META FINANCIAL GROUP INC
Form 10-K
December 12, 2014

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, 2014

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)

Delaware	42 1406262
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5501 South Broadband Lane, Sioux Falls, SD	57108
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (712) 732 4117

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	NASDAQ Global Market

Securities Registered Pursuant to Section 12(g) of the Act: None
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 be 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 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 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. (Check one):

Large accelerated filer Accelerated filer Non accelerated filer Smaller Reporting Company

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

As of March 31, 2014, 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 Global Market as of such date, was $245.9 million.

As of December 8, 2014, there were outstanding 6,193,879 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

PART III of Form 10-K -- Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held January 26, 2015.

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Forward-Looking Statements

Meta Financial Group, Inc.®, ("Meta Financial" or "the Company" or "us") and its wholly-owned subsidiary, MetaBank™ (the "Bank" or "MetaBank"), may from time to time make written or oral "forward-looking statements," including statements contained in this Annual Report on Form 10-K, in its other filings with the Securities and Exchange Commission ("SEC"), in its reports to stockholders, 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.

You can identify forward-looking statements by words such as "may," "hope," "will," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential," "continue," "could," "future" or the negative of those terms or other wor similar meaning. You should read statements that contain these words carefully because they discuss our future expectations or state other "forward looking" information. 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 the Bank; credit quality and adequacy of reserves; technology; and the Company's 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 Board of Governors of the Federal Reserve System (the "Federal Reserve"), as well as efforts of the United States Treasury in conjunction with bank regulatory agencies to stimulate the economy and protect the financial system; 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 reputational and litigation) attendant thereto and the perceived overall value of these products and services by users; the risks of dealing with or utilizing third parties; the ability of the Bank to successfully integrate the operations of AFS/IBEX Financial Services Inc. ("AFS/IBEX") the scope of restrictions and compliance requirements imposed by the Consent Order entered into by the Company with the Federal Reserve and any other such actions which may be initiated; the impact of changes in financial services laws and regulations, including but not limited to our relationship with our primary regulators, the Office of the Comptroller of the Currency (the "OCC") and the Federal Reserve; 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. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. 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.

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Available Information

The Company's website address is www.metabank.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. Investors are encouraged to access these reports and other information about our business on our website. 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. We also will provide copies of our Annual Report on Form 10-K, free of charge, upon written request to Debra Thompson, Senior Executive Assistant, at the Company's address. Also posted on our website, among other things, are the charters of our committees of the Board of Directors as well as the Company's and the Bank's Codes of Ethics.

PART I

Item 1. Business

General

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 the Bank, a federal savings bank, the accounts of which are insured up to applicable limits under the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC"). Unless the context otherwise requires, references herein to the Company include Meta Financial and the Bank, and all subsidiaries on a consolidated basis.

The Bank, a wholly-owned full-service banking subsidiary of Meta Financial, is both a community-oriented financial institution offering a variety of financial services to meet the needs of the communities it serves and a payments company providing services on a nationwide basis, as further described below. The principal business of the Bank 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 operating loans primarily in the Bank's market areas. The Bank also purchases loan participations from time to time from other financial institutions, but presently at a lower level compared to prior years, as well as mortgage-backed securities and other investments permissible under applicable regulations.

In addition to its community-oriented lending and deposit gathering activities, the Bank's MPS division issues prepaid cards, designs innovative consumer credit products, sponsors Automatic Teller Machines ("ATMs") into various debit networks, and offers other payment industry products and services. Through its activities, MPS generates both fee income and low- and no-cost deposits for the Bank. 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 continues to expand and to play a very significant role in the Company's financial performance.

Most recently, the Bank purchased substantially all of the commercial loan portfolio and related assets of AFS/IBEX Financial Services Inc., ("AFS/IBEX") an insurance premium financing company. The transaction closed on December 2, 2014. The transaction has diversified the Company's business and further expands its loan portfolio. The Company's revenues are derived primarily from interest on commercial and residential mortgage loans, mortgage-backed securities and other investments, fees generated through the activities of MPS, consumer loans, agricultural operating loans, commercial operating loans, income from service charges, loan origination fees, and loan servicing fee income.

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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 and the Bank are subject to comprehensive regulation and supervision. See “Regulation” herein.

The principal executive office of the Company is located at 5501 South Broadband Lane, Sioux Falls, South Dakota 57108. Its telephone number at that address is (605) 782-1767.

Market Areas

The Bank has four market areas: Northwest Iowa (“NWI”), Brookings, Central Iowa (“CI”), and Sioux Empire (“SE”) and the MPS division, and the AFS/IBEX division. The Bank’s home office 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 five offices in Iowa: Des Moines (3), West Des Moines and Urbandale. SE operates three offices and one administrative office in Sioux Falls, SD. MPS, which offers prepaid cards and other payment industry products and services nationwide, operates out of Sioux Falls, South Dakota. See “Meta Payment Systems® Division.”

The Bank has a total of eleven full-service branch offices, one non-retail service branch in Memphis, Tennessee, and two agency offices, one in Texas and one in California.

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, Minnehaha and Moody. South Dakota ranks 11th and Iowa 12th in “The Best States for Business and Careers” (Forbes.com, September 2013). Iowa has low corporate income and franchise taxes. South Dakota 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 60-mile radius of Brookings. The area is generally rural, and agriculture is a significant industry in the community. South Dakota State University is the largest employer in Brookings. The community also has several manufacturing companies, including 3M, Larson Manufacturing, Daktronics, Falcon Plastics, Twin City Fan, and Rainbow Play Systems, Inc. The Brookings market operates from an office located in downtown Brookings.

Des Moines, Iowa’s capital, is located in central Iowa and is the political, economic and cultural capital of the state. Des Moines was ranked 2nd in “The Best Places for Business and Careers” (Forbes.com, July 2014). The Des Moines market area encompasses Polk County and surrounding counties. The Bank’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 Des Moines metro area is a center of insurance, printing, finance, retail and wholesale trades as well as industry, providing a diverse economic base. 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. Universities and colleges in the area include Des Moines Area Community College, Drake University, Simpson College, Des Moines University, Grand View College, AIB College of Business, and Upper Iowa University. The unemployment rate in the Des Moines metro area was 4.1% as of September 2014.

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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 57^{th} and Western. Other branches are located at 33^{rd} and Minnesota and the intersection of 12^{th} and Elmwood. On Forbes' July 2014 list of "The Best Small Places for Business and Careers," Sioux Falls ranked 5^{th} among the best small cities. Major employers in the area include Sanford Health, Avera McKennan Hospital and Health system, John Morrell & Company, Citibank (South Dakota) NA, Sioux Falls School District 49-5, Wells Fargo Bank, 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 2.7% as of September 2014.

Several of the Company's market areas are dependent on agriculture and agriculture-related businesses, which are exposed to exogenous risk factors such as weather conditions and commodity prices. Loss rates in the agricultural real estate and agricultural operating loan portfolios have been minimal in the past three years. Low loss rates are primarily due to higher than average livestock prices and strong crop yields over the last few years, offset by lower grain prices in 2014. Overall, these factors have created positive economic conditions for most farmers in our markets during this time period. 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 various levels of rain and wet weather conditions within our markets have the potential to negatively impact potential yields which would have a negative economic effect on our agricultural markets. In addition, management believes the economic environment may also negatively impact consumers' repayment capacities.

Lending Activities

General. The Company originates both fixed-rate and adjustable-rate ("ARM") residential mortgage loans in response to consumer demand. At September 30, 2014, the Company had $417.3 million in fixed-rate loans, and $81.9 million in ARM loans. 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 for further information on Asset/Liability Management.

In addition, the Company has more recently focused its lending activities on the origination of commercial and multi-family real estate loans, agricultural-related loans and commercial operating loans. The Company also continues to originate one-to-four family mortgage loans and consumer loans. The Company originates most of its loans in its primary market area. At September 30, 2014, the Company's net loan portfolio totaled $493.0 million, or 24.0% of the Company's total assets, as compared to $380.4 million, or 22.4% at September 30, 2013. The Company recently entered the insurance premium finance lending business through its purchase of substantially all the commercial lending portfolio and related assets of AFS/IBEX.

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Loan applications are initially considered and approved at various levels of authority, depending on the type and amount of the loan. The Company has a loan committee consisting of senior lenders and Market Presidents, and is led by the Chief Lending Officer. Loans in excess of certain amounts require approval by at least two members of the loan committee, a majority of the loan committee, or by the Company's Board Loan Committee, which has responsibility for the overall supervision of the loan portfolio. The Company may discontinue, adjust or create new lending programs to respond to competitive factors.

At September 30, 2014, the Company's largest lending relationship to a single borrower or group of related borrowers totaled $25.6 million. The Company had 24 other lending relationships in excess of $4.9 million as of September 30, 2014. At September 30, 2014, two of these relationships had loans totaling $10.9 million which were classified as substandard. See "Non-Performing Assets, Other Loans of Concern, and Classified Assets."

Loan Portfolio Composition. The following table provides information about the composition of the Company's loan portfolio in dollar amounts and in percentages as of the dates indicated. In general, for the fiscal year ended September 30, 2014, the amounts in all categories of loans discussed below, except consumer loans, increased over levels from the prior fiscal year.

	At September 30,									
	2014		2013		2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Real Estate Loans:										
1-4 Family	$116,395	23.3 %	$82,287	21.4 %	$49,134	14.9 %	$34,128	10.7 %	$40,454	10.9 %
Commercial & Multi-Family	224,302	44.9 %	192,786	50.1 %	191,905	57.9 %	194,414	60.9 %	204,820	55.1 %
Agricultural	56,071	11.3 %	29,552	7.7 %	19,861	6.0 %	20,320	6.4 %	25,895	7.0 %
Total Real Estate Loans	396,768	79.5 %	304,625	79.2 %	260,900	78.8 %	248,862	78.0 %	271,169	73.0 %
Other Loans:										
Consumer Loans:										
Home Equity	15,116	3.0 %	13,799	3.6 %	13,299	4.0 %	14,835	4.6 %	16,897	4.5 %
Automobile	671	0.1 %	658	0.1 %	792	0.2 %	794	0.2 %	737	0.2 %
Other (1)	13,542	2.7 %	15,857	4.1 %	18,747	5.7 %	18,769	5.9 %	30,479	8.2 %
Total Consumer Loans	29,329	5.8 %	30,314	7.8 %	32,838	9.9 %	34,398	10.7 %	48,113	12.9 %
Agricultural Operating	42,258	8.5 %	33,750	8.8 %	20,981	6.3 %	21,200	6.6 %	32,528	8.8 %
Commercial Operating	30,846	6.2 %	16,264	4.2 %	16,452	5.0 %	14,955	4.7 %	19,709	5.3 %
Total Other Loans	102,433	20.5 %	80,328	20.8 %	70,271	21.2 %	70,553	22.0 %	100,350	27.0 %
Total Loans	499,201	100.0%	384,953	100.0%	331,171	100.0%	319,415	100.0%	371,519	100.0%

Less:					
Deferred Fees and Discounts	797	595	219	79	240
Allowance for Loan Losses	5,397	3,930	3,971	4,926	5,234
Total Loans Receivable, Net	$493,007	$380,428	$326,981	$314,410	$366,045

(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.

