees. MetaBank has decided to opt out of both components of this program.
- Temporary increase in deposit insurance coverage. Pursuant to the EESA, the FDIC temporarily raised the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. The EESA provides that the basic deposit insurance limit will return to \$100,000 after December 31, 2009.

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Given the current international, national and regional economic climate, it is unclear what effect the provisions of the EESA will have with respect to the profitability and operations of both the Company and MetaBank. In addition, the US government, either through the US Treasury or some other federal agency, may also advance additional programs that could materially impact the profitability and operations of both the Company and MetaBank. The failure of these governmental efforts to stabilize national and international markets could have a material effect on the Company's business, financial condition, results of operations or access to the credit markets.

US Treasury Department Report. In March 2008, the U.S. Treasury Department released a report containing short-, intermediate- and long-term recommendations to reform and modernize this country's federal financial regulatory structure. With respect to the banking industry, the report recommended the elimination of the federal thrift charter and conversion to the national bank charter, with the OTS merging with and into the Office of the Comptroller of the Currency, the federal agency that regulates national banks. On a longer term basis, the report also recommended a consolidation of the current functional regulation scheme for financial institutions into three distinct regulators: a market stability regulator (the Federal Reserve); a prudent financial regulator (new); and a business conduct regulator (new). It is unclear whether and to what extent this proposal will be implemented in the future and the impact it will have upon the operations of both the Company and MetaBank.

USA Patriot Act of 2001. In October 2001, the USA Patriot Act of 2001 (the Patriot Act) was enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C. which occurred on September 11, 2001. The Patriot Act is intended to strengthen U.S. law enforcement's and the intelligence communities' abilities to work cohesively to combat terrorism on a variety of fronts. The potential impact of the Patriot Act on financial institutions of all kinds is significant and wide-ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Among other provisions, the Patriot Act requires financial institutions to have anti-money laundering programs in place and requires banking regulators to consider a holding company's effectiveness in combating money laundering when ruling on certain merger or acquisition applications.

Sarbanes-Oxley Act of 2002. On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the SOA). The SOA is the most far-reaching U.S. securities legislation enacted in many years, and includes many substantive and disclosure-based requirements. The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the SEC under the Exchange Act.

Pursuant to Section 302 of the SOA, Meta Financial's Chief Executive Officer and Chief Financial Officer are required to certify that the Company's quarterly and annual reports filed with the SEC fairly present, in all material respects, the operations and conditions of Meta Financial. In addition, as required by Section 404 of the SOA, management must make an assessment regarding the effect of internal controls on financial reporting and the Company's external auditors must attest to such management assessment and reports. The Company is considered a

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smaller reporting company based on criteria established by the SEC, and accordingly, beginning with this annual report for the fiscal year ending September 30, 2008, the Company is required to provide management's assessment of the effectiveness of its internal control over financial reporting, which assessment is included in Item 9A(T)

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below. Because the Company is a not a large accelerated filer or accelerated filer, its independent registered public accounting firm is not yet required to issue its attestation regarding the Company's internal control over financial reporting.

Meta Financial has developed policies, procedures and internal processes to ensure compliance with the SOA. It is believed, however, that the implementation of the SOA's compliance requirements will result in additional expense for Meta Financial.

Federal Deposit Insurance Reform Act of 2005. The Federal Deposit Insurance Reform Act of 2005 (the "FDIRA"), signed into law on February 8, 2006, amended current laws regarding the federal deposit insurance system. Pursuant to the FDIRA, the Federal Deposit Insurance Corporation ("FDIC") merged the Bank Insurance Fund ("BIF") and the Savings Association Insurance Fund ("SAIF") into one deposit insurance fund, the Deposit Insurance Fund ("DIF"), on March 31, 2006. The new legislation also abolished the prior minimum 1.25% reserve ratio and the mandatory assessments when the ratio falls below 1.25%. Under the FDIRA, the FDIC, at the beginning of each year, has the flexibility to adjust the DIF's reserve ratio between 1.15% and 1.50% depending upon a variety of factors, including projected losses, economic considerations and current assessment rates. For both 2007 and 2008, the FDIC set the designated reserve ratio at 1.25%. (For more information on current proposals issued by the FDIC with respect to the reserve ratio, see *Bank Supervision and Regulation Insurance of Accounts and Regulation by the FDIC* below.)

Deposit insurance coverage limits were raised under the FDIRA from \$100,000 to \$250,000 for certain types of Individual Retirement Accounts, 401(k) plans and other retirement savings accounts (including Keough accounts and 457 plan accounts, among others). Congress included in the FDIRA, however, the authority for the FDIC to review all levels of insurance coverage after March 31, 2010, and index such insurance coverage to inflation. Additionally, the FDIRA states that undercapitalized financial institutions cannot accept employee benefit plan deposits. (See *Regulation Federal Economic Stabilization Programs* above for a discussion of the temporary increase in deposit insurance coverage.)

Certain one-time deposit premium assessment credits were also authorized under the FDIRA. On May 25, 2007, MetaBank was notified of its assessment credit. The assessment credit was applied automatically to reduce deposit insurance assessments beginning with the Bank's assessment due on June 29, 2007. The amount calculated as MetaBank's share of the credit was \$289,425.65. At September 30, 2008, there was no credit remaining.

Financial Services Regulatory Relief Act of 2006. On October 13, 2006, President Bush signed into law the Financial Services Regulatory Relief Act of 2006. The legislation includes language important to all financial institutions, and the specific provisions applicable to federal savings associations include the following:

- providing savings and loan trust departments with the same exemption from the investment adviser and broker-dealer regulatory requirements to the same extent previously enjoyed by bank trust departments with respect to the Investment Advisers Act of 1940 and the Securities Exchange Act of 1934 (adopted by the SEC in October, 2007);

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- requiring the Securities and Exchange Commission and the Federal Reserve Board, in consultation with the other federal banking regulators, including the Office of Thrift Supervision, to formally resolve regulatory issues with respect to the regulation of securities activities by banks and federal savings associations (final rules were adopted jointly by the SEC and the Federal Reserve in September, 2007);
- providing that a federal savings association is only a citizen of the state in which its home office is located for purposes of determining diversity jurisdiction (a provision that previously had been applicable to national banks only);
- increasing to \$500 million the applicable asset size for an 18-month examination cycle;
- requiring the federal banking agencies to develop a succinct model privacy notice with respect to Gramm-Leach-Bliley privacy provisions and mandating that a regulatory safe harbor be provided to financial institutions that use such model privacy policy (final rules were adopted by the banking agencies in March, 2007);
- extending the powers of federal banking agencies to take enforcement actions against persons for conduct that occurred during their affiliation with the financial institution regardless of whether the person remains employed by the institution; and
- repealing certain requirements governing purchased mortgage servicing rights found in the Home Owners Loan Act.

DoD Credit Regulations. Effective October 1, 2007, the US Department of Defense (the DOD) regulations implementing certain provisions of the John Warner National Defense Authorization Act for Fiscal Year 2007 went into effect. These regulations impose certain restrictions on the types of provisions that may be found in consumer credit products provided to covered borrowers, a term generally defined as active duty service members and their dependents. The rules affect all creditors, including MetaBank.

The regulations were implemented by the DOD in an effort to protect service members from predatory loan practices and are an attempt to balance service member protections with access to credit. Importantly, for the transactions covered by the regulations, there is a new Military Annual Percentage Rate (MAPR) that must be calculated and the MAPR is capped at 36%.

It should be noted that, in the adopting regulations, the DOD stated that it maintains the ability to issue additional rules in the future.

Privacy. MetaBank is required by statute and regulation to disclose their privacy policies to its consumers and, on an annual basis, to its customers. Pursuant to such privacy notices, the Bank's customers may opt out of the sharing of their nonpublic personal information with non-affiliated third parties. The Bank is also required to appropriately safeguard its customers' personal information.

Other Regulation. The Bank is also subject to a variety of other regulations with respect to their business operations including, but not limited to, the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Electronic Funds Transfer Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Fair Debt Collection Practices Act, and the Fair Credit Reporting Act. As discussed below, any change in the regulations affecting the Bank's operations is not predictable and could affect the Bank's operations and profitability.

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Bank Supervision & Regulation

General. MetaBank, a federal savings bank subsidiary of Meta Financial, a unitary savings and loan holding company, is subject to regulation, examination and supervision by both the OTS and the Federal Deposit Insurance Corporation (the FDIC). MetaBank must file regular reports with the OTS, which regularly inspects MetaBank and its subsidiaries to evaluate their compliance with regulatory requirements and their safety and soundness. OTS and, depending on the transaction, other bank regulatory agencies also possess approval authority before MetaBank may enter into certain transactions such as mergers with or acquisitions of other financial institutions. As discussed below, MetaBank's deposits are insured up to applicable limits by the Deposit Insurance Fund (the DIF) which is administered by the FDIC.

MetaBank is also a member of the Federal Home Loan Bank (FHLB) System and is subject to certain limited regulation by the Board of Governors of the Federal Reserve System (the FRB or the Board).

