

META FINANCIAL GROUP INC

FORM 10-Q (Quarterly Report)

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Industry	S&Ls/Savings Banks
Sector	Financial
Fiscal Year	09/30

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, 1998

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

For the transaction period from _____ to _____

Commission File Number: 0-22140

FIRST MIDWEST FINANCIAL, INC.

(Exact name of small business issuer as specified in its charter)

Delaware

42-1406262

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

Fifth at Erie, Storm Lake, Iowa 50588

(Address of principal executive offices)

(712) 732-4117

(Issuer's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past twelve 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class: Outstanding at March 31, 1998:

Common Stock, \$.01 par value 2,646,471 Common Shares

Transitional Small Business Disclosure Format: Yes ☐ No ☒

FIRST MIDWEST FINANCIAL, INC.

FORM 10-Q

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Part I. Financial Information

Item 1. Financial Statements

FIRST MIDWEST FINANCIAL, INC. AND SUBSIDIARIES Consolidated Balance Sheets (Unaudited)

	March 31, 1998	September 30, 1997
	-----	-----
Assets		
Cash and cash equivalents	\$ 14,540,187	\$ 12,852,426
Interest-bearing deposits in other financial institutions - short-term (cost approximates market value)	200,000	200,000
Securities available for sale, amortized cost of \$121,606,384 and \$114,456,661	122,808,205	115,985,045
Loans receivable - net of allowances of \$3,522,028 and \$2,379,091	247,210,118	254,640,971
Foreclosed assets, net	1,555,109	156,300
Accrued interest receivable	4,296,395	5,366,109
Federal Home Loan Bank stock, at cost	5,635,500	5,629,300
Premises and equipment, net	4,109,753	4,176,311
Excess of cost over net assets acquired	4,680,281	4,862,747
Other assets	381,689	719,369
	-----	-----
Total Assets	\$ 405,417,237	\$ 404,588,578
	=====	=====
Liabilities and Shareholders' Equity		
Liabilities		
Deposits	\$ 264,084,287	\$ 246,115,698
Advances from Federal Home Loan Bank	92,570,043	107,426,225
Securities sold under agreements to repurchase	2,968,334	1,800,000
Other borrowings	--	2,900,000
Advances from borrowers for taxes and insurance	486,160	449,487
Accrued interest payable	896,813	1,065,746
Other liabilities	2,274,984	1,354,418
	-----	-----
Total Liabilities	363,280,621	361,111,574
	-----	-----

Shareholders' Equity

Preferred stock, 800,000 shares authorized, no shares issued or outstanding	--	--
Common stock, \$.01 par value, 5,200,000 shares authorized, 2,957,999 shares issued and 2,646,471 shares outstanding at March 31, 1998; 2,957,999 shares issued and 2,698,904 shares outstanding at September 30, 1997	29,580	29,580
Additional paid-in capital	21,100,192	20,984,754
Retained earnings - substantially restricted	26,260,704	26,427,657
Net unrealized appreciation on securities available for sale, net of tax of \$447,858 and \$568,013	753,963	960,371
Unearned Employee Stock Ownership Plan shares	(467,175)	(567,200)
Treasury stock, 311,528 and 259,095 common shares, at cost ..	(5,540,648)	(4,358,158)
	-----	-----
Total Shareholders' Equity	42,136,616	43,477,004
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 405,417,237	\$ 404,588,578
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

FIRST MIDWEST FINANCIAL, INC.
AND SUBSIDIARIES
Consolidated Statements of Income (Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	1998	1997	1998	1997
Interest and Dividend Income:				
Loans receivable	\$ 5,700,185	\$5,399,175	\$11,452,017	\$10,949,965
Securities available for sale	2,051,050	1,387,852	4,096,475	3,045,493
Dividends on Federal Home Loan Bank stock	88,546	95,068	186,023	192,567
Total interest and dividend income	7,839,781	6,882,095	15,734,515	14,188,025
Interest Expense:				
Deposits	3,265,793	2,877,640	6,488,588	5,828,238
Other borrowings	1,356,978	1,096,345	2,846,822	2,434,540
Total interest expense	4,622,771	3,973,985	9,335,410	8,262,778
Net interest income	3,217,010	2,908,110	6,399,105	5,925,247
Provision for loan losses	1,545,000	30,000	1,580,000	60,000
Net interest income after provision for loan losses ...	1,672,010	2,878,110	4,819,105	5,865,247
Non-interest income:				
Loan fees and service charges	281,097	231,643	609,305	565,330
Gain on sales of securities available for sale, net	108,786	--	222,925	--
Brokerage commissions from subsidiary	29,817	14,370	44,068	37,368
Other	40,679	137,417	73,178	188,387
Total non-interest income	460,379	383,430	949,476	791,085
Non-interest expense:				
Compensation and benefits	1,146,330	1,032,970	2,305,037	2,069,549
Occupancy and equipment	277,406	276,919	564,602	501,340
Federal deposit insurance	38,523	37,712	74,090	133,422
Data processing	89,740	81,633	172,750	159,914
Other	396,264	400,556	785,835	778,910
Total non-interest expense	1,948,263	1,829,790	3,902,314	3,643,135
Income before income taxes	184,126	1,431,750	1,866,267	3,013,197
Income tax expense	697,310	582,211	1,390,396	1,210,441
Net income	\$ (513,184)	\$ 849,539	\$ 475,871	\$ 1,802,756
Earnings Per Share (see Note 2):				
Basic	\$ (.20)	\$.31	\$.18	\$.65
Diluted	\$ (.19)	\$.29	\$.17	\$.62