	September 30, 2014 Amount	2014 Percent	2013 Amount	2013 Percent	2012 Amount	2012 Percent	2011 Amount	2011 Percent	2010 Amount	2010 Percent
	(Dollars in Thousands)									
Fixed Rate Loans:										
Real Estate:										
1-4 Family	$105,870	21.2 %	$75,477	19.6 %	$44,045	13.3 %	$30,410	9.5 %	$34,513	9.3 %
Commercial & Multi-Family	203,840	40.8 %	173,373	45.1 %	162,552	49.1 %	155,786	48.8 %	163,843	44.0 %
Agricultural	49,643	10.0 %	22,433	5.8 %	15,399	4.6 %	16,416	5.1 %	16,937	4.6 %
Total Fixed-Rate Real Estate Loans	359,353	72.0 %	271,283	70.5 %	221,996	67.0 %	202,612	63.4 %	215,293	57.9 %
Consumer	19,279	3.9 %	20,129	5.2 %	20,322	6.1 %	15,494	4.9 %	19,066	5.1 %
Agricultural Operating	24,991	5.0 %	23,137	6.0 %	10,627	3.2 %	12,570	3.9 %	22,490	6.0 %
Commercial Operating	13,659	2.7 %	8,070	2.1 %	6,818	2.1 %	7,138	2.3 %	11,147	3.1 %
Total Fixed-Rate Loans	417,282	83.6 %	322,619	83.8 %	259,763	78.4 %	237,814	74.5 %	267,996	72.1 %
Adjustable Rate Loans:										
Real Estate:										
1-4 Family	10,525	2.1 %	6,810	1.8 %	5,089	1.5 %	3,718	1.2 %	5,941	1.6 %
Commercial & Multi-Family	20,461	4.1 %	19,413	5.0 %	29,353	8.9 %	38,628	12.1 %	40,977	11.0 %
Agricultural	6,429	1.3 %	7,119	1.9 %	4,462	1.4 %	3,904	1.2 %	8,958	2.5 %
Total Adjustable Real Estate Loans	37,415	7.5 %	33,342	8.7 %	38,904	11.8 %	46,250	14.5 %	55,876	15.1 %
Consumer	10,050	2.0 %	10,185	2.6 %	12,516	3.8 %	18,904	5.9 %	29,047	7.8 %
Agricultural Operating	17,267	3.5 %	10,613	2.8 %	10,354	3.1 %	8,630	2.7 %	10,038	2.7 %
Commercial Operating	17,187	3.4 %	8,194	2.1 %	9,634	2.9 %	7,817	2.4 %	8,562	2.3 %
Total Adjustable Loans	81,919	16.4 %	62,334	16.2 %	71,408	21.6 %	81,601	25.5 %	103,523	27.9 %
Total Loans	499,201	100.0%	384,953	100.0%	331,171	100.0%	319,415	100.0%	371,519	100.0%

Less:					
Deferred Fees and Discounts	797	595	219	79	240
Allowance for Loan Losses	5,397	3,930	3,971	4,926	5,234
Total Loans Receivable, Net	$493,007	$380,428	$326,981	$314,410	$366,045

The following table illustrates the maturity analysis of the Company's loan portfolio at September 30, 2014. 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.

	Real Estate [1]		Consumer		Commercial Operating		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)									
Due in one year or less [2]	$17,434	5.69 %	$13,098	0.53 %	$7,252	4.75 %	$32,975	4.27 %	$70,759	3.97 %
Due after one year through five years	143,683	4.52 %	14,112	4.94 %	20,490	4.53 %	$4,943	4.37 %	183,228	4.55 %
Due after five years	235,651	4.35 %	2,119	5.46 %	3,104	4.10 %	$4,340	4.63 %	245,214	4.36 %
Total	$396,768		$29,329		$30,846		$42,258		$499,201	

(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.

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, 2014, the Company's one-to-four family residential mortgage loan portfolio totaled $116.4 million, or 23.3% of the Company's total loans. See "Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities." At September 30, 2014, the average outstanding principal balance of a one-to-four family residential mortgage loan was approximately $140,000. At September 30, 2014, $0.3 million, or 0.2% of the Company's one-to-four family residential mortgage loans, were non-performing.

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The Company offers fixed-rate and ARM loans for both permanent structures and those under construction. During the year ended September 30, 2014, the Company originated $12.4 million of ARM loans and $53.3 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 100% 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, unless the loan is insured by the Federal Housing Administration, guaranteed by Veterans Affairs or guaranteed by the Rural Housing Administration. Residential loans generally do not include prepayment penalties.

The Company currently offers five and ten year ARM loans. These loans have a fixed-rate for the stated period and, thereafter, adjust annually. These loans generally provide for an annual cap of up to 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 the Company's cost of funds. The Company's ARMs do not permit negative amortization of principal and are not convertible into fixed rate loans. The Company's delinquency experience on its ARM loans has generally been similar to its experience on fixed-rate residential loans. The current low mortgage interest rate environment makes ARM loans relatively unattractive and very few are originated.

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. The Company typically holds all fixed-rate mortgage loans and does not engage in secondary market sales. Interest rates charged on these fixed-rate loans are competitively priced according to market conditions.

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. Properties securing real estate loans made by the Company are appraised by independent 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, in order to supplement its loan portfolio, has purchased whole loan and participation interests in loans from other financial institutions. At September 30, 2014, the Company's commercial and multi-family real estate loan portfolio totaled $224.3 million, or 44.9% of the Company's total loans. 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 did not purchase any commercial and multi-family real estate loans during fiscal 2014. The Company purchased $4.7 million and $7.7 million, of such loans during fiscal 2013 and 2012, respectively. At September 30, 2014, $0.3 million, or 0.1% of the Company's commercial and multi family real estate loans, were non-performing. See "Non-Performing Assets, Other Loans of Concern and Classified Assets."

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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 are underwritten with terms not exceeding 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 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, 2014, the Company's largest commercial and multi-family real estate loan was a $16.5 million loan secured by real estate. At September 30, 2014, the average outstanding principal balance of a commercial or multi-family real estate loan held by the Company was approximately $891,000.

Commercial and multi-family 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 commercial and multi-family 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, 2014, the Bank's nonresidential real estate loans totaled 116% 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, 2014, the Company had agricultural real estate loans secured by farmland of $56.1 million or 11.3% of the Company's total loans. At the same date, $42.3 million, or 8.5% of the Company's total loans consisted of secured loans related to agricultural operations. Agricultural-related lending constituted 19.7% of total loans.

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. 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, 2014, the average outstanding principal balance of an agricultural operating loan held by the Company was $179,000. At September 30, 2014, $0.3 million, or 0.8% of the Company's agricultural operating loans, were 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 five to ten years, which then balloon or adjust annually thereafter. In addition, such loans generally amortize over a period of 20 to 25 years. Fixed-rate agricultural real estate loans generally have terms up to ten years. Agricultural real estate loans are generally limited to 75% of the value of the property securing the loan. At September 30, 2014, none of the Company's agricultural real estate loans were non-performing.

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Agricultural lending affords the Company the opportunity to earn yields higher than those obtainable on one-to-four family residential lending. 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 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 futures 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 for the borrower 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, through the auspices of its “Retail Bank” (generally referring to the Company’s operations in our four market areas discussed above), originates a variety of secured consumer loans, including home equity, home improvement, automobile, boat and loans secured by savings deposits. In addition, the Retail Bank offers other secured and unsecured consumer loans. The Retail Bank currently originates most of its consumer loans in its primary market area and surrounding areas. At September 30, 2014, the Retail Bank’s consumer loan portfolio totaled $17.4 million, or 3.5% of its total loans. Of the consumer loan portfolio at September 30, 2014, $8.3 million were short- and intermediate-term, fixed-rate loans, while $9.1 million were adjustable-rate loans.

The largest component of the Retail Bank’s consumer loan portfolio consists of home equity loans and lines of credit. Substantially all of the Retail Bank’s home equity loans and lines of credit are secured by second mortgages on principal residences. The Retail Bank will lend amounts which, together with all prior liens, may be up to 90% 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 Retail Bank primarily originates automobile loans on a direct basis. Direct loans are loans made when the Retail Bank extends credit directly to the borrower, as opposed to indirect loans, which are made when the Retail Bank purchases loan contracts, often at a discount, from automobile dealers which have extended credit to their customers. The Bank’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.

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 Bank 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.

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Consumer loans may entail greater credit risk than 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 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, 2014, none of the Bank's consumer loans were non-performing.

Consumer Lending - MPS. MPS has a loan committee, known as the MPS Credit Committee, consisting of members of Executive Management of the Company. The committee is charged with monitoring, evaluating, and reporting portfolio performance and the overall credit risk posed by its credit products. All proposed credit programs must first be reviewed and approved by the committee before such programs are presented to the Bank's Board of Directors for approval. The Board of Directors of the Bank is ultimately responsible for final approval of any credit program.

At September 30, 2014, the Bank's MPS consumer loan portfolio totaled $11.9 million, or 2.4% of total loans. Of the MPS consumer loan portfolio at September 30, 2014, $10.9 million were short-term, fixed-rate loans, while $1.0 million were adjustable-rate loans.

The Company believes that well-managed, nationwide credit programs can help meet legitimate credit needs for prime and sub-prime borrowers, and affords the Company an opportunity to diversify the loan portfolio and minimize earnings exposure due to economic downturns. Therefore, MPS designs and administers certain credit programs that seek to accomplish these objectives.

MPS strives to offer consumers innovative payment products, including credit products. Most credit products have fallen into the category of portfolio lending. MPS continues to work on new alternative portfolio lending products striving to serve its core customer base and provide unique and innovative lending solutions to the unbanked and under-banked segment.

A Portfolio Credit Policy which has been approved by the Board of Directors governs portfolio credit initiatives undertaken by MPS, whereby the Company retains some or all receivables and relies on the borrower as the underlying source of repayment. Several portfolio lending programs also have a contractual provision that requires the Bank to be indemnified for credit losses that meet or exceed predetermined levels. Such a program carries additional risks not commonly found in sponsorship programs, specifically funding and credit risk. Therefore, MPS has strived to employ policies, procedures, and information systems that it believes commensurate with the added risk and exposure.

The Company recognizes concentrations of credit may naturally occur and may take the form of a large volume of related loans to an individual, a specific industry, a geographic location, or an occupation. Credit concentration is a direct, indirect, or contingent obligation that has a common bond where the aggregate exposure equals or exceeds a certain percentage of the Bank's Tier 1 Capital plus the Allowance for Loan Losses. The MPS Credit Committee monitors and identifies the credit concentrations in accordance with the Bank's concentration policy and evaluates the specific nature of each concentration to determine the potential risk to the Bank. An evaluation includes the following:

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- A recommendation regarding additional controls needed to mitigate the concentration exposure.

- A limitation or cap placed on the size of the concentration.

- The potential necessity for increased capital and/or credit reserves to cover the increased risk caused by the concentration(s).

- A strategy to reduce to acceptable levels those concentration(s) that are determined to create undue risk to the Bank.

Commercial Operating Lending. The Company also originates commercial operating loans. Most of the Company's commercial operating 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, 2014, $30.8 million, or 6.2% of the Company's total loans, were comprised of commercial operating 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 operating 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 lending activities.

The largest commercial operating exposure outstanding at September 30, 2014, was $6.7 million in loan relationships secured by assets of the borrower. At September 30, 2014, the average outstanding principal balance of a commercial operating loan held by the Company was approximately $127,000.

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 operating 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 operating 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 operating 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. At September 30, 2014, none of the Company's commercial operating loans were non-performing.

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Originations, Purchases, Sales and Servicing of Loans

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, 2014, 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 $22.5 million at September 30, 2014, of which $5.9 million were sold to Fannie Mae and $16.6 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 if potential buyers (principally government agencies) reduce their purchasing activities.

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The following table shows the loan originations (including draws, loan renewals, undisbursed portions of loans in process and allowance for loan loss activity), purchases, and sales and repayment activities of the Company for the periods indicated.

	Years Ended September 30,		
	2014	2013	2012
Originations by Type:	(Dollars in Thousands)		
Adjustable Rate:			
1-4 Family Real Estate	$12,412	$11,856	$5,244
Commercial and Multi-Family Real Estate	9,704	8,603	12,410
Agricultural Real Estate	1,130	4,282	2,503
Consumer	6	22	2,360
Commercial Operating	38,448	28,024	29,185
Agricultural Operating	23,492	23,895	40,085
Total Adjustable Rate	85,192	76,682	91,787
Fixed Rate:			
1-4 Family Real Estate	53,251	54,861	41,397
Commercial and Multi-Family Real Estate	94,868	63,990	67,461
Agricultural Real Estate	35,713	13,144	2,705
Consumer	157,776	147,496	779,233
Commercial Operating	13,985	5,427	6,493
Agricultural Operating	31,628	32,510	39,286
Total Fixed-Rate	387,221	317,428	936,575
Total Loans Originated	472,413	394,110	1,028,362
Purchases:			
Commercial and Multi-Family Real Estate	-	706	7,697
Agricultural Operating	343	3,313	-
Total Loans Purchased	343	4,019	7,697
Sales and Repayments:			
Sales:			
Commercial and Multi-Family Real Estate	11,665	7,140	-
Consumer	12,144	12,782	638,025
Agricultural Operating	82	-	-
Total Loan Sales	23,891	19,922	638,025
Repayments:			
Loan Principal Repayments	334,616	324,424	386,278
Total Principal Repayments	334,616	324,424	386,278
Total Reductions	358,507	344,346	1,024,303
(Decrease) Increase in Other Items, Net	(1,670)	(336)	815
Net Increase (decrease)	$112,579	$53,447	$12,571

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At September 30, 2014, approximately $9.7 million, or 2.0%, of the Company's 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 effects 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, 2014, the Company's purchased loans were secured by properties located, as a percentage of total loans, as follows: 1% each in Oregon and North Dakota.

As of September 30, 2012, the Company no longer participated in sponsorship loan programs through its MPS division, thus reducing consumer loan originations.

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. Generally, 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.

The following table sets forth the Company's loan delinquencies by type, by amount and by percentage of type at September 30, 2014.

	Loans Delinquent For:								
	30-59 Days			60-89 Days			90 Days and Over		
	Number	Amount	Percent of Category	Number	Amount	Percent of Category	Number	Amount	Percent of Category
				(Dollars in Thousands)					
Real Estate:									
1-4 Family	4	$ 111	98.2 %	1	$ 37	76.0 %	1	$ 245	38.3 %
Commercial & Multi-Family	-	-	0.0 %	-	-	0.0 %	-	-	0.0 %
Agricultural	-	-	0.0 %	-	-	0.0 %	-	-	0.0 %
Consumer	1	2	1.8 %	1	12	24.0 %	3	54	8.4 %
Agricultural Operating	-	-	0.0 %	-	-	0.0 %	1	340	53.3 %
Commercial Operating	-	-	0.0 %	-	-	0.0 %	-	-	0.0 %
Total	5	$ 113	100.0 %	2	$ 49	100.0 %	5	$ 639	100.0 %

Delinquencies 90 days and over constituted 0.1% of total loans and less than 0.1% of total assets.

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 reversed against current income. The loan will remain on a non-accrual status until the loan becomes current and has demonstrated a sustained period of satisfactory performance.

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The table below sets forth the amounts and categories of the Company's non-performing assets.

	At September 30,				
	2014	2013	2012	2011	2010
Non-Performing Loans	(Dollars in Thousands)				
Non-Accruing Loans:					
1-4 Family Real Estate	$281	$245	$307	$85	$39
Commercial & Multi-Family Real Estate	312	427	1,423	13,025	4,137
Agricultural Real Estate	-	-	-	-	2,650
Agricultural Operating	340	-	-	-	400
Commercial Operating	-	7	18	30	241
Total	933	679	1,748	13,140	7,467
Accruing Loans Delinquent 90 Days or More:					
1-4 Family Real Estate	-	-	-	-	404
Commercial & Multi-Family Real Estate	-	-	-	-	257
Consumer	54	13	63	24	124
Total	54	13	63	24	785
Restructured Loans:					
1-4 Family	-	-	-	42	-
Total	-	-	-	42	-
Total Non-Performing Loans	987	692	1,811	13,206	8,252
Other Assets					
Non-Accruing Investments:					
Trust Preferred Securities	-	-	-	-	150
Total	-	-	-	-	150
Foreclosed Assets:					
1-4 Family Real Estate	-	-	9	451	143
Commercial & Multi-Family Real Estate	15	116	827	181	606
Agricultural Real Estate	-	-	-	2,020	-
Commercial Operating	-	-	2	19	546
Total	15	116	838	2,671	1,295
Total Other Assets	15	116	838	2,671	1,445
Total Non-Performing Assets	$1,002	$808	$2,649	$15,877	$9,697
Total as a Percentage of Total Assets	0.05 %	0.05%	0.16 %	1.24 %	0.94 %

For the year ended September 30, 2014, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately $152,000, of which none was included in interest income.

Non-Accruing Loans. At September 30, 2014, the Company had $0.9 million in non-accruing loans, which constituted 0.2% of the Company's gross loan portfolio, or less than 0.1% of total assets. At September 30, 2013, the Company had $0.7 million in non-accruing loans which constituted 0.2% of its gross loan portfolio, or 0.1% of total assets. The fiscal 2014 increase in non-performing loans primarily relates to an increase in non-accruing loans in the agricultural operating category of $0.3 million.

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Accruing Loans Delinquent 90 Days or More. At September 30, 2014, the Company had $54,000 in accruing loans delinquent 90 days or more.

Classified Assets. Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by our primary regulator, the OCC, 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 Bank 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.

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,” the Bank 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. The Bank’s determinations as to the classification of its assets and the amount of its valuation allowances are subject to review by its regulatory authorities, who may order the establishment of additional general or specific loss allowances.

On the basis of management’s review of its classified assets, at September 30, 2014, the Company had classified loans of $12.9 million as substandard, none as doubtful or loss, and $15,000 as real estate owned or other foreclosed assets.

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 collectability 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 appropriate loan loss allowance.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the appropriateness of its allowance for loan losses. While the current economic environment is still slightly strained, it has begun to show signs of improvement in Meta Financial’s markets. Meta Financial’s loss rates over the past three years were very low. Notwithstanding these signs of improvement, Meta Financial does not believe it is likely these low loss conditions will continue indefinitely. All of Meta Financial’s markets indirectly benefit from the strong current agricultural market. Loss rates in the agricultural real estate and agricultural operating loan portfolios have been minimal in the past three years primarily due to higher commodity prices as well as above average yields which have created positive economic conditions for most farmers in our markets. Management expects that future losses in this portfolio, which have been very low, could be higher than recent historical experience. Management believes that various levels of rain and wet weather conditions within our markets has the potential to negatively impact potential yields which would have a negative economic effect on our agricultural markets. In addition, crop prices have recently declined, which could cause a strain in the agriculture markets.

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The allowance for loan losses established by MPS results from an estimation process that evaluates relevant characteristics of its credit portfolio. MPS also considers other internal and external environmental factors such as changes in operations or personnel and economic events that may affect the adequacy of the allowance for credit losses. Adjustments to the allowance for loan losses are recorded periodically based on the result of this estimation process.

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, 2014, reflects an appropriate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level 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 the OCC, which can require the establishment of additional general or specific allowances.

Real estate properties acquired through foreclosure are recorded at fair value. If fair value at the date of foreclosure is lower than the balance of the related loan, the difference will be charged 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.

	September 30,				
	2014	2013	2012	2011	2010
	(Dollars in Thousands)				
Balance at Beginning of Period	$3,930	$3,971	$4,926	$5,234	$6,993
Charge Offs:					
1-4 Family Real Estate	-	(25)	(3)	(229)	(185)
Commercial & Multi-Family Real Estate	-	(194)	(2,094)	(61)	(6,979)
Consumer	-	(1)	(6)	(774)	(12,139)
Commercial Operating	-	-	-	(43)	(102)
Agricultural Operating	(50)	-	-	-	-
Total Charge Offs	(50)	(220)	(2,103)	(1,107)	(19,405)
Recoveries:					
1-4 Family Real Estate	2	2	1	-	1
Commercial & Multi-Family Real Estate	347	113	40	102	-
Consumer	-	1	4	419	1,242
Commercial Operating	18	63	4	-	402
Agricultural Operating	-	-	50	-	210
Total Recoveries	367	179	99	521	1,855
Net Charge Offs	317	(41)	(2,004)	(586)	(17,550)
Provision Charged to Expense	1,150	-	1,049	278	15,791
Balance at End of Period	$5,397	$3,930	$3,971	$4,926	$5,234
Ratio of Net Charge Offs During the Period to Average Loans Outstanding During the Period	-0.07 %	0.01 %	0.61 %	0.17 %	4.36 %
Ratio of Net Charge Offs During the Period to Non-Performing Assets at Year End	-31.66 %	5.07 %	75.65 %	3.69 %	180.98 %

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:

	At September 30, 2014			2013			2012			2011			2010		
	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	
	(Dollars in Thousands)														
1-4 Family Real Estate	$552	23.3	%	$333	21.4	%	$193	14.8	%	$165	10.7	%	$50	11.0	%
Commercial & Multi-Family Real Estate	1,575	44.9	%	1,937	50.1	%	3,113	58.0	%	3,901	60.9	%	3,053	55.1	%
Agricultural Real Estate	263	11.2	%	112	7.6	%	1	6.0	%	-	6.3	%	111	7.0	%
Consumer	78	5.9	%	74	7.9	%	3	9.9	%	16	10.8	%	738	12.9	%
Agricultural Operating	719	8.5	%	267	8.8	%	-	6.3	%	67	6.6	%	125	8.7	%
Commercial Operating	93	6.2	%	49	4.2	%	49	5.0	%	36	4.7	%	131	5.3	%
Unallocated	2,117	-		1,158	-		612	-		741	-		1,026	-	
Total	$5,397	100.0	%	$3,930	100.0	%	$3,971	100.0	%	$4,926	100.0	%	$5,234	100.0	%

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 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 significant outflows related to MPS, though no assurance can be given that this will continue to be the case.

On May 6, 2013, the Company reclassified approximately $284.3 million from the available-for-sale category to the held-to-maturity category. The reclassification resulted in the recording of an unrealized gain of $2.1 million which has been segregated within accumulated other comprehensive income and is being amortized through maturity. For additional information regarding the Company's investment and mortgage-backed securities portfolios, see Notes 1 and 3 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.

As of September 30, 2014, investment and mortgage-backed securities with fair values of approximately $422.9 million, $149.4 million and $36.4 million were pledged as collateral for the Bank's Federal Home Loan Bank of Des Moines ("FHLB") advances, Federal Reserve Bank ("FRB") advances, and collateral for securities sold under agreements to repurchase, respectively. For additional information regarding the Company's collateralization of borrowings, see Notes 8 and 9 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, U.S. Government agency and instrumentality securities, state and local government obligations, commercial paper, corporate debt securities and overnight federal funds.

Beginning in June 2012, the Company began executing a strategy designed to diversify the Bank's investment securities portfolio. This strategy involved purchasing other investments, primarily non-bank qualified municipal bond securities. The Company believes this diversification reduces the risk in the portfolio by spreading its investable dollars among a broader range of investment types and takes advantage of the Company's innovative funding structure. As of September 30, 2014, the Company had total investment securities, excluding mortgage-backed securities, with an amortized cost of $697.6 million compared to $531.2 million as of September 30, 2013.

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The largest portion of this investment strategy involves the purchase of non-bank qualified obligations of political subdivisions. These bonds are issued in larger denominations than bank qualified obligations of political subdivisions, which allows for the purchase of larger blocks. These larger blocks of municipal bonds are typically issued in larger denominations by well-known issuers, and in turn, are more liquid and salable, which helps reduce price risk. These municipal bonds are tax-exempt and as such have a tax equivalent yield higher than their book yield. The tax equivalent yield calculation uses the Company’s cost of funds as one of its components. With this cost of funds being low due to the volume of interest-free deposits generated by the MPS division, the tax equivalent yield for these bonds is higher than a similar term investment in other investment categories.

As of September 30, 2014, the Company had obligations of states and political subdivisions of $580.5 million, representing 83.5% of total investment securities, excluding mortgage backed securities. This amount is spread amongst 45 states, with Texas being the only state with a concentration higher than 10% of the total at approximately 11%. The Company intentionally has no direct municipal bond exposure in California or Puerto Rico. Management believes this geographical diversification lessens the credit risk associated with these investments. The Company also monitors concentrations of the ultimate borrower and exposure to counties within each state to further enhance diversification.

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The following table sets forth the carrying value of the Company's investment securities portfolio, excluding mortgage-backed securities and other equity securities, at the dates indicated.

	At September 30,		
	2014	2013	2012
	(Dollars in Thousands)		
Investment Securities AFS			
Trust preferred and corporate securities (1)	$46,929	$48,784	$65,497
Asset backed securities	-	-	41,324
Agency and instrumentality securities	-	-	39,467
Small business administration securities	67,012	10,581	19,914
Obligations of states and political subdivisions	-	1,727	13,153
Non-bank qualified obligations of states and political subdivisions	367,580	238,729	255,895
Common equities and mutual funds	825	-	-
Subtotal AFS	482,346	299,821	435,250
Investment Securities HTM			
Agency and instrumentality securities	$-	$10,003	$-
Obligations of states and political subdivisions	19,304	19,549	-
Non-bank qualified obligations of states and political subdivisions(2)	193,595	181,547	-
Subtotal HTM	212,899	211,099	-
FHLB Stock	21,245	9,994	2,120
Total Investment Securities and FHLB Stock	$716,490	$520,914	$437,370
Other Interest-Earning Assets:			
Interest bearing deposits in other financial institutions and Federal Funds Sold (3)	$9,084	$64,732	$128,056

(1) Within the trust preferred securities presented above, there are no securities from individual issuers that exceed 5% of the Company's total equity. The name and the aggregate market value of securities of each individual issuer as of September 30, 2014, are as follows: Key Corp Capital I, $4.4 million; PNC Capital Trust, $4.4 million; CoreStates Capital Trust $4.4 million; and Huntington Capital Trust II, $4.3 million.

(2) Includes $2.6 million of taxable obligations of states and political subdivisions.

(3) The Company at times maintains balances in excess of insured limits at various financial institutions including the FHLB, the FRB and other private institutions. At September 30, 2014, the Company had no interest bearing deposits held at the FHLB and $9.1 million in interest bearing deposits held at the FRB. At September 30, 2014, the Company had no federal funds sold at any private institution.

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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, 2014					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Investment Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Fair Value
Available for Sale	(Dollars in Thousands)					
Trust preferred and corporate securities	$3,048	$7,117	$18,954	$17,810	$48,747	$46,929
Small business administration securities	-	-	36,963	30,049	66,541	67,012
Non-bank qualified obligations of states and political subdivisions	-	2,962	229,781	134,837	368,897	367,580
Total Investment Securities AFS	$3,048	$10,079	$285,698	$182,696	$484,185	$481,521
Weighted Average Yield (1)	1.40 %	0.83 %	2.18 %	2.06 %	2.06 %	2.10 %

	September 30, 2014					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Investment Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Fair Value
Held to Maturity	(Dollars in Thousands)					
Obligations of states and political subdivisions	$347	$4,106	$9,144	$5,707	$19,304	$18,980
Non-bank qualified obligations of states and political subdivisions	-	620	82,388	110,587	193,595	192,160
Total Investment Securities HTM	$347	$4,726	$91,532	$116,294	$212,899	$211,140
Weighted Average Yield (1)	3.05%	1.88 %	2.10 %	2.59 %	2.36 %	2.42 %

(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 consisted entirely of securities issued by U.S. government agencies or instrumentalities, including those of Ginnie Mae, Fannie Mae and Freddie Mac as of September 30, 2014. The Ginnie Mae, Fannie Mae and Freddie Mac certificates are modified pass through mortgage-backed securities representing 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 U.S. government agencies or instrumentalities. 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.

At September 30, 2014, the Company had a diverse portfolio of mortgage-backed securities with an amortized cost of $700.9 million, representing 95.5% of the total mortgage-backed portfolio, which had fixed rates of interest and $32.8 million, representing 4.5% of the total portfolio, which had adjustable rates of interest. The Company held primarily seasoned 15 year, 20 year, and 30 year pass through and, to a lesser extent, various maturity delegated underwriting servicing ("DUS") mortgage-backed securities. Coupons on these securities ranged from below 2% to 6%.

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, 2014, $422.9 million or 58% of the Company's mortgage-backed securities were pledged to secure various obligations of the Company.

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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 and other underwriting risks inherent in 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 rate assumptions are 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.

	At September 30,		
	2014	2013	2012
Available for Sale	(Dollars in Thousands)		
Freddie Mac	$155,340	$82,189	$129,940
Fannie Mae	266,214	252,196	444,625
Fannie Mae DUS	194,663	224,379	80,946
Ginnie Mae	41,653	22,608	25,931
Total AFS	$657,870	$581,372	$681,442

	At September 30,		
	2014	2013	2012
Held to Maturity	(Dollars in Thousands)		
Fannie Mae	$70,034	$76,927	$-
Total HTM	$70,034	$76,927	$-

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The following table sets forth the contractual maturities of the Company's mortgage-backed securities at September 30, 2014. 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 which typically lower the average life of these holdings.

	September 30, 2014					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Investment Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Fair Value
Available for Sale	(Dollars in Thousands)					
Freddie Mac	$-	$ -	$-	$155,340	$155,657	$155,340
Fannie Mae	-	-	-	266,214	264,698	266,214
Fannie Mae DUS	-	-	194,663	-	201,870	194,663
Ginnie Mae	-	-	-	41,653	41,465	41,653
Total Investment Securities	$-	$ -	$194,663	$463,207	$663,690	$657,870
Weighted Average Yield	0.00%	0.00 %	2.95 %	2.24 %	2.28 %	2.45 %

	September 30, 2014					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Investment Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Fair Value
Held to Maturity	(Dollars in Thousands)					
Fannie Mae	$-	$ -	$-	$70,034	$70,034	$68,172
Total Investment Securities	$-	$ -	$-	$70,034	$70,034	$68,172
Weighted Average Yield	0.00%	0.00 %	0.00 %	2.37 %	2.37 %	2.71 %

At September 30, 2014, the contractual maturity of approximately 73% 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 U.S. 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 mortgage-backed securities, 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, borrower credit scores, loan to premises value, 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. 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. During periods of rising interest rates, these prepayments tend to decelerate as the prevailing market interest rates for mortgage rates increase and prepayment incentives dissipate.

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Management has implemented a process to identify securities with potential credit impairment that are other-than-temporary. This process involves evaluation of the length of time and extent to which the fair value has been less than the amortized cost basis, review of available information regarding the financial position of the issuer, monitoring the rating of the security, monitoring changes in value, cash flow projections, and the Company's intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity. To the extent we determine that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized.

For all securities considered temporarily impaired, the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost, which may occur at maturity. The Company believes it will collect all principal and interest due on all investments with amortized cost in excess of fair value and considered only temporarily impaired.

In fiscal 2014 and 2013, there were no other-than-temporary impairments recorded.

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, mortgage-backed securities, and funds provided from operations.

Borrowings, including FHLB advances, repurchase agreements and funds available through the FRB Discount Window, 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 statement savings accounts, money market savings accounts, NOW and regular checking accounts, deposits related to prepaid cards primarily categorized as checking accounts, and certificate accounts currently ranging in terms from fourteen days to 60 days. The Company solicits deposits from its primary market area and relies primarily on competitive pricing policies, advertising and high-quality customer service to attract and retain these 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 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 savings, money market accounts, NOW, regular checking accounts and deposits related to prepaid cards 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.

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At September 30, 2014, $1.1 billion of the Company's deposit portfolio was attributable to MPS. The majority of these deposits represent funds available to spend on prepaid debit cards and other stored value products, of which $1.1 billion are included with non-interest-bearing checking accounts and $10.0 million are included with savings deposits on the Company's Consolidated Statement of Financial Condition. Generally, these deposits do not pay interest. MPS originates debit card programs through outside sales agents and other financial institutions. As such, these deposits carry a somewhat higher degree of concentration risk than traditional consumer products. If a major client or card program were to leave the Bank, deposit outflows could be more significant than if the Bank were to lose a more traditional customer, although it is considered unlikely that all deposits related to a program would leave the Bank without significant advance notification. As such, historical results indicate, and management believes, the Company's deposit portfolio attributable to MPS is stable. The increase in deposits arising from MPS has allowed the Bank to reduce its reliance on higher costing certificates of deposits and public funds.

The following table sets forth the deposit flows at the Company during the periods indicated.

	September 30,		
	2014	2013	2012
	(Dollars in Thousands)		
Opening Balance	$1,315,283	$1,379,794	$1,141,620
Deposits	215,420,492	180,050,543	148,719,273
Withdrawals	(215,369,877)	(180,115,818)	(148,482,630)
Interest Credited	643	764	1,531
Ending Balance	$1,366,541	$1,315,283	$1,379,794
Net Increase (Decrease)			