

META FINANCIAL GROUP INC
Form 10-Q
August 08, 2018

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

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

For the quarterly period ended June 30, 2018

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

For the transition period from _____ to _____

Commission File Number: 0-22140

META FINANCIAL GROUP, INC.®

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

42-1406262

5501 South Broadband Lane, Sioux Falls, South Dakota 57108

(Address of principal executive offices and Zip Code)

(605) 782-1767

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class:	Outstanding at August 7, 2018:
Common Stock, \$.01 par value	13,059,722 shares
Nonvoting Common Stock, \$.01 par value	0 Nonvoting shares

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

META FINANCIAL GROUP, INC.
AND SUBSIDIARIESCondensed Consolidated Statements of Financial Condition
(Dollars in Thousands, Except Share Data)

	(Unaudited)	
	June 30, 2018	September 30, 2017
ASSETS		
Cash and cash equivalents	\$71,276	\$ 1,267,586
Investment securities available for sale	1,351,538	1,106,977
Mortgage-backed securities available for sale	575,999	586,454
Investment securities held to maturity	216,160	449,840
Mortgage-backed securities held to maturity	8,218	113,689
Loans receivable	1,597,294	1,325,371
Allowance for loan losses	(21,950) (7,534
Federal Home Loan Bank Stock, at cost	7,446	61,123
Accrued interest receivable	17,825	19,380
Premises, furniture, and equipment, net	20,374	19,320
Bank-owned life insurance	86,655	84,702
Foreclosed real estate and repossessed assets	29,922	292
Goodwill	98,723	98,723
Intangible assets	46,098	52,178
Prepaid assets	23,211	28,392
Deferred taxes	23,025	9,101
Other assets	17,345	12,738
 Total assets	 \$4,169,159	 \$ 5,228,332
 LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Non-interest-bearing checking	\$2,637,987	\$ 2,454,057
Interest-bearing checking	103,065	67,294
Savings deposits	57,356	53,505
Money market deposits	45,115	48,758
Time certificates of deposit	57,151	123,637
Wholesale deposits	620,959	476,173
Total deposits	3,521,633	3,223,424
Short-term debt	27,290	1,404,534
Long-term debt	85,580	85,533
Accrued interest payable	3,705	2,280
Accrued expenses and other liabilities	87,038	78,065
Total liabilities	3,725,246	4,793,836
 STOCKHOLDERS' EQUITY		
Preferred stock, 3,000,000 shares authorized, no shares issued or outstanding at June 30, 2018 and September 30, 2017, respectively	—	—

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Common stock, \$.01 par value; 90,000,000 and 15,000,000 shares authorized, 9,721,526 and 9,626,431 shares issued, 9,700,535 and 9,622,595 shares outstanding at June 30, 2018 and September 30, 2017, respectively	97	96
Common stock, Nonvoting, \$.01 par value; 3,000,000 shares authorized, no shares issued or outstanding at June 30, 2018 and September 30, 2017, respectively	—	—
Additional paid-in capital	267,804	258,336
Retained earnings	206,284	167,164
Accumulated other comprehensive (loss) income	(28,601) 9,166
Treasury stock, at cost, 20,991 and 3,836 common shares at June 30, 2018 and September 30, 2017, respectively	(1,671) (266
Total stockholders' equity	443,913	434,496
Total liabilities and stockholders' equity	\$4,169,159	\$ 5,228,332

See Notes to Condensed Consolidated Financial Statements.

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AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

(Dollars in Thousands, Except Share and Per Share Data)