The accompanying notes are an integral part of these consolidated financial statements.

FIRST MIDWEST FINANCIAL, INC.
AND SUBSIDIARIES
Consolidated Statement of Changes in Shareholders' Equity (Unaudited)
For the Six Months Ended March 31, 1998

	Common Stock	Additional Paid-In Capital	Retained Earnings	Net Unrealized Appreciation on Securities Available for Sale, Net of Tax	Unearned Employee Stock Ownership Plan Shares
	-----	-----	-----	-----	-----
Balance at September 30, 1997	\$29,580	\$ 20,984,754	\$ 26,427,657	\$ 960,371	\$(567,200)
15,000 common shares committed to be released under the ESOP	--	224,578	--	--	100,025
Cash dividends declared on common stock - \$0.24 per share	--	--	(642,824)	--	--
Net change in unrealized appreciation on securities available for sale, net of tax of (\$120,155)	--	--	--	(206,408)	--
Purchase of 59,000 common shares of treasury stock	--	--	--	--	--
Exchange of 1,033 common shares upon exercise of stock options	--	--	--	--	--
Issuance of 7,600 common shares from treasury stock due to exercise of stock options	--	(109,140)	--	--	--
Net income for the six months ended March 31, 1998	--	--	475,871	--	--
	-----	-----	-----	-----	-----
Balance at March 31, 1998	\$29,580	\$ 21,100,192	\$ 26,260,704	\$ 753,963	\$(467,175)
	=====	=====	=====	=====	=====

	Treasury Stock	Total Shareholders' Equity
	-----	-----
Balance at September 30, 1997	\$(4,358,158)	\$ 43,477,004
15,000 common shares committed to be released under the ESOP	--	324,603
Cash dividends declared on common stock - \$0.24 per share	--	(642,824)
Net change in unrealized appreciation on securities available for sale, net of tax of (\$120,155)	--	(206,408)
Purchase of 59,000 common shares of treasury stock	(1,320,325)	(1,320,325)
Exchange of 1,033 common shares upon exercise of stock options	(21,972)	(21,972)
Issuance of 7,600 common shares from treasury stock due to exercise of stock options	159,807	50,667
Net income for the six months ended March 31, 1998	--	475,871
	-----	-----
Balance at March 31, 1998	\$(5,540,648)	\$ 42,136,616
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

FIRST MIDWEST FINANCIAL, INC.
AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended March 31, 1998	1997
Cash flows from operating activities:		
Net income	\$ 475,871	\$ 1,802,756
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amortization and accretion, net	652,563	516,258
Provision for loan losses	1,580,000	60,000
Gain on sales of securities available for sale, net	(179,131)	--
Loss on sales of real estate owned, net	11,093	--
Net change in accrued interest receivable	1,069,715	1,057,885
Net change in other assets	337,680	(154,334)
Net change in accrued interest payable	(168,933)	(4,194)
Net change in accrued expenses and other liabilities	1,040,788	(1,203,768)
Net cash from operating activities	4,819,646	2,074,603
Cash flows from investing activities:		
Purchase of securities available for sale	(21,463,483)	(27,001,598)
Purchase of Federal Home Loan Bank stock	(6,200)	--
Purchase of mortgage-backed securities available for sale	(30,260,583)	--
Proceeds from sales of securities available for sale	6,744,732	--
Proceeds from maturities of securities available for sale	31,500,000	42,168,111
Proceeds from principal repayment of mortgage-backed securities	6,526,071	3,636,436
Net change in loans receivable	18,085,991	4,411,600
Loans purchased	(13,783,790)	(6,980,754)
Proceeds from sales of foreclosed assets	162,028	27,743
Purchase of premises and equipment, net	(119,611)	(615,255)
Net cash from investing activities	(2,614,845)	15,646,283
Cash flows from financing activities:		
Net change in non-interest bearing demand, savings, NOW and money market demand accounts	6,166,800	1,283,371
Net change in other time deposits	11,801,789	832,129
Proceeds from advances from Federal Home Loan Bank	56,100,000	62,000,000
Payments of advances from Federal Home Loan Bank	(70,956,182)	(78,655,659)
Net change in securities sold under agreements to repurchase	1,168,334	(349,918)
Net change in other borrowings	(2,900,000)	(1,400,000)
Net change in advances from borrowers for taxes and insurance	36,673	23,997
Cash dividends paid	(642,824)	(523,455)
Proceeds from exercise of stock options	28,695	335,992
Purchase of treasury stock	(1,320,325)	(2,095,637)
Net cash from financing activities	(517,040)	(18,549,180)
Net change in cash and cash equivalents	1,687,761	(828,294)
Cash and cash equivalents at beginning of period	12,852,426	14,328,652
Cash and cash equivalents at end of period	\$ 14,540,187	\$ 13,500,358
	=====	=====

FIRST MIDWEST FINANCIAL, INC.
AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
(continued)

	Six Months Ended March 31,	
	1998	1997
	-----	-----
Supplemental disclosure of non-cash investing and financing activities:		
Loans transferred to foreclosed assets	\$ 1,571,930	--

The accompanying notes are an integral part of these consolidated financial statements.

**FIRST MIDWEST FINANCIAL, INC.
AND SUBSIDIARIES**

Notes to consolidated Financial Statements (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by First Midwest Financial, Inc. ("First Midwest" or the "Company") and its consolidated subsidiaries, First Federal Savings Bank of the Midwest ("First Federal"), Security State Bank ("Security"), First Services Financial Limited and Brookings Service Corporation, for interim reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. The accompanying financial statements do not purport to contain all the necessary financial disclosures required by generally accepted accounting principles that might otherwise be necessary in the circumstances and should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 1997.

2. EARNINGS PER SHARE

Basic and diluted earnings per share are computed under a new accounting standard, which was effective in the quarter ended December 31, 1997. All prior amounts have been restated to be comparable. Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share shows the dilutive effect of additional common shares issuable under stock options.

A reconciliation of the numerators and denominators of the earnings per common share and earnings per common share assuming dilution computations for the three months and six months ended March 31, 1998 and 1997 is presented below.

	Three Months Ended March 31,		Six Months Ended March 31,	
	1998	1997	1998	1997
Earnings Per Share:				
Numerator:				
Net Income	\$ (513,184)	\$ 849,539	\$ 475,871	\$1,802,756
	=====	=====	=====	=====
Denominator:				
Weighted average common shares outstanding	2,589,089	2,776,352	2,600,984	2,787,038
	=====	=====	=====	=====
Earnings Per Share	\$ (0.20)	\$ 0.31	\$ 0.18	\$ 0.65
	=====	=====	=====	=====

	Three Months Ended March 31,		Six Months Ended March 31,	
	1998	1997	1998	1997
Earnings Per Share Assuming Dilution:				
Numerator:				
Net Income	\$ (513,184)	\$ 849,539	\$ 475,871	\$1,802,756
	=====	=====	=====	=====
Denominator:				
Weighted average common shares outstanding	2,589,098	2,776,352	2,600,984	2,787,038
Dilutive effects of assumed exercises of stock options	173,534	129,732	167,425	127,541
	-----	-----	-----	-----
Weighted average common and dilutive potential common shares outstanding	2,762,632	2,906,084	2,768,409	2,914,579
	=====	=====	=====	=====
Earnings Per Share Assuming				
Dilution	\$ (0.19)	\$ 0.29	\$ 0.17	\$ 0.62
	=====	=====	=====	=====

On November 25, 1996, the Company declared a 50% stock dividend payable on January 2, 1997 to stockholders of record December 16, 1996. The stock dividend is reflected in the balance sheet, and dividend and earnings per share data has been restated for all prior reported periods.

3. COMMITMENTS

At March 31, 1998 and September 30, 1997, the Company had outstanding commitments to originate and purchase loans totaling \$24.6 million and \$15.8 million, respectively, excluding undisbursed portions of loans in process. It is expected that outstanding loan commitments will be funded with existing liquid assets.

Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

**FIRST MIDWEST FINANCIAL, INC.
AND SUBSIDIARIES**

GENERAL

First Midwest Financial, Inc. ("First Midwest" or the "Company") is a bank holding company whose primary assets are First Federal Savings Bank of the Midwest ("First Federal") and Security State Bank ("Security"). The Company was incorporated in 1993 as a unitary non-diversified savings and loan holding company and, on September 20, 1993, acquired all of the capital stock of First Federal in connection with First Federal's conversion from mutual to stock form of ownership. On September 30, 1996, the Company became a bank holding company in conjunction with the acquisition of Security.

The following discussion focuses on the consolidated financial condition of the Company and its subsidiaries, at March 31, 1998, compared to September 30, 1997, and the consolidated results of operations for the three months and six months ended March 31, 1998, compared to the same periods in 1997. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 1997.

FINANCIAL CONDITION

Total assets increased by \$829,000, or .20%, from \$404.6 million at September 30, 1997, to \$405.4 million at March 31, 1998. The increase is primarily attributable to increases in the Company's balance of cash and cash equivalents and securities available for sale, which was partially offset by a decrease in net loans receivable.

Cash and cash equivalents increased \$1.7 million, or 13.1%, to \$14.5 million at March 31, 1998, from \$12.9 million at September 30, 1997. The increase was due to funds received as a result of retail deposit growth and funds received from repayments of net loans receivable during the period. The increased balance in cash and cash equivalents is expected to be used to fund outstanding loan commitments and to repay borrowings.

The portfolio of securities available for sale increased \$6.8 million, or 5.9%, to \$122.8 million at March 31, 1998, from \$116.0 million at September 30, 1997. The increase is the result of securities purchased during the period in an amount greater than maturities and principal repayments received on mortgage-backed securities.

The portfolio of net loans receivable decreased by \$7.4 million, or 2.9%, to \$247.2 million at March 31, 1998, from \$254.6 million at September 30, 1997. The decrease in loan receivables was due to repayments received on residential real estate loans in an amount greater than originations and, in addition, was due to the transfer of loans to foreclosed real estate during the period.

Deposit balances increased by \$18.0 million, or 7.3%, to \$264.1 million at March 31, 1998, from \$246.1 million at September 30, 1997. The increase in deposit balances resulted from increases in all areas of retail deposits, including checking accounts, savings accounts, money market accounts and certificates of deposit, which increased \$3.1 million, \$392,000, \$2.7 million and \$11.8 million, respectively, between the comparable periods. A significant portion of the deposit growth resulted from the Company's continued emphasis on enhancement of its retail customer base in the Des Moines, Iowa market area.

The balance in advances from the Federal Home Loan Bank of Des Moines decreased by \$14.9 million, or 13.8%, to \$92.6 million at March 31, 1998 from \$107.4 million at September 30, 1997. The decrease in FHLB advances reflects the repayment of borrowings from the proceeds of loan repayments and from funds received as a result of deposit growth.

Other borrowings, consisting of short-term borrowings from the Federal Reserve Bank, were repaid in full during the period, resulting in a reduction of \$2.9 million. These borrowings had been used primarily to fund seasonal loans to agricultural customers, which were generally repaid during the period.

Total shareholders' equity decreased by \$1.3 million, or 3.1%, to \$42.1 million at March 31, 1998 from \$43.5 million at September 30, 1997. The decrease in shareholder's equity was due to the purchase of treasury stock and the payment of cash dividends to shareholders that more than offset earnings during the period.

NON-PERFORMING ASSETS AND ALLOWANCE FOR LOAN LOSSES

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 non-accrual status and, as a result of this action, previously accrued interest income on the loan is taken out of current income. The loan will remain on non-accrual status until the loan has been brought current, or until other circumstances occur that provide adequate assurance of full repayment of interest and principal.

The following table sets forth the Company's loan delinquencies by type, before allowance for loan losses, by amount and by percentage of type at March 31, 1998.

	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:									
One-to-four family	48	\$ 2,083	2.94%	14	\$ 480	.68%	12	\$ 531	.75%
Commercial and multi-family	7	6,912	6.92	3	1,506	1.51	2	779	.78
Agricultural real estate ..	3	377	3.20	--	--	--	2	214	1.82
Consumer	87	714	2.62	21	89	.33	19	96	.35
Agricultural operating	70	5,099	14.25	3	18	.05	38	1,186	3.31
Commercial business	19	267	1.33	1	3	.01	10	433	2.16
	---	-----		--	-----		--	-----	
Total	234	\$15,452	5.82%	42	\$2,096	.79%	83	\$3,239	1.22%
	===	=====		==	=====		==	=====	

The table below sets forth the amounts and categories of non-performing assets in the Company's loan portfolio. Foreclosed assets include assets acquired in settlement of loans.

	March 31, 1998	September 30, 1997
	-----	-----
	(Dollars in Thousands)	
Non-accruing loans:		
One-to four family	\$ 531	\$ 444
Commercial and multi-family	779	1,692
Agricultural real estate	214	--
Consumer	96	246
Agricultural operating	1,186	289
Commercial business	433	204
	-----	-----
Total	3,239	2,875
Less: Allowance for loan losses	312	--
	-----	-----
Total non-accruing loans	2,927	2,875
	-----	-----
Accruing loans delinquent		
90 days or more(1)	--	282
	-----	-----
Total non-performing loans	2,927	3,157
	-----	-----
Foreclosed assets:		
One- to four family	144	85
Commercial real estate	1,384	67
Consumer	23	--
Commercial business	4	4
	-----	-----
Total	1,555	156
	-----	-----
Total non-performing assets	\$4,482	\$3,313
	=====	=====
Total as a percentage of total assets	1.11%	.82%
	=====	=====

(1) These loans were acquired by the company in connection with the acquisition of Security State Bank.

For the six months ended March 31, 1998, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately \$178,000, of which none was included in interest income.

Other Loans of Concern. At March 31, 1998, there were loans totaling \$8.2 million not included in the table above where known information about the possible credit problems of borrowers caused management to have concern as to the ability of the borrower to comply with the present loan repayment terms. This amount consisted of four commercial real estate loans totaling \$6.2 million, three commercial business loans totaling \$999,000 and two agricultural operating loans totaling \$985,000.

Included in the \$6.2 million of commercial real estate loans of concern at March 31, 1998, was a \$3.9 million loan secured by four nursing homes located in Minnesota, a \$1.2 million loan secured by a tax subsidized apartment complex in Mt. Pleasant, Wisconsin and a \$811,000 loan secured by an apartment complex in Madison, Wisconsin. At March 31, 1998, the nursing home loan was 51 days delinquent. The delinquency was attributable to internal control weaknesses that caused a disruption in cash flows. The borrower has corrected these weaknesses, is paying as agreed at a default interest rate and is in the process of bringing the loan current.

The \$1.2 million tax subsidized apartment complex was delinquent 30 days due to tight cash flow resulting from lower than projected occupancy rates. A new project management company has been hired, which is expected to increase occupancy rates and enhance cash flow. The \$811,000 apartment complex loan was delinquent 59 days due to decreased occupancy rates resulting from lack of management oversight. The borrower has focused on correcting these problems and occupancy rates have subsequently increased to a level that will support the property's current debt service.

Classified Assets. Federal regulations provide for the classification of loans and other assets as "substandard", "doubtful" or "loss", based on the level of weakness determined to be inherent in the collection of the principal and interest. When loans are classified as either substandard or doubtful, the Company may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem loans. When assets are classified as loss, the Company is required either to establish a specific allowance for loan losses equal to 100% of that portion of the loan so classified, or to charge-off such amount. The Company's determination as to the classification of its loans and the amount of its valuation allowances are subject to review by its regulatory authorities, who may require the establishment of additional general or specific loss allowances.

On the basis of management's review of its loans and other assets, at March 31, 1998, the Company had classified a total of \$5.7 million of its assets as substandard, \$709,000 as doubtful and \$313,000 as loss.

Allowance for Loan Losses. The Company establishes its provision for possible loan losses, and evaluates the adequacy of its allowance for loan losses based upon a systematic methodology consisting of a number of factors including, among others, historic loss experience, the overall level of non-performing loans, the composition of its loan portfolio and the general economic environment within which the Bank and its borrowers operate.

During the quarter ended March 31, 1998, the Company determined that an agricultural loan officer located in a subsidiary branch office had, through abuse of position and misrepresentation to management, authorized the disbursement of funds on loans for which collateral was inadequate. In addition, the possibility of fraud exists related to self-dealing by the loan officer in the disbursement of loan proceeds to persons and entities which the loan officer was affiliated. This mismanagement and possible fraud was discovered as a result of the Company's routine internal audit procedures. The loan officer involved is no longer with the Company. The Company has contacted authorities, and an investigation is in process at this time.

A thorough review was performed by the Company of the accounts in which the loan officer was involved. Management believes it has identified all loans for which material weaknesses exist and has classified these loans accordingly. Based on the resulting increase in classified assets, management considered it prudent to increase the allowance for loan losses through an additional charge to the provision for loan losses in the amount of \$1.5 million. Future recoveries are dependent on the ultimate resolution of weaknesses found in the loans and any insurance proceeds that may be received.

At March 31, 1998, the Company has established an allowance for loan losses totaling \$3.5 million. The allowance represents approximately 78.6% of the total non-performing assets at March 31, 1998.

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

(In Thousands)

Balance, September 30, 1997	\$ 2,379
Charge-offs	(126)
Transfers to real estate owned	(328)
Recoveries	17
Additions charged to operations	1,580

Balance, March 31, 1998	\$ 3,522
	=====

Based on currently available information, management believes that the allowance for loan losses is adequate to absorb potential losses in the portfolio. Future additions to the allowance for loan losses may become necessary based upon changing economic conditions, increased loan balances or changes in the underlying collateral of the loan portfolio.

RESULTS OF OPERATIONS

General. For the three months ended March 31, 1998, the Company recorded a loss of \$513,000 compared to net income of \$850,000 for the same period in 1997. For the six months ended March 31, 1998, net income was \$476,000 compared to \$1.8 million for the same period in 1997. The decrease for both periods reflects a non-recurring charge to provision for loan losses in the amount of \$1.5 million related to a determination by management that the Company's allowance for loan losses should be increased as a result of mismanagement and possible fraud by one loan officer who is no longer with the Company. For the three months and six months ended March 31, 1998, excluding the charge to provision for loan losses, net income was \$987,000 and \$2.0 million, respectively.

Interest and Dividend Income. Total interest and dividend income for the three months ended March 31, 1998 increased by \$958,000, or 13.9%, to \$7.84 million, compared to \$6.88 million during the same period in 1997. For the six months ended March 31, 1998, interest and dividend income increased by \$1.55 million, or 10.9%, to \$15.73 million from \$14.19 million during 1997. The increase for both periods is due to higher average balances in interest earning assets during the 1998 periods compared to the previous year as a result of the increased origination and purchase of loans and increased purchases of securities available for sale.

Interest Expense. Total interest expense for the three months ended March 31, 1998 increased by \$649,000, or 16.3%, to \$4.62 million from \$3.97 million during the same period in 1997. For the six months ended March 31, 1998, interest expense increased \$1.07 million, or 13.0%, to \$9.34 million from \$8.26 million for the same period in 1997. The increase in interest expense for both periods reflects a higher average balance in deposit accounts during the 1998 periods due to internal growth of the deposit portfolio. In addition, the increase in interest expense for 1998 reflects increased balances of Federal Home Loan Bank advances used to fund the origination and purchase of loans and the purchase of securities available for sale.

Net Interest Income. Net interest income increased by \$309,000, or 9.6%, to \$3.22 million for the three months ended March 31, 1998 from \$2.91 million for the same period in 1997. For the six months ended March 31, 1998, net interest income increased \$474,000, or 8.0%, to \$6.40 million from \$5.93 million for the same period in 1997. The increase in net interest income for both periods is due to the overall increase in net earning assets between the comparable periods that resulted from increases in average balances held in the loan portfolio and the portfolio of securities available for sale.

Provision for Loan Losses. For the three month and six month periods ended March 31, 1998, the provision for loan losses was \$1.55 million and \$1.58 million, respectively. For the comparable periods in 1997, the provision for loan losses was \$30,000 and \$60,000, respectively. The increase reflects an increase in the level of classified assets and the related determination by management that the allowance for loan losses should be increased. The increase in classified assets is primarily the result of mismanagement and possible fraud by an agricultural loan officer (see "Allowance for Loan Losses").

Non-Interest Income. Non-interest income increased by \$77,000, or 20.0%, to \$460,000 for the three months ended March 31, 1998, from \$383,000 for the same period in 1997. For the six months ended March 31, 1998, non-interest income increased \$158,000, or 20%, to \$949,000 from \$791,000 for the same period in 1997. The increase in non-interest income for both periods reflects the higher collection of fees from the origination, purchase and prepayment of loans, an increase in brokerage commissions on the sale of alternative investment products through the Company's subsidiary, and the gain on sales of securities available for sale.

Non-Interest Expense. Non-interest expense increased \$118,000, or 6.5%, to \$1.95 million for the three months ended March 31, 1998, from \$1.83 million for the same period in 1997. For the six months ended March 31, 1998, non-interest expense increased \$259,000, or 7.1%, to \$3.90 million from \$3.64 million for the same period in 1997. The increase in non-interest expense for both periods primarily reflects increased costs associated with the operation of an additional office facility that opened for operation during 1997 in Des Moines, Iowa.

Income Tax Expense. Income tax expense increased \$115,000, or 19.8%, to \$697,000 for the three months ended March 31, 1998, from \$582,000 for the same period in 1997. For the six months ended March 31, 1998, income tax expense increased \$180,000, or 14.9%, to \$1.39 million from \$1.21 million for the comparable period in 1997. The increase for both periods is due to the higher level of taxable income between the comparable periods.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funds are deposits, borrowings, principal and interest payments on loans, investments and mortgage-backed securities, and funds provided by operations. While scheduled payments on loans, mortgage-backed securities and short-term investments are relatively predictable sources of funds, deposit flows and early loan repayments are greatly influenced by general interest rates, economic conditions and competition.

Federal regulations require First Federal to maintain minimum levels of liquid assets. Currently, First Federal is required to maintain liquid assets of at least 4% of the average daily balance of net withdrawable savings deposits and borrowings payable on demand in one year or less during the preceding calendar quarter. Liquid assets for purposes of this ratio include cash, certain time deposits, U.S. Government, government agency and corporate securities and obligations, unless otherwise pledged. First Federal has historically maintained its liquidity ratio at levels in excess of those required. First Federal's regulatory liquidity ratios at March 31, 1998 and September 30, 1997, were 17.2% and 9.8%, respectively.

The Company uses its capital resources principally to meet ongoing commitments to fund maturing certificates of deposits and loan commitments, to maintain liquidity and to meet operating expenses. At March 31, 1998, the Company had commitments to originate and purchase loans totalling \$24.6 million. The Company believes that loan repayment and other sources of funds will be adequate to meet its foreseeable short- and long-term liquidity needs.

Regulations require First Federal to maintain minimum amounts and ratios of tangible capital and leverage capital to average assets, and risk-based capital to risk-weighted assets. The following table sets forth First Federal's actual capital and required capital amounts and ratios at March 31, 1998 which, at that date, exceeded the capital adequacy requirements:

	Actual		Minimum Requirement For Capital Adequacy Purposes		Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	%	Amount	%	Amount	%
	-----	-	-----	-	-----	-
			(Dollars in Thousands)			
Total Capital (to risk weighted assets)	\$32,766	13.7%	\$19,199	8.0%	\$23,999	10.0%
Tier I (Core) Capital (to risk weighted assets)	\$30,148	12.6%	\$ 9,600	4.0%	\$14,399	6.0%
Tier I (Core) Capital (to adjusted total assets)	\$30,148	8.3%	\$10,919	3.0%	N/A	N/A
Tangible Capital (to adjusted total assets)	\$30,148	8.3%	\$ 5,460	1.5%	N/A	N/A
Tier I (Core) Capital (to average assets)	\$30,148	8.3%	\$14,540	4.0%	\$18,176	5.0%

Regulations require Security to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets and a leverage ratio consisting of Tier 1 capital to average assets. The following table sets forth Security's actual capital and required capital amounts and ratios at March 31, 1998 which, at that date, exceeded the capital adequacy requirements:

	Actual		Minimum Requirement For Capital Adequacy Purposes		Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	%	Amount	%	Amount	%
	Amount	%	Amount	%	Amount	%
			(Dollars in Thousands)			
Total Capital (to risk weighted assets)	\$3,965	15.6%	\$2,038	8.0%	\$2,547	10.0%
Tier I Capital (to risk weighted assets)	\$3,644	14.3%	\$1,019	4.0%	\$1,528	6.0%
Tier I Capital (to average assets)	\$3,644	11.0%	\$1,329	4.0%	\$1,661	5.0%

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) established five regulatory capital categories and authorized the banking regulators to take prompt corrective action with respect to institutions in an undercapitalized category. At March 31, 1998, First Federal and Security exceeded minimum requirements for the well-capitalized category.

The Year 2000 Issue

The Company is aware of the issues associated with the programming code in existing computer systems as the Year 2000 approaches. The "Year 2000" problem will affect virtually every computer operation in some way by the rollover of the two digit value to 00. The issue is whether computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

The Company recognizes the need to ensure its operations will not be adversely impacted by Year 2000 software failures. The Company has established a process for evaluating and managing the risks associated with this issue. An assessment of the Year 2000 compliance of the Company's computer systems has been completed. No areas of material concern were identified as a result of this assessment. The Company is requiring its computer systems and software vendors to represent that their products are, or will be, Year 2000 compliant, and has planned a program for testing of compliance. The financial impact to the Company and its financial position or results of operations cannot be estimated as of March 31, 1998.

Part I. Financial Information

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Market Risk

The Company is exposed to the impact of interest rate changes and changes in the market value of its investments.

The Company currently focuses lending efforts toward originating and purchasing competitively priced adjustable-rate loan products and fixed-rate loan products with relatively short terms to maturity, generally 15 years or less. This allows the Company to maintain a portfolio of loans which will be sensitive to changes in the level of interest rates while providing a reasonable spread to the cost of liabilities used to fund the loans.

The Company's primary objective for its investment portfolio is to provide the liquidity necessary to meet loan funding needs. This portfolio is used in the ongoing management of changes to the Company's asset/liability mix, while contributing to profitability through earnings flow. The investment policy generally calls for funds to be invested among various categories of security types and maturities based upon the Company's need for liquidity, desire to achieve a proper balance between minimizing risk while maximizing yield, the need to provide collateral for borrowings, and to fulfill the Company's asset/liability management goals.

The Company's cost of funds responds to changes in interest rates due to the relatively short-term nature of its deposit portfolio. Consequently, the results of operations are generally influenced by the levels of short-term interest rates. The Company offers a range of maturities on its deposit products at competitive rates and monitors the maturities on an ongoing basis.

The Company emphasizes and promotes its savings, money market, demand and NOW accounts and, subject to market conditions, certificates of deposit with maturities of six months through five years, principally from its primary market area. The savings and NOW accounts tend to be less susceptible to rapid changes in interest rates.

In managing its asset/liability mix, the Company, at times, depending on the relationship between long- and short-term interest rates, market conditions and consumer preference, may place somewhat greater emphasis on maximizing its net interest margin than on strictly matching the interest rate sensitivity of its assets and liabilities. Management believes that the increased net income which may result from an acceptable mismatch in the actual maturity or repricing of its asset and liability portfolios can, during periods of declining or stable interest rates, provide sufficient returns to justify the increased exposure to sudden and unexpected increases in interest rates which may result from such a mismatch. The Company has established limits, which may change from time to time, on the level of acceptable interest rate risk. There can be no assurance, however, that in the event of an adverse change in interest rates the Company's efforts to limit interest rate risk will be successful.

Net Portfolio Value The Company uses a Net Portfolio Value ("NPV") approach to the quantification of interest rate risk. This approach calculates the difference between the present value of expected cash flows from assets and the

present value of expected cash flows from liabilities, as well as cash flows from off-balance sheet contracts. Management of the Company's assets and liabilities is performed within the context of the marketplace, but also within limits established by the Board of Directors on the amount of change in NPV which is acceptable given certain interest rate changes.

Presented below, as of March 31, 1998, is an analysis of the Company's interest rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 200 basis points. As illustrated in the table, the Company's NPV is more sensitive to rising rate changes than declining rates. This occurs primarily because, as rates rise, the market value of fixed-rate loans declines due both to the rate increase and the related slowing of prepayments. When rates decline, the Company does not experience a significant rise in market value for these loans because borrowers prepay at relatively higher rates. The value of the Company's deposits and borrowings change in approximately the same proportion in rising and falling rate scenarios.

Change in Interest Rate (Basis Points)	Board Limit % Change	At March 31, 1998	
		\$ Change	% Change

		(Dollars in Thousands)	
+200 bp	(40)%	\$(10,467)	(22.8)%
+100 bp	(25)	(5,520)	(12.0)
0 bp	-	-	-
- 100 bp	(10)	6,113	13.3
- 200 bp	(15)	12,525	27.2

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets such as adjustable-rate mortgage loans, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayments and early withdrawal levels would likely deviate from those assumed in calculating the tables. Finally, the ability of some borrowers to service their debt may decrease in the event of an interest rate increase. The Company considers all of these factors in monitoring its exposure to interest rate risk.

FIRST MIDWEST FINANCIAL, INC.

PART II - OTHER INFORMATION

FORM 10-Q

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits: None

(b) Reports on Form 8-K: None

All other items have been omitted as not required or not applicable under the instructions.

FIRST MIDWEST FINANCIAL, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST MIDWEST FINANCIAL, INC.

Date: May 14, 1998

By: /s/ James S. Haahr

*James S. Haahr,
Chairman of the Board,
President and Chief Executive Officer*

Date: May 14, 1998

By: /s/ Donald J. Winchell

*Donald J. Winchell, Vice President,
Treasurer and Chief Financial Officer*

ARTICLE 9

PERIOD TYPE	6 MOS
FISCAL YEAR END	SEP 30 1998
PERIOD END	MAR 31 1998
CASH	884,184
INT BEARING DEPOSITS	6,830,120
FED FUNDS SOLD	7,225,873
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	122,808,205
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	0
LOANS	250,732,209
ALLOWANCE	3,522,028
TOTAL ASSETS	405,417,237
DEPOSITS	264,084,287
SHORT TERM	35,668,334
LIABILITIES OTHER	3,657,955
LONG TERM	59,870,043
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	29,580
OTHER SE	42,107,036
TOTAL LIABILITIES AND EQUITY	405,417,237
INTEREST LOAN	11,452,237
INTEREST INVEST	4,282,498
INTEREST OTHER	0
INTEREST TOTAL	15,734,515
INTEREST DEPOSIT	6,488,588
INTEREST EXPENSE	9,335,410
INTEREST INCOME NET	6,399,105
LOAN LOSSES	1,580,000
SECURITIES GAINS	222,925
EXPENSE OTHER	3,902,314
INCOME PRETAX	1,866,267
INCOME PRE EXTRAORDINARY	475,871
EXTRAORDINARY	0
CHANGES	0
NET INCOME	475,871
EPS PRIMARY	.18
EPS DILUTED	.17
YIELD ACTUAL	0
LOANS NON	2,926,367
LOANS PAST	0
LOANS TROUBLED	0
LOANS PROBLEM	8,218,432
ALLOWANCE OPEN	2,379,091
CHARGE OFFS	454,463
RECOVERIES	17,400
ALLOWANCE CLOSE	3,522,028
ALLOWANCE DOMESTIC	3,002,084
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	519,944

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