Meta Financial currently has three wholly-owned subsidiaries: MetaBank, a federally chartered thrift institution; First Midwest Financial Capital Trust I, a statutory business trust organized under the Delaware Business Trust Act; and Meta Trust, a South Dakota corporation that provides trust services.

Regulatory authorities have been granted extensive discretion in connection with their supervisory and enforcement activities which are intended to strengthen the financial condition of the banking industry, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution, and the adequacy of an institution's allowance for loan losses. Typically, these actions are undertaken due to violations of laws or regulations or conduct of operations in an unsafe or unsound manner.

Any change in the nature of such regulation and oversight, whether by the OTS, the FDIC, the FRB or legislatively by Congress, could have a material impact on Meta Financial or MetaBank and their respective operations. The discussion herein of the regulatory and supervisory structure within which MetaBank operates is general and does not purport to be exhaustive or a complete description of the laws and regulations involved in MetaBank's operations. The discussion is qualified in its entirety by the actual laws and regulations.

Federal Regulation of MetaBank. Federal law and regulation, including but not limited to the Home Owners' Loan Act and the related regulations issued by the OTS, govern the activities of all federal savings associations, including MetaBank. For example, as discussed in further detail below, certain lending authority for federal savings associations (such as commercial, nonresidential real property and consumer loans) is limited to a specified percentage of the association's capital or assets.

The OTS has extensive supervisory and regulatory authority over the operations of savings associations. As part of this authority, MetaBank is required to file periodic reports with the OTS and is subject to periodic examination by the OTS, as discussed above. The last regular

examination of MetaBank was conducted in early 2008.

OTS also has extensive enforcement authority over its regulated institutions. This enforcement authority includes, among other things, the power to compel higher reserves, the ability to assess civil money penalties, the ability to issue cease-and-desist or removal orders and the ability to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports. Except under certain circumstances, public

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disclosure of final enforcement actions by the applicable regulator is required. The federal banking agencies have adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Generally, any institution which fails to comply with these standards must submit a compliance plan. (For further discussion, see *Standards for Safety and Soundness* herein.)

In addition, the investment, lending and branching authority of MetaBank is prescribed by federal law and it is prohibited from engaging in any activities not permitted by such laws. For example, a federal savings association is generally permitted to branch into any state or multiple states subject to OTS approval.

MetaBank's general permissible lending limit to one borrower is equal to the greater of \$500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At September 30, 2008, MetaBank's lending limit under these restrictions was \$8.3 million. MetaBank is in compliance with this lending limit.

Insurance of Accounts and Regulation by the FDIC. MetaBank is a member of the DIF, which is administered by the FDIC. Deposits are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the United States Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the DIF. The FDIC also has authority to initiate enforcement actions against any FDIC-insured institution after giving its primary federal regulator the opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

Pursuant to a rule adopted by the Board of Directors of the FDIC in November 2006, beginning in 2007, the FDIC places each insured institution into one of four risk categories. Category placement is a two-step process based upon (i) capital ratios (the capital assignment group), and (ii) other relevant information (the supervisory group assignment). Capital group assignments are made quarterly and include the following designations: well capitalized, adequately capitalized and undercapitalized. Supervisory group assignments are divided as follows: (X) group A (financially sound institutions); (Y) group B (institutions that demonstrate weakness); and (Z) group C (institutions that pose a substantial possibility of loss to the DIF unless corrective action is taken).

The schedule of DIF assessment rates has been revised. Effective January 1, 2007, there are four risk categories. Premiums for 2008 range from 5 cents per \$100 of assessable deposits (for institutions deemed to be in the lowest risk category) to 43 cents per \$100 assessable deposits (for institutions deemed to be in the highest risk category). Deposit insurance rates may be adjusted by the FDIC uniformly from one quarter to the next although no single adjustment can exceed three basis points. At September 30, 2008, MetaBank's risk category assignment required a payment of six cents per \$100 of assessable deposits.

Notably, the FDIC has the authority to increase insurance assessments. Pursuant to this authority, on October 7, 2008, the Board of Directors of the FDIC released for comment a plan to restore the DIF reserve ratio to 1.15% by the end of 2013 (the reserve ratio was estimated to be at 1.01% of insured deposits as of June 30, 2008, and the FDIC expects that it may continue to decline). Pursuant to this plan, the FDIC would put in place an across-the-board increase of 7 basis points (annualized) per \$100 of

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assessable deposits beginning January 1, 2009. In addition, beginning in the second quarter of 2009, changes to the deposit insurance system would be made such that the increased assessments would be required of riskier institutions (*i.e.*, those with a significant level of brokered deposits or those that relied significantly on secured liabilities). Certain institutions, however, could see a reduction in their premiums, such as those that hold long-term unsecured debt. MetaBank would not be materially affected by these potential changes.

DIF-insured institutions pay a Financing Corporation (FICO) assessment in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. For the fourth quarter of 2008, the FICO assessment was equal to 1.10 basis points for each \$100 in domestic deposits. These assessments will continue until the bonds mature in 2019.

Under the Federal Deposit Insurance Act (FDIA), the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS. Management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Assessments. As a federal savings bank, MetaBank is required to pay assessments to the OTS to fund its operations. Paid semi-annually, these assessments are based upon the institution's total assets, including consolidated subsidiaries, as reported in the Bank's latest quarterly financial report, its general financial condition and the complexity of the Bank's portfolio.

Regulatory Capital Requirements. Federally insured financial institutions, such as MetaBank, are required to maintain a minimum level of regulatory capital. These capital requirements mandate that an institution maintain at least the following ratios: (1) a core (or Tier 1) capital to adjusted total assets ratio of 4% (which can be reduced to 3% for highly rated institutions); (2) a Tier 1 capital to risk-weighted assets ratio of 4%; and (3) a risk-based capital to risk-weighted assets ratio of 8%. Core (Tier 1) capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority investments in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. Supplementary capital is currently defined to include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

Generally, in meeting the tangible, leverage and risk-based capital standards, federal savings associations must deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank. If a subsidiary's activities are permitted to a national bank that subsidiary's assets are generally consolidated with those of the parent's on a line-for-line basis.

Capital requirements in excess of the standards set forth above may be imposed on individual institutions on a case-by-case basis upon a determination that the association's capital level is or may become inadequate in light of the particular circumstances. The OTS and the FDIC

are generally permitted to take enforcement action against a savings bank that fails to meet its capital requirements. Such action may include restrictions on operations and banking activities, the imposition of a capital directive, a cease-and-desist order, civil money penalties, or more stringent measures such as the appointment of a conservator or receiver or a forced merger with another institution.

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As of September 30, 2008, MetaBank exceeded all of its regulatory capital requirements with core, tangible and risk-based capital ratios of 7.35%, 7.35% and 10.89% respectively, and was designated as well-capitalized under federal guidelineSee Note 15 of the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Financial Statements and Supplementary Data of this Form 10-K.

Prompt Corrective Action. Federal banking regulators are authorized and, under certain circumstances, required to take certain actions against banks that fail to meet their capital requirements. Effective December 19, 1992, the federal banking agencies were given additional enforcement authority with respect to undercapitalized depository institutions. Under the regulations, an institution is deemed to be (a) well capitalized if it has total risk-based capital of 10.0% or more, has a Tier 1 risk-based capital ratio of 6.0% or more, has a Tier 1 leverage capital ratio of 5.0% or more and is not subject to any order or final capital directive to meet and maintain a specific capital level for any capital measure; (b) adequately capitalized if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more and a Tier 1 leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of well capitalized; (c) undercapitalized if it has a total risk-based capital ratio that is less than 8.0%, a tier 1 risk-based capital ratio that is less than 4.0% or a Tier 1 leverage capital ratio that is less than 4.0% (3.0% under certain circumstances); (d) significantly undercapitalized if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a Tier 1 leverage capital ratio that is less than 3.0%; and (e) critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. In certain situations, a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized or undercapitalized institution to comply with supervisory actions as if the institution were in the next lower category.

The federal banking agencies are generally required to take action to restrict the activities of an undercapitalized, significantly undercapitalized or critically undercapitalized bank. Any such bank must submit a capital restoration plan that is guaranteed by the parent holding company. Until such plan is approved, it may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions. The banking regulators are authorized to impose additional restrictions, discussed below, that are applicable to significantly undercapitalized institutions.

Any institution that fails to comply with its capital plan or is significantly undercapitalized (*ie*, Tier 1 risk-based or core capital ratios of less than 3% or a risk-based capital ratio of less than 6%) must be made subject to one or more of additional specified actions and operating restrictions mandated by FDICIA. These actions and restrictions include requiring the issuance of additional voting securities; limitations on asset growth; mandated asset reduction; changes in senior management; divestiture, merger or acquisition of the association; restrictions on executive compensation; and any other action the OTS deems appropriate. An institution that becomes critically undercapitalized is subject to further mandatory restrictions on its activities in addition to those applicable to significantly undercapitalized associations. In addition, the appropriate banking regulator must appoint a receiver (or conservator with the FDIC's concurrence) for an institution, with certain limited exceptions, within 90 days after it becomes critically undercapitalized. Any undercapitalized institution is also subject to other possible enforcement actions, including the appointment of a receiver or conservator. The appropriate regulator is also generally authorized to reclassify an institution into a lower capital category and impose restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

Institutions must file a capital restoration plan with the OTS within 45 days of the date it receives a notice from the OTS that it is undercapitalized, significantly undercapitalized, or critically

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undercapitalized. Compliance with a capital restoration plan must be guaranteed by a parent holding company. In addition, the OTS is permitted to take any one of a number of discretionary supervisory actions, including but not limited to the issuance of a capital directive and the replacement of senior executive officers and directors.

Though not expected, the imposition of any of these measures on MetaBank may have a substantial adverse effect on it and on the Company's operations and profitability. Meta Financial shareholders do not have preemptive rights and, therefore, if Meta Financial is directed by the OTS or the FDIC to issue additional shares of Common Stock, such issuance may result in the dilution in shareholders' percentage of ownership of Meta Financial.

Branching by Federal Savings Associations. Generally, subject to OTS approval, federal savings banks like MetaBank are able to branch nationwide without state law interference. Community Reinvestment Act performance is assessed, however, and could be the basis for the denial of branching (or other) applications submitted to the OTS by a federal savings bank.

Standards for Safety and Soundness. The federal banking agencies have adopted the *Interagency Guidelines Establishing Standards for Safety and Soundness*. The guidelines establish certain safety and soundness standards for all depository institutions. The operational and managerial standards in the guidelines relate to the following: (1) internal controls and information systems; (2) internal audit systems; (3) loan documentation; (4) credit underwriting; (5) interest rate exposure; (6) asset growth; (7) compensation, fees and benefits; (8) asset quality; and (9) earnings. Again, rather than providing specific rules, the guidelines set forth basic compliance considerations and guidance with respect to a depository institution. Failure to meet the standards in the guidelines, however, could result in a request by the OTS to MetaBank to provide a written compliance plan to demonstrate its efforts to come into compliance with such guidelines.

Limitations on Dividends and Other Capital Distributions. The OTS imposes various restrictions on savings associations with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. The OTS also prohibits a savings association from declaring or paying any dividends or from repurchasing any of its stock if, as a result of such action, the regulatory capital of the association would be reduced below the amount required to be maintained for the liquidation account established in connection with MetaBank's mutual to stock conversion.

Savings institutions such as MetaBank may make a capital distribution without the approval of the OTS, provided they notify the OTS 30 days before they declare the capital distribution and they meet the following requirements: (i) have a regulatory rating in one of two top examination categories; (ii) are not of supervisory concern, and will remain adequately or well-capitalized, as found in the OTS prompt corrective action regulations, following the proposed distribution; and (iii) the distribution does not exceed their net income for the calendar year-to-date plus retained net income for the previous two calendar years (less any dividends previously paid). If a savings institution does not meet the above state requirements, it must obtain prior approval of the OTS before declaring any proposed distributions.

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The OTS has the authority, however, to prohibit a proposed capital distribution that would otherwise be permitted by regulation if it determines that such distribution would be an unsafe or unsound activity. MetaBank is also subject to certain restrictions on dividends as a result of its conversion from the mutual form of ownership. Such restrictions are not expected to interfere with the dividend policies of the Bank.

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Qualified Thrift Lender Test. All savings associations, including MetaBank, are required to meet a qualified thrift lender (QTL) test to avoid certain restrictions on their operations. This test requires a savings association to have at least 65% of its portfolio assets (as defined by regulation) in qualified thrift investments (primarily residential mortgages and related investments, including certain mortgage-backed securities) on a monthly average for nine out of every 12 months on a rolling basis or meet the requirements for a domestic building and loan association under the Internal Revenue Code. Under either test, the required assets primarily consist of residential housing related to loans and investments. At September 30, 2008, MetaBank met the test and always has since its effectiveness.

Any savings association that fails to meet the QTL test must convert to a national bank charter, unless it qualifies as a QTL within one year and thereafter remains a QTL, or limits its new investments and activities to those permissible for both a savings association and a national bank. In addition, the association is subject to national bank limits for payment of dividends and branching authority. If such association has not requalified or converted to a national bank within three years after the failure, it must divest all investments and cease all activities not permissible for a national bank.

Community Reinvestment Act. Under the Community Reinvestment Act (CRA), every FDIC-insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to a particular community. The CRA requires the OTS, in connection with the examination of MetaBank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch by the institution. An unsatisfactory rating may be used as the basis for the denial of such an application. MetaBank was examined for CRA compliance in October 2008 and received a satisfactory rating.

Interstate Banking and Branching. The FRB may approve an application of an adequately capitalized and adequately managed bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than such holding company's home state, without regard to whether the transaction is prohibited by the laws of any state. In general, the FRB may not approve the acquisition of a bank that has not been in existence for the minimum time period (not exceeding five years) specified by the statutory law of the host state or if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. Iowa has adopted a five year minimum existence requirement.

The federal banking agencies are also generally authorized to approve interstate merger transactions without regard to whether such transaction is prohibited by the law of any state. Interstate acquisitions of branches or the establishment of a new branch is permitted only if the law of the state in which the branch is located permits such acquisitions. Interstate mergers and branch acquisitions are also subject to the nationwide and statewide insured deposit concentration amounts described above. Iowa permits interstate branching only by merger.

Transactions with Affiliates. MetaBank must comply with Sections 23A and 23B of the Federal Reserve Act relative to transactions with affiliates, generally defined to mean any company that controls or is under common control with the institution (as such, Meta Financial is an affiliate of

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MetaBank for these purposes). Transactions between an institution or its subsidiaries and its affiliates are required to be on terms as favorable to MetaBank as terms prevailing at the time for transactions with nonaffiliates. In addition, certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the institutions' capital (*e.g.*, the aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the institution; the aggregate amount of covered transactions with all affiliates is limited to 20% of the institution's capital and surplus). In addition, a savings and loan holding company may not lend to any affiliate engaged in activities not permissible for a savings and loan holding company or acquire the securities of most affiliates. The OTS has the discretion to treat subsidiaries of savings institutions as affiliates on a case-by-case basis.

On April 1, 2003, the Federal Reserve's Regulation W, which comprehensively amends sections 23A and 23B of the Federal Reserve Act, became effective. The Federal Reserve Act and Regulation W are applicable to MetaBank. The Regulation unifies and updates staff interpretations issued over the years, incorporates several new interpretive proposals (such as to clarify when transactions with an unrelated third party will be attributed to an affiliate) and addresses new issues arising as a result of the expanded scope of non-banking activities engaged in by banks and bank holding companies in recent years and authorized for financial holding companies under the Financial Services Modernization Act of 1999.

Certain transactions with directors, officers or controlling persons are also subject to conflict of interest regulations. These conflict of interest regulations and other statutes also impose restrictions on loans to such persons and their related interests. Among other things, such loans must be made on terms substantially the same as for loans to unaffiliated individuals and must not create an abnormal risk of repayment or other unfavorable features for the Bank.

Federal Home Loan Bank System. MetaBank is a member of the FHLB of Des Moines, one of 12 regional FHLBs that administers the home financing credit function of savings associations that is subject to supervision and regulation by the Federal Housing Finance Agency. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances must be used for residential home financing.

As members of the FHLB System, MetaBank is required to purchase and maintain activity-based capital stock in the FHLB of Des Moines in the amount of 4.45% to support outstanding advances and mortgage loans. At September 30, 2008, the Bank had in the aggregate \$8.1million in FHLB stock, which was in compliance with this requirement. For the fiscal year ended September 30, 2008, dividends paid by the FHLB of Des Moines to MetaBank totaled \$254,000.

Under federal law, the FHLBs are required to provide funds for the resolution of troubled savings associations and to contribute to low- and moderately priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of the Bank's FHLB stock may result in a corresponding reduction in the Bank's capital. In addition, the federal agency that regulates the FHLBs has required each FHLB to register its stock with the SEC, which will increase the costs of each FHLB and may have other effects that are not possible to predict at this time.

Federal Securities Law. The common stock of Meta Financial is registered with the SEC under the Exchange Act, as amended. Meta Financial is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

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Meta Financial's stock held by persons who are affiliates (generally officers, directors and principal stockholders) of the Company may not be resold without registration unless sold in accordance with certain resale restrictions. If Meta Financial meets specified current public information requirements, each affiliate of the Company, subject to certain requirements, will be able to sell, in the public market, without registration, a limited number of shares in any three-month period.

Holding Company Supervision & Regulation

Meta Financial is a unitary savings and loan holding company within the meaning of the Home Owners' Loan Act. (Meta Financial deregistered as a bank holding company once it completed the sale of MetaBank WC in the spring of 2008.) As such, it is registered with the Office of Thrift Supervision and is subject to OTS regulations, examinations, supervision, reporting requirements and regulations concerning corporate governance and activities. The OTS requires payment of a semi-annual assessment which includes a \$3,000 base assessment with an additional assessment based upon the holding company's risk or complexity, organizational form and condition.

Pursuant to federal law, a savings and loan holding company may not, directly or indirectly: (i) acquire control of a savings institution without prior OTS approval; (ii) through one or more subsidiaries, acquire more than 5% of the voting stock of another savings institution, or its holding company, without the prior written approval of the OTS; (iii) acquire through merger, consolidation or purchase of assets of another savings institution (or holding company thereof) without prior OTS approval, or (iv) acquire control of an uninsured institution. When considering applications made by holding companies to it, the OTS must consider the financial and managerial resources and future prospects of the company and institution(s) involved, the effect of the potential acquisition on the DIF, the convenience and needs of the community and competitive issues.

Failure to Meet QTL Test. If a banking subsidiary of a savings and loan holding company fails to meet the QTL test, the holding company must register with the FRB as a bank holding company within one year of the savings institution's failure to comply.

Acquisition of Control. Under the Change in Bank Control Act, a notice must be submitted to the OTS if any person (defined to include both individuals and corporate entities) or group of persons acting in concert seeks to acquire control of a savings and loan holding company or its depository institution subsidiary. An acquisition of control can occur upon the acquisition of 10% or more of the voting stock of a savings and loan holding company or savings institution subsidiary or as otherwise defined by the OTS. This presumption of control at the 10% level of ownership of voting securities can be rebutted with a submission to the OTS prior to the acquisition of stock or the occurrence of any other circumstance giving rise to such presumption.

Pursuant to the CIBC Act, the OTS has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the effect the acquisition could have on the depositors or the public, the competitive effects of the acquisition and the financial and managerial resources of the acquirer. Any company deemed to be in control would then be subject to regulation as a savings and loan holding company and subject to registration with the OTS and the agency's registration, examination and regulation.

Federal and State Taxation

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Federal Taxation. Meta Financial and its subsidiaries file consolidated federal income tax returns on a fiscal year basis using the accrual method of accounting. In addition to the regular income tax, corporations, including savings banks such as MetaBank, generally are subject to a minimum tax. An

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alternative minimum tax is imposed at a minimum tax rate of 20% on alternative minimum taxable income, which is the sum of a corporation's regular taxable income (with certain adjustments) and tax preference items, less any available exemption. The alternative minimum tax is imposed to the extent it exceeds the corporation's regular income tax and net operating losses can offset no more than 90% of alternative minimum taxable income.

To the extent earnings appropriated to a savings bank's bad debt reserves and deducted for federal income tax purposes exceed the allowable amount of such reserves computed under the experience method and to the extent of the bank's supplemental reserves for losses on loans (Excess), such Excess may not, without adverse tax consequences, be utilized for the payment of cash dividends or other distributions to a shareholder (including distributions on redemption, dissolution or liquidation) or for any other purpose (except to absorb bad debt losses). As of September 30, 2008, MetaBank's Excess for tax purposes totaled approximately \$6.7 million.

Meta Financial and its consolidated subsidiaries have not been audited by the IRS within the past ten years. In the opinion of management, any examination of still open returns (including returns of subsidiaries and predecessors of, or entities merged into, Meta Financial) would not result in a deficiency which could have a material adverse effect on the financial condition of Meta Financial and its subsidiaries.

Iowa Taxation. MetaBank files Iowa franchise tax returns. Meta Financial and First Services Financial, a subsidiary of MetaBank file a consolidated Iowa corporation tax return on a fiscal year-end basis.

Iowa imposes a franchise tax on the taxable income of mutual and stock savings banks and commercial banks. The tax rate is 5%, which may effectively be increased, in individual cases, by application of a minimum tax provision. Taxable income under the franchise tax is generally similar to taxable income under the federal corporate income tax, except that, under the Iowa franchise tax, no deduction is allowed for Iowa franchise tax payments and taxable income includes interest on state and municipal obligations. Interest on U.S. obligations is taxable under the Iowa franchise tax and under the federal corporate income tax. The taxable income for Iowa franchise tax purposes is apportioned to Iowa through the use of a one-factor formula consisting of gross receipts only.

Taxable income under the Iowa corporate income tax is generally similar to taxable income under the federal corporate income tax, except that, under the Iowa tax, no deduction is allowed for Iowa income tax payments; interest from state and municipal obligations is included in income; interest from U.S. obligations is excluded from income; and 50% of federal corporate income tax payments are deductible from income. The Iowa corporate income tax rates range from 6% to 12% and may be effectively increased, in individual cases, by application of a minimum tax provision.

South Dakota Taxation. MetaBank and Meta Trust Company file a consolidated South Dakota franchise tax return due to their operations in Sioux Falls and Brookings. The South Dakota franchise tax is imposed on depository institutions and trust companies. Meta Financial and MetaBank's subsidiaries are therefore not subject to the South Dakota franchise tax.

South Dakota imposes a franchise tax on the taxable income of depository institutions and trust companies at the rate of 6%. Taxable income under the franchise tax is generally similar to taxable income under the federal corporate income tax, except that, under the South Dakota franchise tax, no deduction is allowed for state income and franchise taxes, income from municipal obligations exempt from federal taxes are included in the franchise taxable income, and there is a deduction allowed for federal income taxes accrued for the fiscal year. The taxable

income for South Dakota franchise tax

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purposes is apportioned to South Dakota through the use of a three-factor formula consisting of tangible real and personal property, payroll and gross receipts.

Delaware Taxation. As a Delaware holding company, Meta Financial is exempted from Delaware corporate income tax but is required to file an annual report with and pay an annual fee to the State of Delaware. Meta Financial is also subject to an annual franchise tax imposed by the State of Delaware.

Competition

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The Company's retail banking operation faces strong competition, both in originating real estate and other loans and in attracting deposits. Competition in originating real estate loans comes primarily from commercial banks, savings banks, credit unions, captive finance companies, insurance companies, and mortgage bankers making loans secured by real estate located in the Company's market area. Commercial banks and credit unions provide vigorous competition in consumer lending. The Company competes for real estate and other loans principally on the basis of the quality of services it provides to borrowers, interest rates and loan fees it charges, and the types of loans it originates.

The Company's retail banking operation attracts deposits through its retail banking offices, primarily from the communities in which those retail banking offices are located; therefore, competition for those deposits is principally from other commercial banks, savings banks, credit unions and brokerage offices located in the same communities. The Company competes for these deposits by offering a variety of deposit accounts at competitive rates, convenient business hours, and convenient branch locations with interbranch deposit and withdrawal privileges at each.

The Company's retail banking operation serves Buena Vista, Dallas and Polk counties in Iowa and Brookings, Lincoln and Minnehaha counties in South Dakota. There are twenty-two commercial banks, four savings banks other than MetaBank, and two credit unions which compete for deposits and loans in MetaBank's primary market area in northwest Iowa and eight commercial banks, one savings bank other than MetaBank, and one credit union which compete for deposits and loans in MetaBank's market area in Brookings, South Dakota. The Bank competes for deposits and loans with numerous financial institutions located throughout the metropolitan market areas of Des Moines, Iowa and Sioux Falls, South Dakota.

The Company's payment systems division serves customers nationally and faces competition from large commercial banks and specialty providers of electronic payments processing and servicing, including prepaid, debit, and credit card issuers, ACH processors, and ATM network sponsors. Many of these national players are aggressive competitors, leveraging relationships and economies of scale the Company is still developing.

Employees

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At September 30, 2008, the Company and its subsidiaries had a total of 398 employees, including 8 part-time employees. The Company's employees are not represented by any collective bargaining group. Management considers its employee relations to be good.

Executive Officers of the Company Who Are Not Directors

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The following information as to the business experience during the past five years is supplied with respect to the executive officers of the Company who do not serve on the Company's Board of

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Directors. There are no arrangements or understandings between such persons named and any persons pursuant to which such officers were selected.

On June 27, 2005, Mr. Troy Moore III was named Executive Vice President and Chief Operating Officer of the Company and MetaBank. Additionally, Mr. Moore became a member of the Executive Committees of both the Company and MetaBank. Previously, Mr. Moore, age 40, had been the president of the Central Iowa Market of MetaBank, a position he had held since 1998. He joined MetaBank in 1997 as a Vice President in the Central Iowa Market. Mr. Moore received a Bachelor of Business Administration degree from Iowa State University, Ames, Iowa. Mr. Moore is the son-in-law of James S. Haahr, the Company's Chairman of the Board, and the brother-in-law of J. Tyler Haahr, the Company's President and Chief Executive Officer.

On April 23, 2007, Mr. Scott Galit, age 38, was named Executive Vice President of Meta Payments Systems. Additionally, Mr. Galit serves on the MetaBank Executive Committee. Mr. Galit previously served as Senior Vice President of Global Prepaid Products at MasterCard® Worldwide. Prior to joining MasterCard®, Mr. Galit was Senior Vice President and General Manager of First Data Prepaid Solutions. Mr. Galit was a founding board member of the Network Branded Prepaid Card Association (NBPCA) and currently serves on the NBPCA Advisory Board.

On January 28, 2008, Mr. David W. Leedom, age 54, was appointed Senior Vice President and Secretary, Treasurer, and Chief Financial Officer of the Company. Additionally, Mr. Leedom became a member of the Executive Committees for both the Company and MetaBank. Mr. Leedom brings over 23 years of experience in the banking and financial services industry to the company. Since January, 2007, Mr. Leedom served as Senior Vice President of Portfolio Credit and Business Analytics at MetaBank. He previously served as a Senior and as an Executive Vice President for BankFirst for 11 years prior to joining Meta in January 2007; his experience at BankFirst included his positions as EVP of Accounting and Finance and Credit Portfolio Management. Mr. Leedom received a Bachelor of Business Administration in Accounting degree from the University of Iowa.

Item 1A. Risk Factors

Factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results include those described below as well as other risks and factors identified from time to time in our SEC filings. The Company's business could be harmed by any of the risks noted below. The trading price of the Company's common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this annual report on Form 10-K, including the Company's financial statements and related notes.

Risks Related to the Banking Industry

Changes in economic and political conditions could adversely affect the Company's earnings, as the Company's borrowers' ability to repay loans and the value of the collateral securing the Company's loans decline.

The Company's success depends, to a certain extent, upon economic and political conditions, local and national, as well as governmental monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond the Company's control may adversely affect the Company's asset quality, deposit levels and loan demand and, therefore, the Company's earnings. Because the Company has a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. Among other things, adverse

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changes in the economy, including but not limited to the current economic downturn, may also have a negative effect on the ability of the Company's borrowers to make timely repayments of their loans, which would have an adverse impact on the Company's earnings. In addition, the vast majority of the Company's loans are to individuals and businesses in the Company's market area. Consequently, any economic decline in the Company's market area could have an adverse impact on the Company's earnings.

Recessionary environment may adversely impact the Company's earnings and new governmental initiatives may not prove effective.

Recently, there seems to be widespread agreement that the U.S., and perhaps the world economy in general, has entered a period of recession. As described above, a recession may have an adverse impact on the Company's revenues and income, both in the banking and MPS segments. Further, passage of the Emergency Economic Stabilization Act of 2008 and the implementation thereof by the US Treasury and the federal banking agencies may not prove effective enough to blunt the effect of the downturn in the economy. See Regulation herein.

Changes in interest rates could adversely affect the Company's results of operations and financial condition.

The Company's earnings depend substantially on the Company's interest rate spread, which is the difference between (i) the rates we earn on loans, securities and other earning assets, and (ii) the interest rates we pay on deposits and other borrowings. These rates are highly sensitive to many factors beyond the Company's control, including general economic conditions and the policies of various governmental and regulatory authorities. As market interest rates rise, we will have competitive pressures to increase the rates we pay on deposits, which may result in a decrease of the Company's net interest income. Conversely, if interest rates fall, yields on loans and investments may fall. Because a significant portion of the Company's deposit portfolio is in non-interest bearing accounts, such a change in rates would likely result in a decrease in the Company's net interest income. For additional information, see Item 7A, herein.

The Company operates in a highly regulated environment, and changes in laws and regulations to which we are subject may adversely affect the Company's results of operations.

MetaBank and the Company operate in a highly regulated environment and are subject to extensive regulation, supervision and examination by the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation (FDIC). See Business Regulation herein. Applicable laws and regulations may change, and there is no assurance that such changes will not adversely affect the Company's business. Such regulation and supervision govern the activities in which an institution may engage including the activities of MetaBank's Meta Payment Systems Division, and are intended primarily for the protection of MetaBank and their depositors. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including but not limited to the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Any change in such regulation and oversight, whether in the form of restrictions on activities, regulatory policy, regulations, or legislation, including but not limited to changes in the regulations governing savings banks, could have a material impact on MetaBank and the Company's operations.

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Changes in technology could be costly.

The banking industry is undergoing technological innovation at a fast pace. To keep up with its competition, the Company needs to stay abreast of innovations and evaluate those technologies that will enable it to compete on a cost-effective basis. This is especially true with respect to MetaBank's Meta Payment Systems Division. The cost of such technology, including personnel, can be high in both absolute and relative terms. There can be no assurance, given the fast pace of change and innovation, that the Company's technology, either purchased or developed internally, will meet or continue to meet the needs of the Company.

Risks Related to the Company's Business

The Company operates in an extremely competitive market, and the Company's business will suffer if it is unable to compete effectively.

In the Company's market area, MetaBank encounters significant competition from other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds and other financial intermediaries. Many of MetaBank's competitors have substantially greater resources and lending limits and may offer services that MetaBank does not or cannot provide. The Company's profitability depends upon the Company's continued ability to compete successfully in the Company's market area. The Meta Payment Systems Division operates on a national scale against competitors with substantially greater resources and limited barriers to entry. The Division's success depends upon its ability to compete in such an environment.

The loss of key members of the Company's senior management team could adversely affect the Company's business.

We believe that the Company's success depends largely on the efforts and abilities of the Company's senior management. Their experience and industry contacts significantly benefit us. The competition for qualified personnel in the financial services industry is intense, and the loss of any of the Company's key personnel or an inability to continue to attract, retain and motivate key personnel could adversely affect the Company's business.

The Company's loan portfolio includes loans with a higher risk of loss.

MetaBank originates commercial mortgage loans, commercial loans, consumer loans, agricultural mortgage loans, agricultural loans and residential mortgage loans primarily within the Company's market areas. Commercial mortgage, commercial, and consumer loans may expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans may not be sold as easily as residential real estate. These loans also have greater credit risk than residential real estate for the following reasons:

- *Commercial Mortgage Loans.* Repayment is dependent upon income being generated in amounts sufficient to cover operating expenses and debt service.
- *Commercial Loans.* Repayment is dependent upon the successful operation of the borrower's business.
- *Consumer Loans.* Consumer loans (such as personal lines of credit) are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage, or loss.

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- *Agricultural Loans.* Repayment is dependent upon the successful operation of the business, which is greatly dependent on many things outside the control of either the Bank or the borrowers. These factors include weather, commodity prices, and interest rates, among others.
- *MPS Program Loans.* MPS originates consumer loans, in some cases related to anticipated tax refunds that are funded to prepaid cards. For certain of these loans, repayment is based on the customer filing a tax return and the Internal Revenue Service funding the tax refund. If either or both do not occur, losses could result. MPS has loss protection agreements in place with certain business partners in which they will absorb some or all of such losses in the event they were to occur.

If the Company's actual loan losses exceed the Company's allowance for loan losses, the Company's net income will decrease.

The Company makes various assumptions and judgments about the collectibility of the Company's loan portfolio, including the creditworthiness of the Company's borrowers and the value of the real estate and other assets serving as collateral for the repayment of the Company's loans. Despite the Company's underwriting and monitoring practices, the Company's loan customers may not repay their loans according to their terms, and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. The Company may experience significant loan losses, which could have a material adverse effect on its operating results. Because the Company must use assumptions regarding individual loans and the economy, the current allowance for loan losses may not be sufficient to cover actual loan losses, and increases in the allowance may be necessary. The Company may need to significantly increase the Company's provision for losses on loans if one or more of the Company's larger loans or credit relationships becomes delinquent or if we continue to expand the Company's commercial real estate and commercial lending. In addition, federal and state regulators periodically review the Company's allowance for loan losses and may require the Company to increase the Company's provision for loan losses or recognize loan charge-offs. Material additions to the Company's allowance would materially decrease the Company's net income. The Company cannot assure you that its monitoring procedures and policies will reduce certain lending risks or that the Company's allowance for loan losses will be adequate to cover actual losses.

If the Company forecloses on and takes ownership of real estate collateral property, it may be subject to the increased costs associated with the ownership of real property, resulting in reduced revenues.

The Company may have to foreclose on collateral property to protect its investment and may thereafter own and operate such property. In such case, the Company will be exposed to the risks inherent in the ownership of real estate. The amount that the Company, as a mortgagee, may realize after a default is dependent upon factors outside of the Company's control, including, but not limited to: (i) general or local economic conditions; (ii) neighborhood values; (iii) interest rates; (iv) real estate tax rates; (v) operating expenses of the mortgaged properties; (vi) supply of and demand for rental units or properties; (vii) ability to obtain and maintain adequate occupancy of the properties; (viii) zoning laws; (ix) governmental rules, regulations and fiscal policies; and (x) acts of God. Certain expenditures associated with the ownership of real estate, principally real estate taxes and maintenance costs, may adversely affect the income from the real estate. Therefore, the cost of operating a real property may exceed the rental income earned from such property, and the Company may have to advance funds in order to protect the Company's investment, or may be required to dispose of the real property at a loss. The foregoing expenditures and costs could adversely affect the Company's ability to generate revenues, resulting in reduced levels of profitability.

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Environmental liability associated with commercial lending could have a material adverse effect on the Company's business, financial condition and results of operations.

In the course of the Company's business, it may acquire, through foreclosure, commercial properties securing loans that are in default. There is a risk that hazardous substances could be discovered on those properties. In this event, the Company could be required to remove the substances from and remediate the properties at its own cost and expense. The cost of removal and environmental remediation could be substantial. The Company may not have adequate remedies against the owners of the properties or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have a material adverse effect on the Company's business, financial condition and operating results.

If the Company fails to maintain an effective system of internal control over financial reporting, it may not be able to accurately report the Company's financial results or prevent fraud, and, as a result, investors and depositors could lose confidence in the Company's financial reporting, which could adversely affect the Company's business, the trading price of the Company's stock and the Company's ability to attract additional deposits.

Beginning with this annual report on Form 10-K, the Company has to include in its annual reports filed with the SEC a report of the Company's management regarding internal control over financial reporting. As a result, we began last year to document and evaluate the Company's internal control over financial reporting in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (or SOA) and SEC rules and regulations, which require an annual management report on the Company's internal control over financial reporting, including, among other matters, management's assessment of the effectiveness of internal control over financial reporting. The SOA also requires an attestation report by the Company's independent auditors addressing these assessments at the conclusion of our 2009 fiscal year on September 30, 2009. Accordingly, management has retained outside consultants to assist the Company in (i) assessing and documenting the adequacy of the Company's internal control over financial reporting, (ii) improving control processes, where appropriate, and (iii) verifying through material weaknesses or testing that controls are functioning as documented. If the Company fails to identify and correct any significant deficiencies in the design or operating effectiveness of the Company's internal control over financial reporting or fails to prevent fraud, current and potential stockholders and depositors could lose confidence in the Company's financial reporting, which could adversely affect the Company's business, financial condition and results of operations, the trading price of the Company's stock, and the Company's ability to attract additional deposits.

The previously reported two material weaknesses in internal controls from fiscal year 2007 have been corrected and eliminated. No other material weaknesses have been identified in connection with the Company's fiscal year 2008 audit. If material weaknesses are identified in the future, such weaknesses could have a material impact on the profitability and performance of the Company.

The Company's duties under the Sarbanes-Oxley Act of 2002 have been increasing and are anticipated to increase further in fiscal 2009.

As indicated in a preceding risk fact, pursuant to the requirements of Section 404 of the SOA Act, beginning with this annual report the Company is required to provide an annual management assessment of the effectiveness of our internal controls over financial reporting. Beginning with our next annual report for the fiscal year ending September 30, 2009, Section 404 of the SOA will also require a report by our independent auditors

addressing our management's assessments. These reporting and other obligations have placed, and will increasingly continue to place, significant demands on our management, administrative, operational, internal audit, tax and accounting resources. We are implementing additional

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financial and management controls, reporting systems and procedures and an internal audit function and are hiring additional accounting, internal audit and finance staff. If we are unable to accomplish these objectives in a timely and effective fashion, our ability to comply with our financial reporting requirements and other rules that apply to public companies could be impaired.

A breach of information security or compliance breach by one of the Company's agents or vendors could negatively affect the Company's reputation and business.

MetaBank, including the Meta Payment Systems Division of MetaBank, depends on data processing, communication and information exchange on a variety of computing platforms and networks and over the internet. The Company cannot be certain all of its systems are entirely free from vulnerability to attack, despite safeguards it has installed. Additionally, the Company relies on and does business with a variety of third-party service providers, agents and vendors with respect to the Company's business, data and communications needs. If information security is breached, or one of the Company's agents or vendors breaches compliance procedures, information could be lost or misappropriated, resulting in financial loss or costs to the Company or damages to others. These costs or losses could materially exceed the Company's amount of insurance coverage, if any, which would adversely affect the Company's business.

Risks Related to the Company's Stock

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The price of the Company's common stock may be volatile, which may result in losses for investors.

The market price for shares of the Company's common stock has been volatile in the past, and several factors could cause the price to fluctuate substantially in the future. These factors include:

- announcements of developments related to the Company's business,
- fluctuations in the Company's results of operations,
- sales of substantial amounts of the Company's securities into the marketplace,
- general conditions in the Company's banking niche or the worldwide economy,
- a shortfall in revenues or earnings compared to securities analysts' expectations,
- lack of an active trading market for the common stock,
- changes in analysts' recommendations or projections, and
- The Company's announcement of new acquisitions or other projects.

The market price of the Company's common stock may fluctuate significantly in the future, and these fluctuations may be unrelated to the Company's performance. General market price declines or market volatility in the future could adversely affect the price of the Company's common stock, and the current market price may not be indicative of future market prices.

The Company's common stock is thinly traded, and thus your ability to sell shares or purchase additional shares of the Company's common stock will be limited, and the market price at any time may not reflect true value.

Your ability to sell shares of the Company's common stock or purchase additional shares largely depends upon the existence of an active market for the common stock. The Company's common stock is quoted on NASDAQ Stock Market, but the volume of trades on any given day is light, and you may be

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unable to find a buyer for shares you wish to sell or a seller of additional shares you wish to purchase. In addition, a fair valuation of the purchase or sales price of a share of common stock also depends upon active trading, and thus the price you receive for a thinly traded stock, such as the Company's common stock, may not reflect its true value.

Future sales or additional issuances of the Company's capital stock may depress prices of shares of the Company's common stock or otherwise dilute the book value of shares then outstanding.

Sales of a substantial amount of the Company's capital stock in the public market or the issuance of a significant number of shares could adversely affect the market price for shares of the Company's common stock. As of September 30, 2008, the Company was authorized to issue up to 5,200,000 shares of common stock, of which 2,601,103 shares were outstanding, and 356,896 shares were held as treasury stock. The Company was also authorized to issue up to 800,000 shares of preferred stock, none of which is outstanding or reserved for issuance. Accordingly, without further stockholder approval, the Company may issue up to 2,598,897 additional shares of common stock. This factor may affect the market price for shares of the Company's common stock.

Federal regulations may inhibit a takeover, prevent a transaction you may favor or limit the Company's growth opportunities, which could cause the market price of the Company's common stock to decline.

Certain provisions of the Company's charter documents and federal regulations could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of the company. In addition, the Company must obtain approval from regulatory authorities before it can acquire control of any other company.

The Company may not be able to pay dividends in the future in accordance with past practice.

The Company pays a quarterly dividend to stockholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on MetaBank's earnings, capital requirements, financial condition and other factors considered relevant by the Company's Board of Directors.

Risks Related to Meta Payment Systems®, a division of MetaBank

MPS products and services are highly regulated financial products subject to extensive supervision and regulation.

The products and services offered by MPS are highly regulated by federal banking agencies, state banking agencies, and other federal and state regulators. Some of the laws and related regulations affecting its operations include consumer protection laws, escheat laws, privacy laws, and data protection laws. Compliance with the relevant legal paradigm in which the division operates is costly and requires significant personnel

resources, as well as extensive contacts with outside lawyers and consultants hired by MPS to stay abreast of the applicable regulatory schemes.

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While some proposed legislation would benefit MPS, it is possible that new legislation could restrict MPS's current operations or change the regulatory environment in which the division's customers operate.

Although it is possible that some newly enacted legislation could have either a positive or *de minimis* impact on its operations and profitability it is just as likely that any new legislation affecting the operations of MPS or its customers, some of which are also regulated entities, would have a negative impact on the conduct of the relevant business. There is no way to quantify the impact that such changes could have on the profitability or operations of MPS at this time given the unpredictable nature of the risk.

In addition to the relevant legal paradigm set forth above, it should also be noted that there has been concern within the bank regulatory environment over the use of credit and, in particular, prepaid cards as a means by which to illegally launder and move money. Should the regulatory scheme change in any fashion as to alter the current environment by which such products and services may be offered, this could have a significant impact upon MPS's operations as well as the operations of its customers.

MPS, through MetaBank, owns or is seeking a number of patents, trademarks and other forms of intellectual property with respect to the operation of its business and the protection of such intellectual property may in the future require material expenditures.

In its operations, MPS, through MetaBank, is seeking protection for various forms of intellectual property. No assurance can be given that such protection will be granted. In addition, the competitive market environment of its business, MPS must be vigilant in ensuring that its patents and other intellectual property are protected and not exploited by unlicensed third parties.

MPS must also protect itself and defend against intellectual property challenges initiated by third parties making various claims against MPS. With respect to these claims, regardless of whether we are pursuing our claims against perceived infringers or defending our intellectual property from third parties asserting various claims of infringement, it is possible that significant personnel time and monetary resources could be used to pursue or defend such claims.

It should also be noted that intellectual property risks extend to foreign countries whose protections of such property are not as extensive as those in the United States. As such, MPS may need to spend additional sums to ensure that its intellectual property protections are maximized globally. Moreover, should there be a material, improper use of MPS's intellectual property; this could have an impact on the division's operations.

Contracts with third-parties may not be renewed, may be renegotiated on terms that are not as favorable to MPS or may not be fulfilled.

MPS has entered into numerous contracts with third parties with respect to the operations of its business. In some instances, the third parties provide services to MPS; in other instances, MPS provides products and services to such third parties. Were such agreements not to be renewed by the third party or were such agreements to be renewed on terms less favorable to MPS, such actions could have a material impact on the division's profitability.

Similarly, were one of these parties unable to meet their obligations to us for any reason (including but not limited to bankruptcy, computer or other technological interruptions or failures, personnel loss or Acts of God), we may need to seek alternative service providers and the terms with such alternate providers may not be as favorable as those currently in place. In addition, were such failures to

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cause a material disruption in our ability to service our customers, it is possible that our customer base would shrink. Moreover, were the disruptions in our ability to provide services significant, this could negatively affect the perception of our business in the card industry.

International expansion presents unique opportunities and challenges.

The international use of cards, both credit and prepaid, continues to grow. Such growth presents MPS with opportunities to acquire market share where its presence has been either minimal or nonexistent. Investments must be made by the division to pursue such opportunities, however, and the return on such investments may either be slow to mature or may fail to materialize completely. In addition, the pursuit of additional foreign opportunities may prevent the division from focusing on its current domestic business.

Existing insurance policies may not adequately protect MPS.

Business interruption and property insurance policies are in place with respect to the operations of MPS. Should any event triggering such policies occur, however, it is possible that our policies would not fully reimburse us for the losses we could sustain.

Costs of conforming products and services to the Payment Card Industry Data Security Standards (the PCI DSS) are costly and could continue to affect the operations of MPS.

The PCI DSS is a multifaceted standard that includes data security management, policies and procedures, as well as other protective measures, that was created by the largest credit card associations in the world in an effort to protect the nonpublic personal information of all types of cardholders, including prepaid cardholders and holders of network branded credit cards (such as Discover, MasterCard, and Visa). The PCI DSS mandates a prescribed technical foundation for the collection, storage and transmission of cardholder data and also contains significant provisions regarding the testing of security protections by various entities in the payment card industry, including MPS. Compliance with the PCI DSS is costly and changes to the standards could have an equal, or greater, effect on profitability of the relevant business division.

The potential for fraud in the card payment industry is significant.

Issuers of prepaid and credit cards have suffered significant losses in recent years with respect to the theft of cardholder data that has been illegally exploited for personal gain. The theft of such information is regularly reported and affects not only individuals but businesses as well (albeit to a lesser degree). Many types of credit card fraud exist, including the counterfeiting of cards and skimming. Skimming is the term for a specialized type of credit card information theft whereby, typically, an employee of a merchant will copy the cardholder's number and security code (either by handwriting the information onto a piece of paper, entering such information into a keypad or other device, or using a handheld device which reads and then stores the card information embedded in the magnetic strip). Once a credit card number and security code has been skimmed, the skimmer can use such information for purchases until the unauthorized use is detected either by the cardholder or the card issuer.

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Losses from skimming have been substantial for certain card industry participants. Although skimming has not had a material impact on the profitability of MPS, it is possible that such activity could impact this division at some time in the future.

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Part of our business depends on sales agents who do not sell our products exclusively.

Our business model, to some degree, depends upon the use of sales agents who are not our employees. These agents sell the products and services of many different processors to merchants and other parties in need of a card services. Failure to maintain good relations with such sales agents could have a negative impact on our business.

Products and services offered by MPS involve many business parties and the possibility of collusion exists.

As described above, the theft of cardholder data is a significant threat in the industry in which MPS operates. This threat also includes the possibility that there is collusion between certain participants in the card system to act illegally. Although MPS is not aware of any instances to date, it is possible that such activities could occur in the future, thereby impacting its operation and profitability.

Competition in the card industry is significant. In order to maintain an edge to its products and offerings, MPS must invest significantly in technology and research and development.

The heavy emphasis upon technology in the products and services offered by MPS requires significant expenditures with respect to research and development both to exploit technological gains and to develop new products and services to meet customers' needs. As is common with most research and development, while some efforts may yield substantial benefits for the division, others will not, thereby resulting in expenditures for which profits will not be realized. MPS is not able to predict with any degree of certainty as to the level of research and development that will be required in the future, how much those efforts will cost, or how profitable such developments will be for the division once undertaken.

Discover, MasterCard, and Visa, as well as other electronic funds networks in which MPS operates, could change their rules.

Pursuant to the agreements between MPS and Discover, MasterCard, Visa and other card networks, these third parties typically have retained the right to prescribe certain business practices and procedures with respect to parties such as MPS. Such prescribed terms include, but are not limited to, a contracting party's level of capital as well as other business requirements.

Discover, MasterCard, and Visa also retain the right in their agreements with industry participants such as MPS to unilaterally change the rules under which such transactions are processed with little or no advance warning. This power includes the power to prevent MPS from accessing their networks in order to process transactions. Should any third party choose to invoke this right unilaterally, such changes could materially impact the operations of the MPS division.

Our business is heavily dependent upon the Internet and any negative disruptions to its operation could negatively impact our business.

Much of our business depends upon transactions being processed through the Internet. Like nearly all other commercial enterprises, we rely upon others to provide the Internet so that commerce can be conducted. Were there to be a failure in the operation of the Internet or a significant impairment in our ability to move information on the Internet or our ability to do so in accordance with customer safeguard protocols, the MPS division would develop alternative processes during which time profitability may be somewhat lower.

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Our ability to process transactions requires functioning communication and electricity lines.

The nature of the credit card and debit card industry is that it must be operational every day of the week every hour of the week. Any disruption in the utilities utilized by MPS could have a negative effect on our operations and extensive disruptions could materially affect our operations.

Data encryption technology has not been perfected and vigilance in Meta Payments Systems information technology systems is costly.

MPS holds sensitive business and personal information with respect to the products and services it offers. This information, which is generally digitally encrypted, is passed along various technology channels, including the Internet. Although MPS encrypts its customer and other sensitive information and expends significant financial and personnel resources to maintain the integrity of its technology networks and the confidentiality of nonpublic customer information, because such information may travel on public technology and other non-secure channels, the confidential information is susceptible to hacking and other illegal intrusions. Were such a security breach to occur, the provision of products and services to Meta Payment System's customers would be impaired and the division could incur significant fines from the electronic funds associations involved, significant regulatory fines imposed by federal and/or state regulators and other prohibitions, as well as extensive litigation from commercial parties and consumers affected by such breach.

Unclaimed funds represented by unused value on the cards presents compliance and other risks.

The notion of escheatment involves property that is abandoned and its rightful owner cannot be readily located and/or identified. In the context of prepaid cards, the funds represented on such cards can sometimes be abandoned or unused for the relevant period of time set forth in each applicable state's abandoned property laws. Although MPS utilizes automated programs to ensure its operations are compliant with such applicable laws and regulations, there appears to be a movement among some state regulators to interpret definitions in those statutes and regulations in a manner that is different from standard industry interpretations. Should such state regulators choose to do so, they may initiate enforcement or other litigation action against prepaid card issuers such as Meta Payments Systems.

MPS operates in a highly competitive environment and the ability to attract and retain qualified personnel may be difficult.

MPS competes in a highly competitive environment with other larger and better capitalized financial intermediaries. In addition, the field of professionals involved in the design and production of products and services offered by MPS is highly skilled and actively sought after by financial institutions, electronic card networks and other commercial entities. As such, MPS must spend significant sums to attract employees and executives and must monitor compensation and other employment trends to ensure that compensation packages both foster the necessary creative environment and appropriately compensate such individuals in order to retain them.

Item 1B. **Unresolved Staff Comments**

Not Applicable.

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Item 2. **Properties**

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The Company conducts its business at its main office and branch office in Storm Lake, Iowa. The Company operates six offices in metro Des Moines, Iowa. The Company also operates one office in Brookings, South Dakota and four offices in Sioux Falls, South Dakota. In addition, the Company leases space at another facility in Sioux Falls, South Dakota, which houses general corporate and MPS functions, leases space in Omaha, Nebraska, which houses certain MPS functions and operates a non-retail service branch in Memphis, Tennessee.

The Company owns all of its offices, except for the branch offices located in Storm Lake Plaza, Storm Lake, Iowa, on Westown Parkway, West Des Moines, Iowa, on North Minnesota Avenue, Sioux Falls, South Dakota, on South Western Avenue, Sioux Falls, South Dakota, on West 12th Street, Sioux Falls, South Dakota, the administrative and MPS offices located on Broadband Lane in Sioux Falls, Omaha and the non-retail service branch in Memphis, Tennessee. In regard to the South Western and West 12th Street locations in Sioux Falls, South Dakota, the land on which the buildings were constructed is leased. The total net book value of the Company's premises and equipment (including land, building and leasehold improvements and furniture, fixtures and equipment) at September 30, 2008 was \$22.0 million. See Note 7 to the Notes to Consolidated Financial Statements which is included in Part II, Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

The Company is experiencing rapid growth, particularly as a result of growth of MPS. While current facilities are adequate to meet its present needs, the Company may add additional locations in the future, and may be required to expand capacity for administrative support functions.

MetaBank maintains an on-line data base with a service bureau, whose primary business is providing such services to financial institutions. The net book value of the data processing and computer equipment utilized by the Company at September 30, 2008 was approximately \$2.6 million.

Item 3. **Legal Proceedings**

MetaBank (the Bank) was named in several lawsuits relating to certain borrowers of the Bank, known as the Dan Nelson companies. All of these lawsuits have now been resolved.

The case of *Chris Dengler, et al, v. Nelson Automotive Group, Inc., et al* was recently resolved when the South Dakota Supreme Court dismissed the plaintiffs' appeal of the lower court's dismissal of the Bank in the Circuit Court of South Dakota, County of Minnehaha, (Civ. No. 06-1106) a lawsuit was filed by a number of plaintiffs who had purchased vehicles from the Dan Nelson companies. This suit named the Bank and J. Tyler Haahr, together with a number of other defendants. The Bank, in conjunction with a group of participating banks, had provided a series of loans and lines of credit to Dan Nelson Auto Group (DNAG) and South Dakota Acceptance Corporation (SDAC). Plaintiffs allege that the defendants, including the Bank, participated in the fraudulent scheme by virtue of providing these lines of credit and loans despite being aware of the predatory consumer practices of the Nelson companies, and that MetaBank profited by receiving undisclosed special benefits for providing these loans. DNAG, SDAC and Dan Nelson have since filed for bankruptcy. Plaintiffs also allege that MetaBank did not vigorously pursue claims against Dan Nelson and fellow DNAG executive Chris Tapken in their respective personal bankruptcies in order to allow these individuals to emerge with control over assets of their former companies. After the Bank filed a Motion to Dismiss, the claims against J. Tyler Haahr personally and MetaBank were dismissed with prejudice on January 4, 2008. Plaintiffs appealed as to the dismissal of MetaBank only, to the South Dakota Supreme Court. The South Dakota Supreme Court dismissed the plaintiff's appeal.

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First Midwest Bank-Deerfield Branches, et al, v. MetaBank. U.S. District Court for the District of South Dakota, Southern Division (4:06-cv-4114). During the three months ended June 30, 2006 or shortly thereafter three banks filed lawsuits against MetaBank. An additional bank, North American Banking Company, joined these three bank plaintiffs in one consolidated federal lawsuit. These four Plaintiffs were participating lenders with MetaBank on a series of loans made to the Dan Nelson companies, including DNAG and SDAC. Plaintiffs alleged that they suffered damages as a result of MetaBank's placement and administration of the loans that were the subject of the loan participation agreements. The complaints alleged breach of contract, negligence, gross negligence, negligent misrepresentation, fraud in the inducement, unjust enrichment and breach of fiduciary duty. All of these four cases have now been resolved through mediations which took place in July and August, 2008. Settlement agreements have been executed, and the cases have been dismissed. The Company's insurance carrier has agreed to cover virtually all of the settlement amounts in three cases and paid for counsel to defend all four actions through discovery.

Home Federal Bank v. J. Tyler Haahr, Daniel A. Nelson and MetaBank (Civ. No. 06-2230). On June 26, 2006, Home Federal Bank filed suit against MetaBank and two individuals, J. Tyler Haahr and Daniel A. Nelson, in South Dakota's Second Judicial Circuit Court, Minnehaha County. The complaint alleged that Home Federal, a participating lender with MetaBank on a series of loans made to DNAG and SDAC, suffered damages exceeding \$3.8 million as a result of failure to make disclosures regarding an investigation of Dan Nelson, DNAG and SDAC by the Iowa Attorney General at the time Home Federal agreed to an extension of the loan participation agreements. After discovery was complete and a trial date scheduled, this case was successfully mediated and settled in Sioux Falls on October 2, 2008. A settlement agreement was signed on that date, and the case has now been dismissed. As a result of the Home Federal settlement, on a pro rated basis net of previously established reserves and insurance proceeds already collected, the net effect on the Registrant is a charge of \$1.0 million. As a result of all these Dan Nelson settlements, the Company recorded a final charge of approximately \$2.1 million (\$1.3 million after taxes), including legal expenses and after insurance claims and reserves are accounted for.

In an unrelated suit, *First Federal Bank Littlefield Texas ssb, formerly known as, First Federal Savings and Loan Association, Littlefield, Texas v. MetaBank, formerly known as First Federal Savings Bank of the Midwest, filed in the 154th Judicial District Court of Lamb County* (Cause No. 17435); *The Frost National Bank v. MetaBank and Meta Financial Group, Inc., filed in the United States District Court for the Northern District of Texas* (Cause No. 3:08-CV-625-M). On April 3, 2008, First Federal Bank filed suit against MetaBank in Texas State Court in Lubbock seeking recovery of a purported MetaBank certificate of deposit (CD) that it claims it purchased. On April 11, 2008, Frost National Bank filed suit against MetaBank in the United States District Court for the District of Texas seeking a similar recovery. On June 25, 2008, an action was filed in the 95th Judicial District Court for Dallas County, Texas entitled *Methodist Hospitals of Dallas v MetaBank and Meta Financial Group* seeking recovery of a purported MetaBank CD purchased in May, 2001. Additionally, on July 14, 2008, a class action complaint was filed in the United States District Court for the District of New Hampshire entitled *Guardian Angel Credit Union v MetaBank* (Cause No. 08-CV-261-PB) and was filed on behalf of Guardian Angel Credit Union and all other CD purchasers similarly situated, to recover funds in connection with purported MetaBank CDs. Further, on November 18, 2008, Coreplus Federal Credit Union (Cause No. 3:08 cv 1763 AVC) filed a civil action in the Superior Court for New London County in the state of Connecticut seeking recovery of funds connected to a purported MetaBank CD. Earlier, MetaBank had been contacted by another institution, but could find no record of the CD it had allegedly purchased, and commenced an investigation. As a result of that investigation, it now appears that a former MetaBank employee had been selling fraudulent CDs, using MetaBank's name and standard form of CD, to various financial institutions through an independent broker and instructing purchasers to wire the purchase money into one of a number of false accounts she had created at MetaBank. The Bank continues to receive a number of demands from purchasers of these fraudulent CDs in addition to the

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lawsuits listed above. All evidence currently available indicates that the former employee ran this fraud for her own benefit and regularly took money from the MetaBank accounts to which the purchase monies had been wired. As a result of the interruption of this fraud, there are some \$4.2 million of bogus CDs still outstanding to various financial institutions. As the former employee was apparently using the funds of new victims to pay off the previous victims of her scheme, it does not appear at this time that she stole any Bank money as part of this fraud. MetaBank therefore does not appear at this time to have suffered any direct loss as a result of the fraud, but it may suffer a loss to the extent it is exposed to liability for claims such as these. There are unresolved questions as whether, under what theory and to what degree the Bank might be liable for the former employee's actions. At this time, MetaBank's insurer has agreed to provide a defense to the two litigations in Texas under a reservation of rights.

Other than the matters set forth above, there are no other material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation to their respective businesses.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended September 30, 2008.

PART II

Item 5. **Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Securities**

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Meta Financial Group's common stock trades on the NASDAQ Global Market[®] under the symbol CASH. Quarterly dividends for 2008 and 2007 were \$0.13. The price range of the common stock, as reported on the NASDAQ System, was as follows:

	Fiscal Year 2008		Fiscal Year 2007	
	Low	High	Low	High
First Quarter	\$ 38.83	\$ 41.98	\$ 24.15	\$ 29.80
Second Quarter	17.34	40.75	27.32	35.50
Third Quarter	16.00	27.00	31.00	38.22
Fourth Quarter	16.85	27.55	37.50	42.00

Prices disclose inter-dealer quotations without retail mark-up, mark-down or commissions, and do not necessarily represent actual transactions.

Dividend payment decisions are made with consideration of a variety of factors including earnings, financial condition, market considerations, and regulatory restrictions.

As of September 30, 2008, Meta Financial Group had 2,503,655 shares of common stock outstanding, which were held by 249 shareholders of record, and 311,328 shares subject to outstanding options. The shareholders of record number does not reflect approximately 500 persons or entities that hold their stock in nominee or street name.

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The transfer agent for the Company's common stock is Registrar & Transfer Company, 10 Commerce Drive, Cranford, New Jersey, 07016.

There have been no purchases by the Company during the quarter ended September 30, 2008 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

Item 6. **Selected Financial Data**

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SEPTEMBER 30,	2008	2007	2006	2005	2004
SELECTED FINANCIAL CONDITION DATA					
(Dollars in Thousands)					
Total assets	\$ 757,256	\$ 686,080	\$ 740,921	\$ 775,839	\$ 780,799
Loans receivable, net	427,928	355,612	368,959	415,568	381,406
Securities available for sale	203,834	158,701	172,444	213,245	290,186
Goodwill	2,206	1,508	1,508	1,508	1,508
Deposits	545,972	522,978	538,169	510,258	433,928
Total borrowings	147,683	78,534	114,789	176,857	241,354
Shareholders' equity	46,807	48,098	45,099	42,959	47,274
YEAR ENDED SEPTEMBER 30,	2008	2007	2006	2005	2004
SELECTED OPERATIONS DATA					
(Dollars in Thousands, Except Per Share Data)					
Total interest income	\$ 37,418	\$ 37,774	\$ 38,112	\$ 38,368	\$ 33,433
Total interest expense	13,415	16,967	19,611	20,305	16,894
Net interest income	24,003	20,807	18,501	18,063	16,539
Provision for loan losses	2,715	3,168	310	4,713	473
Net interest income after provision for loan losses	21,288	17,639	18,191	13,350	16,066
Total non-interest income	37,696	21,858	13,495	3,502	3,296
Total non-interest expense	61,820	36,958	26,641	17,995	13,797
Income (loss) from continuing operations before income tax expense (benefit)	(2,836)	2,539	5,045	(1,143)	5,565
Income tax expense (benefit)	(1,002)				