	Three Months		Nine Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Interest and dividend income:				
Loans receivable, including fees	\$ 19,056	\$ 14,089	\$ 53,344	\$ 37,540
Mortgage-backed securities	3,950	4,544	11,755	12,345
Other investments	11,098	10,228	33,234	29,269
	34,104	28,861	98,333	79,154
Interest expense:				
Deposits	2,264	1,039	7,106	4,161
FHLB advances and other borrowings	3,429	2,879	9,215	6,251
	5,693	3,918	16,321	10,412
Net interest income	28,411	24,943	82,012	68,742
Provision for loan losses	5,315	1,240	24,726	10,732
Net interest income after provision for loan losses	23,096	23,703	57,286	58,010
Non-interest income:				
Refund transfer product fees	7,358	5,785	41,353	38,448
Tax advance product fees	(46)	(108)	35,739	31,460
Card fees	22,807	23,052	74,910	68,013
Loan fees	1,111	982	3,445	3,034
Bank-owned life insurance	633	656	1,952	1,548
Deposit fees	1,134	190	2,964	508
(Loss) gain on sale of securities available-for-sale, net (Includes (\$22) and \$47 reclassified from accumulated other comprehensive income (loss) for net gains (losses) on available for sale securities for the three months ended June 30, 2018 and 2017, respectively and (\$1,198) and (\$1,331) for the nine months ended June 30, 2018 and 2017, respectively)	(22)	47	(1,198)	(1,331)
Gain (loss) on foreclosed real estate	—	—	(19)	7
Other income	250	216	766	652
Total non-interest income	33,225	30,820	159,912	142,339
Non-interest expense:				
Compensation and benefits	24,439	22,193	78,951	66,809
Refund transfer product expense	1,694	1,623	11,665	11,852
Tax advance product expense	(19)	72	1,736	3,239
Card processing	7,068	5,755	20,798	18,377
Occupancy and equipment	4,720	4,034	14,087	12,202
Legal and consulting	2,781	1,375	8,436	5,603
Marketing	416	381	1,637	1,461
Data processing	301	344	958	1,099

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Intangible amortization expense	1,664	1,887	6,077	10,494
Other expense	5,988	4,555	17,247	14,782
Total non-interest expense	49,053	42,219	161,592	145,918
Income before income tax expense	7,268	12,304	55,606	54,431
Income tax expense (Includes (\$6) and \$18 reclassified from accumulated other comprehensive income (loss) for the three months ended June 30, 2018 and 2017, respectively and (\$335) and (\$499) for the nine months ended June 30, 2018 and 2017, respectively)	476	2,517	12,708	11,258
Net income	\$6,792	\$9,787	\$42,898	\$43,173
Earnings per common share				
Basic	\$0.70	\$1.05	\$4.43	\$4.69
Diluted	\$0.70	\$1.04	\$4.41	\$4.66

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsMETA FINANCIAL GROUP, INC.
AND SUBSIDIARIESCondensed Consolidated Statements of Comprehensive Income (Unaudited)
(Dollars in Thousands)

	Three Months Ended June 30, 2018		2017		Nine Months Ended June 30, 2018		2017	
Net income	\$6,792	\$9,787	\$42,898	\$43,173				
Other comprehensive (loss) income:								
Change in net unrealized (loss) gain on securities	(9,905)	11,902	(53,377)	(25,398)				
Losses (gains) realized in net income	22	(47)	1,198	1,331				
	(9,883)	11,855	(52,179)	(24,067)				
LESS: Deferred income tax effect	(2,447)	4,472	(14,412)	(8,544)				
Total other comprehensive (loss) income	(7,436)	7,383	(37,767)	(15,523)				
Total comprehensive (loss) income	\$(644)	\$17,170	\$5,131	\$27,650				

See Notes to Condensed Consolidated Financial Statements.

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AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

For the Nine Months Ended June 30, 2018 and 2017

(Dollars in Thousands, Except Share and Per Share Data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, September 30, 2016	\$ 85	\$184,780	\$127,190	\$ 22,920	\$—	\$ 334,975
Adoption of Accounting Standards Update 2016-09	—	104	(104)	—	—	—
Cash dividends declared on common stock (\$0.39 per share)	—	—	(3,625)	—	—	(3,625)
Issuance of common shares due to exercise of stock options	—	529	—	—	—	529
Issuance of common shares due to restricted stock	4	—	—	—	—	4
Issuance of common shares due to ESOP	—	1,174	—	—	—	1,174
Issuance of common shares due to acquisition	5	37,291	—	—	—	37,296
Contingent consideration equity earnout due to acquisition	—	24,142	—	—	—	24,142
Shares repurchased for tax withholdings on stock compensation	—	(337)	—	—	—	(337)
Stock compensation	—	8,405	—	—	—	8,405
Net change in unrealized losses on securities, net of income taxes	—	—	—	(15,523)	—	(15,523)
Net income	—	—	43,173	—	—	43,173
Balance, June 30, 2017	\$ 94	\$256,088	\$166,634	\$ 7,397	\$—	\$ 430,213
Balance, September 30, 2017	\$ 96	\$258,336	\$167,164	\$ 9,166	\$(266)	\$ 434,496
Cash dividends declared on common stock (\$0.39 per share)	—	—	(3,778)	—	—	(3,778)
Issuance of common shares due to exercise of stock options	—	147	—	—	—	147

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Issuance of common shares due to restricted stock	1	—	—	—	—	1
Issuance of common shares due to ESOP	—	1,606	—	—	—	1,606
Shares repurchased for tax withholdings on stock compensation	—	(726)	—	—	(1,405)	(2,131)
Stock compensation	—	8,441	—	—	—	8,441
Net change in unrealized losses on securities, net of income taxes	—	—	—	(37,767)	—	(37,767)
Net income	—	—	42,898	—	—	42,898
Balance, June 30, 2018	\$ 97	\$267,804	\$206,284	\$ (28,601)	\$(1,671)	\$ 443,913

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended June 30,	
(Dollars in Thousands)	2018	2017
Cash flows from operating activities:		
Net income	\$42,898	\$43,173
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	27,995	35,002
Stock-based compensation expense	8,441	8,405
Provision for loan losses	24,726	10,732
(Recovery) provision for deferred taxes	488	(2,914)
Gain on other assets	(1)	(21)
Loss (gain) on sale of foreclosed real estate	19	(7)
Loss on sale of securities available for sale, net	1,198	1,331
Net change in accrued interest receivable	1,555	(4,632)
Fair value adjustment of foreclosed real estate	29	—
Originations of loans held for sale	—	(685,934)
Proceeds from sales of loans held for sale	—	685,934
Change in bank-owned life insurance value	(1,952)	(1,549)
Net change in other assets	577	(24,179)
Net change in accrued interest payable	1,425	1,588
Excess contingent consideration paid	—	(248)
Net change in accrued expenses and other liabilities	4,879	16,080
Net cash provided by operating activities	112,277	82,761
Cash flows from investing activities:		
Purchase of securities available-for-sale	(418,699)	(782,169)
Proceeds from sales of securities available-for-sale	312,863	317,099
Proceeds from maturities and principal repayments of securities available for sale	115,878	86,516
Purchase of securities held to maturity	—	(932)
Proceeds from maturities and principal repayments of securities held to maturity	29,752	34,242
Purchase of bank owned life insurance	—	(25,000)
Loans purchased	(95,169)	(136,172)
Loans sold	19,961	2,141
Net change in loans receivable	(238,679)	(168,537)
Proceeds from sales of foreclosed real estate or other assets	244	97
Net cash paid for acquisitions	—	(29,425)
Federal Home Loan Bank stock purchases	(713,444)	(468,291)
Federal Home Loan Bank stock redemptions	767,120	499,480
Proceeds from the sale of premises and equipment	—	57
Purchase of premises and equipment	(5,176)	(5,699)
Net cash used in investing activities	(225,349)	(676,593)
Cash flows from financing activities:		
Net change in checking, savings, and money market deposits	219,909	320,512
Net change in time deposits	(66,486)	(42,232)

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Net change in wholesale deposits	144,786	444,857
Net change in FHLB and other borrowings	(415,000)	(100,000)
Net change in federal funds	(963,000)	(717,000)
Net change in securities sold under agreements to repurchase	754	(938)
Principal payments on capital lease obligations	(46)	(59)
Cash dividends paid	(3,778)	(3,625)
Purchase of shares by ESOP	1,606	1,174
Issuance of restricted stock	1	4
Proceeds from exercise of stock options and issuance of common stock	147	529
Shares repurchased for tax withholdings on stock compensation	(2,131)	(337)
Contingent consideration - cash paid	—	(17,253)
Net cash used in financing activities	(1,083,238)	(114,368)
Net change in cash and cash equivalents	(1,196,310)	(708,200)
Cash and cash equivalents at beginning of period	1,267,586	773,830
Cash and cash equivalents at end of period	\$71,276	\$65,630

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AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Con't.)

