

META FINANCIAL GROUP INC

Form 10-Q

May 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 March 31, 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

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

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 May 4, 2018:
Common Stock, \$.01 par value	9,699,591 shares
Nonvoting Common Stock, \$.01 par value	0 Nonvoting shares

META FINANCIAL GROUP, INC.
FORM 10-Q

Table of Contents

<u>PART I - FINANCIAL INFORMATION</u>	<u>2</u>
Item 1. <u>Financial Statements (Unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Statements of Financial Condition as of March 31, 2018 and September 30, 2017</u>	<u>2</u>
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended March 31, 2018 and 2017</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended March 31, 2018 and 2017</u>	<u>4</u>
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the Six Months Ended March 31, 2018 and 2017</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended March 31, 2018 and 2017</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>39</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>55</u>
Item 4. <u>Controls and Procedures</u>	<u>60</u>
<u>PART II - OTHER INFORMATION</u>	<u>62</u>
Item 1. <u>Legal Proceedings</u>	<u>62</u>
Item 1A. <u>Risk Factors</u>	<u>62</u>
Item 6. <u>Exhibits</u>	<u>64</u>
<u>SIGNATURES</u>	<u>65</u>

Table of Contents

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)	
	March 31, 2018	September 30, 2017
ASSETS		
Cash and cash equivalents	\$107,563	\$1,267,586
Investment securities available for sale	1,418,862	1,106,977
Mortgage-backed securities available for sale	654,890	586,454
Investment securities held to maturity	226,618	449,840
Mortgage-backed securities held to maturity	8,393	113,689
Loans receivable	1,517,616	1,325,371
Allowance for loan losses	(27,078)	(7,534)
Federal Home Loan Bank Stock, at cost	17,846	61,123
Accrued interest receivable	17,604	19,380
Premises, furniture, and equipment, net	20,278	19,320
Bank-owned life insurance	86,021	84,702
Foreclosed real estate and repossessed assets	30,050	292
Goodwill	98,723	98,723
Intangible assets	47,724	52,178
Prepaid assets	26,342	28,392
Deferred taxes	20,939	9,101
Other assets	29,302	12,738
 Total assets	 \$4,301,693	 \$5,228,332

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Non-interest-bearing checking	\$2,850,886	\$2,454,057
Interest-bearing checking	123,397	67,294
Savings deposits	65,345	53,505
Money market deposits	48,070	48,758
Time certificates of deposit	71,712	123,637
Wholesale deposits	181,087	476,173
Total deposits	3,340,497	3,223,424
Short-term debt	315,777	1,404,534
Long-term debt	85,572	85,533
Accrued interest payable	1,315	2,280
Accrued expenses and other liabilities	114,829	78,065
Total liabilities	3,857,990	4,793,836

STOCKHOLDERS' EQUITY

Preferred stock, 3,000,000 shares authorized, no shares issued or outstanding at March 31, 2018 and September 30, 2017, respectively

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

Common stock, \$.01 par value; 30,000,000 and 15,000,000 shares authorized, 9,720,536 and 9,626,431 shares issued, 9,699,591 and 9,622,595 shares outstanding at March 31, 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 March 31, 2018 and September 30, 2017, respectively	—	—
Additional paid-in capital	265,685	258,336
Retained earnings	200,753	167,164
Accumulated other comprehensive (loss) income	(21,166) 9,166
Treasury stock, at cost, 20,945 and 3,836 common shares at March 31, 2018 and September 30, 2017, respectively	(1,666) (266
Total stockholders' equity	443,703	434,496
Total liabilities and stockholders' equity	\$4,301,693	\$ 5,228,332

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsMETA FINANCIAL GROUP, INC.
AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Interest and dividend income:				
Loans receivable, including fees	\$ 17,844	\$ 12,773	\$ 34,287	\$ 23,451
Mortgage-backed securities	4,047	4,481	7,805	7,801
Other investments	11,480	10,464	22,136	19,041
	33,371	27,718	64,228	50,293
Interest expense:				
Deposits	2,957	2,184	4,842	3,122
FHLB advances and other borrowings	3,009	1,568	5,785	3,372
	5,966	3,752	10,627	6,494
Net interest income	27,405	23,966	53,601	43,799
Provision for loan losses	18,343	8,649	19,411	9,492
Net interest income after provision for loan losses	9,062	15,317	34,190	34,307
Non-interest income:				
Refund transfer product fees	33,803	32,487	33,995	32,663
Tax advance product fees	33,838	31,119	35,785	31,568
Card fees	26,856	26,547	52,103	44,961
Loan fees	1,042	1,182	2,334	2,052
Bank-owned life insurance	650	444	1,319	892
Deposit fees	982	168	1,830	318
Loss on sale of securities available-for-sale, net (Includes (\$166) and (\$144) reclassified from accumulated other comprehensive income (loss) for net gains (losses) on available for sale securities for the three months ended March 31, 2018 and 2017, respectively and (\$1,176) and (\$1,378) for the six months ended March 31, 2018 and 2017, respectively)	(166)	(144)	(1,176)	(1,378)
Gain (loss) on foreclosed real estate	—	7	(19)	7
Other income	414	360	516	436
Total non-interest income	97,419	92,170	126,687	111,519
Non-interest expense:				
Compensation and benefits	32,172	26,766	54,512	44,616
Refund transfer product expense	9,871	10,178	9,972	9,969
Tax advance product expense	1,474	3,140	1,754	3,427
Card processing	7,190	7,043	13,730	12,622
Occupancy and equipment	4,477	4,191	9,367	8,168
Legal and consulting	3,239	1,505	5,655	4,228
Marketing	668	610	1,221	1,080
Data processing	243	392	657	755

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

Intangible amortization expense	2,731	7,082	4,412	8,607
Other expense	6,432	6,039	11,259	10,227
Total non-interest expense	68,497	66,946	112,539	103,699
Income before income tax expense	37,984	40,541	48,338	42,127
Income tax expense (Includes (\$46) and (\$54) reclassified from accumulated other comprehensive income (loss) for the three months ended March 31, 2018 and 2017, respectively and (\$329) and (\$517) for the six months ended March 31, 2018 and 2017, respectively)	6,548	8,399	12,232	8,741
Net income	\$31,436	\$32,142	\$36,106	\$33,386
Earnings per common share				
Basic	\$3.25	\$3.44	\$3.73	\$3.65
Diluted	\$3.23	\$3.42	\$3.72	\$3.63

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 March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net income	\$31,436	\$32,142	\$36,106	\$33,386
Other comprehensive income (loss):				
Change in net unrealized gain (loss) on securities	(35,993)	7,969	(43,472)	(37,300)
Losses realized in net income	166	144	1,176	1,378
	(35,827)	8,113	(42,296)	(35,922)
LESS: Deferred income tax effect	(8,879)	3,076	(11,964)	(13,016)
Total other comprehensive income (loss)	(26,948)	5,037	(30,332)	(22,906)
Total comprehensive income	\$4,488	\$37,179	\$5,774	\$10,480

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsMETA FINANCIAL GROUP, INC.
AND SUBSIDIARIES

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

For the Six Months Ended March 31, 2018 and 2017

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance, September 30, 2016	\$ 85	\$184,780	\$127,190	\$ 22,920	\$—	\$ 334,975
Cash dividends declared on common stock (\$0.26 per share)	—	—	(2,409)	—	—	(2,409)
Issuance of common shares due to issuance of stock options, restricted stock and ESOP	4	6,767	—	—	—	6,771
Issuance of common shares due to acquisition	5	37,291	—	—	—	37,296
Contingent consideration equity earnout due to SCS acquisition	—	24,142	—	—	—	24,142
Stock compensation	—	493	—	—	—	493
Net change in unrealized losses on securities, net of income taxes	—	—	—	(22,906)	—	(22,906)
Net income	—	—	33,386	—	—	33,386
Balance, March 31, 2017	\$ 94	\$253,473	\$158,167	\$ 14	\$—	\$ 411,748
Balance, September 30, 2017	\$ 96	\$258,336	\$167,164	\$ 9,166	\$(266)	\$ 434,496
Cash dividends declared on common stock (\$0.26 per share)	—	—	(2,517)	—	—	(2,517)
Issuance of common shares due to exercise of stock options	—	147	—	—	—	147
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)	—	—	(1,400)	(2,126)
Stock compensation	—	6,322	—	—	—	6,322

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

Net change in unrealized losses on securities, net of income taxes	—	—	—	(30,332)	—	(30,332)
Net income	—	—	36,106	—	—	—	36,106	
Balance, March 31, 2018	\$ 97	\$265,685	\$200,753	\$ (21,166)	\$(1,666)	\$443,703	

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsMETA FINANCIAL GROUP, INC.
AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended March 31,	
(Dollars in Thousands)	2018	2017 ⁽¹⁾
Cash flows from operating activities:		
Net income	\$36,106	\$33,386
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	19,183	24,843
Stock-based compensation expense	6,322	493
Provision for loan losses	19,411	9,492
Provision (recovery) for deferred taxes	126	(2,172)
(Gain) on other assets	(15)	(14)
(Gain) loss on sale of foreclosed real estate	19	(7)
Loss on sale of securities available for sale, net	1,176	1,378
Net change in accrued interest receivable	1,776	(3,703)
Fair value adjustment of foreclosed real estate	23	—
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	(1,319)	(892)
Net change in other assets	(14,472)	(40,079)
Net change in accrued interest payable	(965)	(153)
Net change in accrued expenses and other liabilities	36,779	47,933
Net cash provided by operating activities	104,150	70,505
Cash flows from investing activities:		
Purchase of securities available-for-sale	(323,995)	(577,967)
Proceeds from sales of securities available-for-sale	126,373	113,647
Proceeds from maturities and principal repayments of securities available for sale	71,652	59,383
Purchase of securities held to maturity	—	(931)
Proceeds from maturities and principal repayments of securities held to maturity	19,863	21,112
Loans purchased	(88,986)	(136,172)
Loans sold	9,582	11,205
Net change in loans receivable	(143,766)	(102,576)
Proceeds from sales of foreclosed real estate or other assets	122	83
Net cash paid for acquisitions	—	(29,425)
Federal Home Loan Bank stock purchases	(477,604)	(243,971)
Federal Home Loan Bank stock redemptions	520,880	266,440
Proceeds from the sale of premises and equipment	—	58
Purchase of premises and equipment	(3,689)	(4,210)
Net cash used in investing activities	(289,568)	(623,324)
Cash flows from financing activities:		
Net change in checking, savings, and money market deposits	464,084	485,048
Net change in time deposits	(51,925)	(64,822)
Net change in wholesale deposits	(295,086)	21,923
Net change in FHLB and other borrowings	(385,000)	(100,000)