	Nine Months Ended June 30,	
	2018	2017
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	\$ 17,746	\$ 8,824
Income taxes	8,211	19,947
Franchise taxes	199	156
Other taxes	129	289
Supplemental schedule of non-cash investing activities:		
Loans transferred to foreclosed real estate and repossessed assets	\$(29,922)	\$(378)
Securities transferred from held to maturity to available for sale	(306,000)	—
Contingent consideration - equity	—	(24,142)
Stock issued for acquisition	—	(37,296)
Purchase of available-for-sale securities accrued, not paid	(4,117)	—
See Notes to Condensed Consolidated Financial Statements.		

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NOTE 1. BASIS OF PRESENTATION

The interim unaudited Condensed Consolidated Financial Statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended September 30, 2017 included in Meta Financial Group, Inc.'s ("Meta" or the "Company") Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on November 29, 2017. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the audited consolidated financial statements have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the three and nine month periods ended June 30, 2018 are not necessarily indicative of the results expected for the fiscal year ending September 30, 2018.

NOTE 2. CREDIT DISCLOSURES

The allowance for loan losses represents management's estimate of probable loan losses which have been incurred as of the date of the consolidated financial statements. The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Estimating the risk of loss and the amount of loss on any loan is necessarily subjective. Management's periodic evaluation of the appropriateness of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. While management may periodically allocate portions of the allowance for specific problem loan situations, the entire allowance is available for any loan charge-offs that occur.

Loans are generally considered impaired if full principal or interest payments are not probable in accordance with the contractual loan terms. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance.

The allowance consists of specific, general and unallocated components. The specific component relates to impaired loans. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers loans not considered impaired and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Homogeneous loan populations are collectively evaluated for impairment. These loan populations may include commercial insurance premium finance loans, residential first mortgage loans secured by one-to-four family residences, residential construction loans, home equity and second mortgage loans, and tax product loans. Commercial and agricultural loans as well as mortgage loans secured by other properties are monitored regularly by the Bank given the larger balances. When analysis of the borrower's operating results and financial condition indicates

that underlying cash flows of the borrower's business is not adequate to meet its debt service requirements, the individual loan or loan relationship is evaluated for impairment.

Loans, or portions thereof, are charged off when collection of principal becomes doubtful. Generally, this is associated with a delay or shortfall in payments of 210 days or more for commercial insurance premium finance, 180 days or more for the purchased student loan portfolios, 120 days or more for consumer credit products, and 90 days or more for community banking loans. Action is taken to charge off ERO loans if such loans have not been collected by the end of June and taxpayer advance loans if such loans have not been collected by the end of the calendar year. Non-accrual loans and troubled debt restructurings are generally considered impaired.

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Loans receivable at June 30, 2018 and September 30, 2017 were as follows:

	June 30, 2018	September 30, 2017
	(Dollars in Thousands)	
1-4 Family Real Estate	\$214,754	\$ 196,706
Commercial and Multi-Family Real Estate	716,495	585,510
Agricultural Real Estate	35,475	61,800
Consumer	258,158	163,004
Commercial Operating	46,069	35,759
Agricultural Operating	24,621	33,594
Commercial Insurance Premium Finance	303,603	250,459
Total Loans Receivable	1,599,175	1,326,832
Allowance for Loan Losses	(21,950)	(7,534)
Net Deferred Loan Origination Fees	(1,881)	(1,461)
Total Loans Receivable, Net	\$1,575,344	\$ 1,317,837

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Activity in the allowance for loan losses and balances of loans receivable by portfolio segment for the three and nine months ended June 30, 2018 and 2017 was as follows:

	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	CML Insurance Premium Finance	Unallocated	Total
(Dollars in Thousands)									
Three Months Ended									
June 30, 2018									
Allowance for loan losses:									
Beginning balance	\$883	\$ 3,904	\$ 146	\$18,074	\$ 1,716	\$ 619	\$ 746	\$ 990	\$27,078
Provision (recovery) for loan losses	(231)	711	51	4,476	(26)	(102)	304	132	5,315
Charge offs	—	—	—	(9,000)	(1,507)	—	(243)	—	(10,750)
Recoveries	—	—	—	—	—	—	—	—	—