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

Net change in federal funds	(703,000)	(499,000)
Net change in securities sold under agreements to repurchase	(758)	(1,191)
Principal payments on capital lease obligations	(31)	(38)
Cash dividends paid	(2,517)	(2,409)
Purchase of shares by ESOP	1,606	—
Issuance of restricted stock	1	—
Proceeds from exercise of stock options and issuance of common stock	147	6,771
Shares repurchased for tax withholdings on stock compensation	(2,126)	—
Net cash used in financing activities	(974,605)	(153,718)
Net change in cash and cash equivalents	(1,160,023)	(706,537)
Cash and cash equivalents at beginning of period	1,267,586	773,830
Cash and cash equivalents at end of period	\$ 107,563	\$ 67,293

Table of ContentsMETA FINANCIAL GROUP, INC.
AND SUBSIDIARIES

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

	Six Months Ended	
	March 31,	
	2018	2017
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	\$9,662	\$6,341
Income taxes	3,966	2,371
Franchise taxes	66	95
Other taxes	153	260
Supplemental schedule of non-cash investing activities:		
Loans transferred to foreclosed real estate and repossessed assets	\$(29,922)	\$—
Securities transferred from held to maturity to available for sale	\$(306,000)	\$—
Contingent consideration - cash	\$—	\$(17,252)
Contingent consideration - equity	—	(24,142)
Stock issued for acquisition	—	(37,296)

See Notes to Condensed Consolidated Financial Statements.

⁽¹⁾ See Note 1. Basis of Presentation for further discussion on the current presentation.

Table of Contents

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 Financial" 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 six-month periods ended March 31, 2018 are not necessarily indicative of the results expected for the fiscal year ending September 30, 2018.

In fiscal 2017, the Company early adopted Accounting Standards Update ("ASU") 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The requirement to report the excess tax benefit related to settlements of share-based payment awards in earnings as an increase or (decrease) to income tax expense has been applied utilizing the prospective method. While the adoption of ASU 2016-09 requires retrospective application to all fiscal year periods presented, the Company elected to not recast previously reported financial statements as the impact was considered insignificant. However, the Company reclassified stock compensation from financing to operating activities on the Consolidated Statement of Cash Flows as of March 31, 2018 and March 31, 2017.

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 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.

Table of Contents

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. Often 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 tax and other national lending loans and 90 days or more for other loans. Non-accrual loans and all troubled debt restructurings are considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Loans receivable at March 31, 2018 and September 30, 2017 were as follows:

	March 31, 2018	September 30, 2017
	(Dollars in Thousands)	
1-4 Family Real Estate	\$205,994	\$ 196,706
Commercial and Multi-Family Real Estate	685,457	585,510
Agricultural Real Estate	36,460	61,800
Consumer	281,371	163,004
Commercial Operating	47,461	35,759
Agricultural Operating	22,313	33,594
Commercial Insurance Premium Finance	240,640	250,459
Total Loans Receivable	1,519,696	1,326,832
Allowance for Loan Losses	(27,078)	(7,534)
Net Deferred Loan Origination Fees	(2,080)	(1,461)
Total Loans Receivable, Net	\$1,490,538	\$ 1,317,837

Table of Contents

Activity in the allowance for loan losses and balances of loans receivable by portfolio segment for the three and six months ended March 31, 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									
March 31, 2018									
Allowance for loan losses:									
Beginning balance	\$654	\$ 3,034	\$ 1,180	\$ 670	\$ 894	\$ 804	\$ 725	\$ 901	\$8,862
Provision (recovery) for loan losses	226	870	(1,034)	17,401	816	(239)	214	89	18,343
Charge offs	—	—	—	—	—	—	(339)	—	(339)
Recoveries	3	—	—	3	6	54	146	—	212
Ending balance	\$883	\$ 3,904	\$ 146	\$ 18,074	\$ 1,716	\$ 619	\$ 746	\$ 990	\$27,078

Six Months Ended March
31, 2018

Allowance for loan losses: