

META FINANCIAL GROUP INC

FORM 10-Q (Quarterly Report)

Filed 8/9/2001 For Period Ending 6/30/2001

Address	121 EAST FIFTH STREET P O BOX 1307 STORM LAKE, Iowa 50588
Telephone	712-732-4117
CIK	0000907471
Industry	S&Ls/Savings Banks
Sector	Financial
Fiscal Year	09/30

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2001

**[] 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 registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

42-1406262

(IRS Employer
Identification No.)

Fifth at Erie, Storm Lake, Iowa 50588
(Address of principal executive offices)

(712) 732-4117
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) 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 [X] No []

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

Class:

Common Stock, \$.01 par value

Outstanding at August 9, 2001:

2,429,727 Common Shares

Transitional Small Business Disclosure Format: Yes [] ; No [X]

FIRST MIDWEST FINANCIAL, INC.

FORM 10-Q

INDEX

	Page No. -----
Part I. Financial Information	
Item 1. Financial Statements (unaudited):	
Consolidated Balance Sheets at June 30, 2001 and September 30, 2000	3
Consolidated Statements of Income for the Three Months and Nine Months Ended June 30, 2001 and 2000	4
Consolidated Statements of Comprehensive Income (Loss) for the Three Months and Nine Months Ended June 30, 2001 and 2000	5
Consolidated Statement of Changes in Shareholders' Equity for the Nine Months Ended June 30, 2001	6
Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2001 and 2000	7
Notes to Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosure About Market Risk	18
Part II. Other Information -----	20
Signatures -----	21

Part I. Financial Information

Item I. Financial Statements

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

	June 30, 2001	September 30, 2000
	-----	-----
Assets		
Cash and due from banks	\$ 1,145,435	\$ 984,937
Interest-bearing deposits in other financial institutions - short-term (cost approximates market value)	6,046,399	5,937,594
	-----	-----
Total cash and cash equivalents	7,191,834	6,922,531
Securities available for sale, amortized cost of \$152,327,299 at June 30, 2001 and \$151,547,919 at September 30, 2000	151,613,687	147,478,931
Loans receivable - net of allowance for loan losses of \$3,935,607 at June 30, 2001 and \$3,589,873 at September 30, 2000	336,338,179	324,702,629
Foreclosed real estate, net	16,920	445,133
Accrued interest receivable	4,332,234	5,216,929
Federal Home Loan Bank stock, at cost	8,327,600	8,327,600
Premises and equipment, net	9,329,910	6,091,741
Excess of cost over net assets acquired	3,494,252	3,767,950
Other assets	1,127,212	2,636,986
	-----	-----
Total Assets	\$ 521,771,828	\$ 505,590,430
	=====	=====
Liabilities and Shareholders' Equity		
Liabilities		
Deposits	\$ 336,813,416	\$ 318,653,721
Advances from Federal Home Loan Bank	123,582,703	139,738,451
Securities sold under agreements to repurchase	15,660,555	4,254,965
Advances from borrowers for taxes and insurance	536,902	461,514
Accrued interest payable	888,839	1,006,341
Other liabilities	1,921,693	1,440,353
	-----	-----
Total Liabilities	479,404,108	465,555,345
	-----	-----
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 2,429,727 shares outstanding at June 30, 2001; 2,957,999 shares issued and 2,431,574 shares outstanding at September 30, 2000	29,580	29,580
Additional paid-in capital	20,970,167	20,976,107
Retained earnings - substantially restricted	30,941,945	30,404,386
Accumulated other comprehensive income (loss)	(447,097)	(2,553,891)
Unearned Employee Stock Ownership Plan shares	(288,000)	--
Treasury stock, 528,272 and 526,425 common shares, at cost, at June 30, 2001 and September 30, 2000, respectively	(8,838,875)	(8,821,097)
	-----	-----
Total Shareholders' Equity	42,367,720	40,035,085
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 521,771,828	\$ 505,590,430
	=====	=====

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 June 30,		Nine Months Ended June 30,	
	2001	2000	2001	2000
Interest and Dividend Income:				
Loans receivable	\$ 6,795,761	\$ 6,580,011	\$ 20,533,597	\$ 19,283,926
Securities available for sale	2,412,519	2,952,330	7,699,971	8,933,329
Dividends on Federal Home Loan Bank stock	94,860	139,742	360,633	404,626
	-----	-----	-----	-----
Total interest and dividend income	9,303,140	9,672,083	28,594,201	28,621,881
Interest Expense:				
Deposits	4,372,210	3,910,112	13,388,748	11,420,692
FHLB advances and other borrowings	1,878,528	2,354,061	5,756,062	6,746,775
	-----	-----	-----	-----
Total interest expense	6,250,738	6,264,173	19,144,810	18,167,467
	-----	-----	-----	-----
Net interest income	3,052,402	3,407,910	9,449,391	10,454,414
Provision for loan losses	200,000	400,000	470,000	995,000
	-----	-----	-----	-----
Net interest income after provision for loan losses	2,852,402	3,007,910	8,979,391	9,459,414
Noninterest income:				
Loan fees and deposit service charges	444,921	370,991	1,037,623	951,318
Gain (loss) on sales of securities available for sale, net	70,975	(1,017,524)	(60,275)	(1,022,524)
Gain (loss) on sales of foreclosed real estate, net	20,342	2,257	27,017	(11,633)
Brokerage commissions	28,978	24,684	71,882	94,352
Other income	49,825	24,606	99,604	122,843
	-----	-----	-----	-----
Total noninterest income	615,041	(594,986)	1,175,851	134,356
Noninterest expense:				
Employee compensation and benefits	1,685,721	1,483,518	4,887,908	4,317,318
Occupancy and equipment expense	428,143	301,009	1,152,775	926,305
Federal deposit insurance premium	16,025	16,503	47,744	73,779
Data processing expense	118,518	107,762	324,791	321,996
Other expense	460,957	438,200	1,488,037	1,365,735
	-----	-----	-----	-----
Total noninterest expense	2,709,364	2,346,992	7,901,255	7,005,133
	-----	-----	-----	-----
Income before income taxes and extraordinary item	758,079	65,932	2,253,987	2,588,637
Income tax expense	301,733	63,877	782,209	1,061,155
	-----	-----	-----	-----
Income before extraordinary item	456,346	2,055	1,471,778	1,527,482
Extraordinary item, net of income taxes	--	351,995	--	351,995
	-----	-----	-----	-----
Net income	\$ 456,346	\$ 354,050	\$ 1,471,778	\$ 1,879,477
	=====	=====	=====	=====
Earnings per common share (Basic):				
Income before extraordinary item	\$ 0.19	\$ --	\$ 0.61	\$ 0.62
Extraordinary item, net of income taxes	--	0.15	--	0.14
	-----	-----	-----	-----
Net income	\$ 0.19	\$ 0.15	\$ 0.61	\$ 0.76
	=====	=====	=====	=====
Earnings per common share (Diluted):				
Income before extraordinary item	\$ 0.19	\$ --	\$ 0.60	\$ 0.61
Extraordinary item, net of income taxes	--	0.14	--	0.14
	-----	-----	-----	-----
Net income	\$ 0.19	\$ 0.14	\$ 0.60	\$ 0.75
	=====	=====	=====	=====

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2000	2001	2000
Net income	\$ 456,346	\$ 354,050	\$ 1,471,778	\$ 1,879,477
Other comprehensive income (loss):				
Net change in net unrealized gains and losses on securities available for sale	(85,165)	1,014,619	3,355,376	(2,168,126)
Deferred income tax expense (benefit)	(31,221)	379,693	1,248,582	(804,006)
	-----	-----	-----	-----
Total other comprehensive income (loss)	(53,944)	634,926	2,106,794	(1,364,120)
	-----	-----	-----	-----
Total comprehensive income	\$ 402,402	\$ 988,976	\$ 3,578,572	\$ 515,357
	=====	=====	=====	=====

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 Nine Months Ended June 30, 2001

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax
	-----	-----	-----	-----
Balance at September 30, 2000	\$ 29,580	\$ 20,976,107	\$ 30,404,386	\$ (2,553,891)
Purchase of 30,000 shares by ESOP	--	--	--	--
6,000 common shares committed to be released under the ESOP	--	(5,940)	--	--
Cash dividends declared on common stock (\$0.39 per share)	--	--	(934,219)	--
Purchase of 1,847 common shares of treasury stock	--	--	--	--
Net change in net unrealized losses on securities available for sale, net of effect of income taxes of \$1,248,582	--	--	--	2,106,794
Net income for the nine months ended June 30, 2001	--	--	1,471,778	--
	-----	-----	-----	-----
Balance at June 30, 2001	\$ 29,580	\$ 20,970,167	\$ 30,941,945	\$ (447,097)
	=====	=====	=====	=====
	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders' Equity	
	-----	-----	-----	
Balance at September 30, 2000	\$ --	\$ (8,821,097)	\$ 40,035,085	
Purchase of 30,000 shares by ESOP	(360,000)	--	(360,000)	
6,000 common shares committed to be released under the ESOP	72,000	--	66,060	
Cash dividends declared on common stock (\$0.39 per share)	--	--	(934,219)	
Purchase of 1,847 common shares of treasury stock	--	(17,778)	(17,778)	
Net change in net unrealized losses on securities available for sale, net of effect of income taxes of \$1,248,582	--	--	2,106,794	
Net income for the nine months ended June 30, 2001	--	--	1,471,778	
	-----	-----	-----	
Balance at June 30, 2001	\$ (288,000)	\$ (8,838,875)	\$ 42,367,720	
	=====	=====	=====	

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

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

	Nine Months Ended June 30, 2001	2000
	-----	-----
Cash flows from operating activities:		
Net income	\$ 1,471,778	\$ 1,879,477
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amortization and accretion, net	625,379	1,226,829
Provision for loan losses	470,000	995,000
(Gain) loss on sales of securities available for sale, net	60,275	1,022,524
(Gain) loss on sales of foreclosed real estate, net	(27,017)	11,633
(Gain) on transfer of FHLB advances	--	(560,595)
Proceeds from sales of loans held for sale	8,734,305	984,493
Originations of loans held for sale	(8,734,305)	(984,493)
Net change in accrued interest receivable	884,695	536,616
Net change in other assets	261,266	(79,990)
Net change in accrued interest payable	(117,502)	(19,869)
Net change in accrued expenses and other liabilities	481,340	114,187
	-----	-----
Net cash from operating activities	4,110,214	5,125,812
Cash flows from investing activities:		
Purchase of securities available for sale	(12,468,387)	(515,000)
Purchase of Federal Home Loan Bank stock	--	(189,300)
Proceeds from sales of securities available for sale	345,000	15,902,772
Proceeds from maturities and principal repayments of securities available for sale	11,342,262	7,949,546
Net change in loans receivable	9,572,374	26,420,693
Loans purchased	(21,638,793)	(46,366,748)
Proceeds from sales of foreclosed real estate	506,149	473,976
Purchase of shares by ESOP	(360,000)	--
Purchase of premises and equipment, net	(3,672,442)	(1,522,205)
	-----	-----
Net cash from investing activities	(16,373,837)	2,153,734
Cash flows from financing activities:		
Net change in noninterest-bearing demand, savings, NOW, and money market demand deposits	5,477,125	(2,336,605)
Net change in other time deposits	12,682,570	10,821,365
Proceeds from advances from Federal Home Loan Bank	73,265,000	678,170,595
Repayments of advances from Federal Home Loan Bank	(89,420,748)	(691,303,235)
Net change in securities sold under agreements to repurchase	11,405,590	1,899,472
Net change in advances from borrowers for taxes and insurance	75,387	106,230
Cash dividends paid	(934,220)	(960,079)
Proceeds from the exercise of stock options	--	363,335
Purchase of treasury stock	(17,778)	(1,478,507)
	-----	-----
Net cash from financing activities	12,532,926	(4,717,429)
	-----	-----
Net change in cash and cash equivalents	269,303	2,562,117
Cash and cash equivalents at beginning of period	6,922,531	5,373,911
	-----	-----
Cash and cash equivalents at end of period	\$ 7,191,834	\$ 7,936,028
	=====	=====
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	\$ 19,262,312	\$ 18,187,336
Income taxes	654,786	1,560,001
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to foreclosed real estate	\$ 50,920	\$ 781,935

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, 2000.

2. EARNINGS PER SHARE

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 used in the basic earnings per common share and the diluted earnings per common share computations for the three months and nine months ended June 30, 2001 and 2000 is presented below.

	Three Months Ended June 30, -----		Nine Months Ended June 30, -----	
	2001	2000	2001	2000
	-----	-----	-----	-----
Basic Earnings Per Common Share:				
Numerator:				
Net Income	\$ 456,346	\$ 354,050	\$ 1,471,778	\$ 1,879,477
	=====	=====	=====	=====
Denominator:				
Weighted average common shares outstanding	2,429,727	2,431,574	2,429,727	2,475,995
Less: Weighted average unallocated ESOP shares	(28,000)	(7,580)	(10,432)	(15,108)
	-----	-----	-----	-----
Weighted average common shares outstanding for basic earnings per share	2,401,727	2,423,994	2,419,295	2,460,887
	=====	=====	=====	=====
Basic earnings per common share	\$ 0.19	\$ 0.15	\$ 0.61	\$ 0.76
	=====	=====	=====	=====

	Three Months Ended June 30, -----		Nine Months Ended June 30, -----	
	2001	2000	2001	2000
Diluted Earnings Per Common Share:				
Numerator:				
Net Income	\$ 456,346	\$ 354,050	\$1,471,778	\$1,879,477
	=====	=====	=====	=====
Denominator:				
Weighted average common shares outstanding for basic earnings per common share	2,401,727	2,423,994	2,419,295	2,460,887
Add: Dilutive effects of assumed exercises of stock options and nonvested MRRP shares, net of tax benefits	47,093	32,942	41,617	46,761
	-----	-----	-----	-----
Weighted average common and dilutive potential common shares outstanding	2,448,820	2,456,936	2,460,912	2,507,648
	=====	=====	=====	=====
Diluted earnings per common share	\$ 0.19	\$ 0.14	\$ 0.60	\$ 0.75
	=====	=====	=====	=====

3 COMMITMENTS

At June 30, 2001 and September 30, 2000, the Company had outstanding commitments to originate and purchase loans totaling \$24.7 million and \$14.8 million, respectively, excluding undisbursed portions of loans in process. It is expected that outstanding loan commitments will be funded with existing liquid assets.

4. ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET ADOPTED

In July, 2001, the Financial Accounting Standards Board issued two statements - Statement 141, Business Combinations, and Statement 142, Goodwill and Other Intangible Assets, which will potentially impact the Company's accounting for its reported goodwill and other intangible assets.

Statement 141:

- o Eliminates the pooling method for accounting for business combinations.
- o Requires that intangible assets that meet certain criteria be reported separately from goodwill.
- o Requires negative goodwill arising from a business combination to be recorded as an extraordinary gain.

Statement 142:

- o Eliminates the amortization of goodwill and other intangibles that are determined to have an indefinite life.
- o Requires, at a minimum, annual impairment tests for goodwill and other intangible assets that are determined to have an indefinite life.

Upon adoption of these Statements, the Company is required to:

- o Re-evaluate goodwill and other intangible assets that arose from business combinations entered into before July 1, 2001. If the recorded other intangibles assets do not meet the criteria for recognition, they should be reclassified to goodwill. Similarly, if there are other intangible assets that meet the criteria for recognition but were not separately recorded from goodwill, they should be reclassified from goodwill.

- o Reassess the useful lives of intangible assets and adjust the remaining amortization periods accordingly.
- o Write-off any remaining negative goodwill.

The Company has not yet completed its full assessment of the effects of these new pronouncements on its financial statements and so is uncertain as to the impact. The standards generally are required to be implemented by the Company in its fiscal year 2003 financial statements.

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 June 30, 2001, compared to September 30, 2000, and the consolidated results of operations for the three months and nine months ended June 30, 2001, compared to the same periods in 2000. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 2000.

FINANCIAL CONDITION

Total assets increased by \$16.2 million, or 3.2%, to \$521.8 million at June 30, 2001, from \$505.6 million at September 30, 2000.

The portfolio of securities available for sale increased \$4.1 million, or 2.8%, to \$151.6 million at June 30, 2001, from \$147.5 million at September 30, 2000. The increase resulted from the purchase of mortgage-backed securities during the third quarter and from adjustment to increase the carrying value of securities available for sale to market value in accordance with SFAS 115, with such increases partially offset by maturities and principal repayments received during the period.

The portfolio of net loans receivable increased by \$11.6 million, or 3.6%, to \$336.3 million at June 30, 2001, from \$324.7 million at September 30, 2000. The increase in net loans receivable was due to increases in commercial and multi-family real estate loans, commercial business loans, and consumer loans totaling \$7.6 million, \$6.9 million and \$1.9 million, respectively. These increases were partially offset by declines in single-family residential loans and agricultural-related loans of \$3.9 million and \$619,000, respectively.

The Company's investment in premises and equipment, net of depreciation, increased by \$3.2 million, or 52.5%, to \$9.3 million at June 30, 2001, from \$6.1 million at September 30, 2000. The increase reflects the construction of a new office facility in Sioux Falls, South Dakota, and the purchase of an existing building in Des Moines, Iowa, which is to be used as an additional branch office. To a lesser extent, the increase reflects the enhancement of the Company's product delivery and customer service technology systems.

Deposit balances increased by \$18.1 million, or 5.7%, to \$336.8 million at June 30, 2001, from \$318.7 million at September 30, 2000. The increase in deposit balances resulted from increases in checking accounts, money market demand accounts, and certificates of deposit in the amounts of \$2.0 million, \$6.7 million, and \$12.6 million, respectively. These increases were partially offset by a \$3.2 million decrease in savings accounts. The Company's deposit balance growth has occurred primarily in its Des Moines, Iowa and Sioux Falls, South Dakota markets. Deposit balances in the Company's other market areas have generally remained level during the period.

The balance in advances from the Federal Home Loan Bank of Des Moines (FHLB) decreased by \$16.1 million, or 11.5%, to \$123.6 million at June 30, 2001, from \$139.7 million at September 30, 2000. In addition, the balance in securities sold under agreements to repurchase increased by \$11.4 million, or 265.1%, \$15.7 million at June 30, 2001, from \$4.3 million at September 30, 2000. The decrease in FHLB advances, which was partially offset by the increase in securities sold under repurchase agreements, reflects an increase in the use of alternative borrowing sources at comparatively lower costs.

Total shareholders' equity increased \$2.4 million, or 6.0%, to \$42.4 million at June 30, 2001, from \$40.0 million at September 30, 2000. The increase in shareholders' equity was due to earnings during the period in excess of dividends paid to shareholders and to a decrease in the unrealized loss on securities available for sale in accordance with SFAS 115.

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.

At June 30, 2001, the Company had loans delinquent 30 days and over totaling \$12.6 million, or 3.7% of total loans compared to \$2.3 million, or .71% of total loans at September 30, 2000.

At June 30, 2001, commercial and multi-family real estate loans delinquent 30 days and over totaled \$10.0 million, or 2.9% of the total loan portfolio as compared to \$674,000, or 0.21% of total loans at September 30, 2000. Multi-family and commercial real estate loans generally present a higher level of risk than loans secured by one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. The majority of the Company's delinquent commercial and multi-family real estate loans have been purchased as participations with other lenders, are serviced by other lenders and are secured by properties outside the Company's primary market area. These loans are being closely monitored by management, however, there can be no assurance that all loans will be fully collectible.

At June 30, 2001, agricultural operating loans delinquent 30 days and over totaled \$844,000, or 0.25% of the total loan portfolio as compared to \$451,000, or 0.14% of total loans at September 30, 2000. Agricultural lending involves a greater degree of risk than one- to four-family residential mortgage loans because of the typically larger loan amounts. 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 factors outside the control of the agricultural borrower, such as the weather and grain and livestock prices. Although management believes the Company's portfolio of agricultural real estate and operating loans is well structured and adequately secured, there can be no assurance that all loans will be fully collectible.

The table below sets forth the amounts and categories of non-performing assets in the Company's loan portfolio. The Company's restructured loans (which involved forgiving a portion of the interest or principal on the loan or making loans at a rate materially less than market rates) are included in the table and were performing as agreed at the date shown. Foreclosed assets include assets acquired in settlement of loans.

	June 30, 2001	September 30, 2000
	-----	-----
	(Dollars in Thousands)	
Non-accruing loans:		
One-to four family	\$ 236	\$ 206
Commercial and multi-family	1,353	--
Agricultural real estate	--	37
Consumer	36	--
Agricultural operating	844	17
Commercial business	310	51
	-----	-----
Total non-accruing loans	2,779	311
Accruing loans delinquent 90 days or more	--	--
	-----	-----
Total non-performing loans	2,779	311
	-----	-----
Restructured loans:		
Agricultural operating	913	918
Commercial business	99	43
	-----	-----
Total restructured loans	1,012	961
	-----	-----
Foreclosed assets:		
Commercial real estate	--	430
Consumer	17	15
	-----	-----
Total foreclosed assets	17	445
Less: Allowance for losses	--	--
	-----	-----
Total foreclosed assets, net	17	445
	-----	-----
Total non-performing assets	\$3,808	\$1,717
	=====	=====
Total non-performing loans as a percentage of total loans	0.82%	0.09%
	=====	=====
Total non-performing assets as a percentage of total assets	0.73%	0.34%
	=====	=====

Non-accruing loans at June 30, 2001 include, among others, a commercial real estate loan in the amount of \$889,000 secured by a nursing home, a commercial real estate loan in the amount of \$464,000 secured by a casino, an agricultural operating loan in the amount of \$775,000 secured by livestock and land, and a commercial business loan in the amount of \$310,000 secured by two car wash facilities. Management feels the underlying collateral is adequate to protect the Company against material loss on these loans.

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, whom 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 June 30, 2001, the Company had classified a total of \$5.0 million of its assets as substandard, \$172,000 as doubtful and none as loss as compared to classifications at September 30, 2000 of \$6.1 million substandard, \$135,000 doubtful and none as loss.

Allowance for Loan Losses. The Company establishes its provision for 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.

Current economic conditions in the agricultural sector of the Company's market area indicate potential weakness due to historically low commodity prices. Price levels for grain crops have generally been depressed since mid-1998 and currently remain at historically low levels. Grain crop prices are not expected to increase significantly in the near term. Livestock prices have improved and are currently at levels that present minimal concern. The agricultural economy is accustomed to commodity price fluctuations and is generally able to handle such fluctuations without significant problem. Although the Company underwrites its agricultural loans based on the current level of commodity prices, an extended period of low commodity prices or adverse growing conditions could result in weakness in the agricultural loan portfolio and could create a need for the Company to increase its allowance for loan losses through increased charges to the provision for loan losses.

At June 30, 2001, the Company has established an allowance for loan losses totaling \$3.9 million. The allowance represents approximately 1.4 times the total non-performing loans at June 30, 2001 compared to approximately 11.6 times the total non-performing loans at September 30, 2000.

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

	(In Thousands)
Balance, September 30, 2000	\$ 3,590
Charge-offs	(167)
Recoveries	43
Additions charged to operations	470

Balance, June 30, 2001	\$ 3,936
	=====

The allowance for loan losses reflects management's best estimate of probable losses inherent in the portfolio based on currently available information. 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 June 30, 2001, the Company recorded net income of \$456,000 compared to net income of \$354,000 for the same period in 2000. For the nine months ended June 30, 2001, net income was \$1,472,000 compared to \$1,879,000 for the same period in 2000. Net income for both the three-month and nine-month periods ended June 30, 2001 was reduced due to a narrowing of the net interest margin as compared to the same periods last year. In addition, net income for both periods was reduced due to increased noninterest expense resulting from start-up costs associated with the opening of a new office and costs associated with a data processing conversion at the Company's Security State Bank subsidiary.

For the three-month and nine-month periods ended June 30, 2000, net income was reduced due to the loss on sale of securities available for sale, which was partially offset by gains on the transfer of FHLB advances, in a restructuring of the balance sheet. In addition, net income was reduced by the recognition of a permanent decline in market value on certain securities available for sale.

Net Interest Income. For the three months ended June 30, 2001, net interest income decreased by \$356,000, or 10.4%, to \$3,052,000 from \$3,408,000 for the same period in 2000. For the nine months ended June 30, 2001, net interest income decreased \$1,005,000, or 9.6%, to \$9,449,000 from \$10,454,000 for the same period in 2000. The decline in net interest income reflects a reduction in net yield on average interest-earning assets between the comparable periods. The

net yield on average interest-earning assets for the nine months ended June 30, 2001 was 2.55% compared to 2.82% for the comparable period in 2000. The decline in net interest income also reflects a reduction in average interest-earning assets during the nine-month period ended June 30, 2001 compared to the same period in 2000.

Provision for Loan Losses. For the three months ended June 30, 2001, the provision for loan losses was \$200,000 compared to \$400,000 for the same period in 2000. For the nine months ended June 30, 2001, the provision for loan losses was \$470,000 compared to \$995,000 for the same period in 2000. Management believes that, based on a detail review of the loan portfolio, historic loan losses, current economic conditions, and other factors, the current level of provision for loan losses, and the resulting level of the allowance for loan losses, reflects a best estimate of probable losses inherent in the loan portfolio.

Noninterest Income. Noninterest income for the three months ended June 30, 2001 was \$615,000 compared to a loss of \$595,000 for the same period in 2000. For the nine months ended June 30, 2001, noninterest income was \$1,176,000 compared to \$134,000 for the same period in 2000. The increase for both periods reflects balance sheet restructuring activity in fiscal 2000 wherein lower yielding securities were sold at a loss totaling \$1,018,000, with the proceeds used for reinvestment into higher yielding loans and to repay borrowings. In addition, the increase for both periods reflects an increase in fees collected on loan and deposit accounts compared to the same periods in 2000.

Noninterest Expense. Noninterest expense increased \$362,000, or 15.4%, to \$2,709,000 for the three months ended June 30, 2001, from \$2,347,000 for the same period in 2000. For the nine months ended June 30, 2001, noninterest expense increased \$896,000, or 12.8%, to \$7,901,000 from \$7,005,000 for the same period in 2000. The increase in noninterest expense reflects the costs associated with opening a new office in Sioux Falls, South Dakota, which opened in a temporary facility in September 2000. Construction of a permanent facility was completed on schedule, and the move to the new office was made in April 2001. Noninterest expense was also increased due to costs associated with a data processing conversion at the Company's Security State Bank subsidiary. This conversion will provide on-going efficiencies as a consistent data processing system is now in use throughout the Company. In addition, increased occupancy and equipment expense reflects the Company's on-going effort to enhance its technology systems for the efficient delivery of products and customer service.

Income Tax Expense. Income tax expense was \$302,000 for the three months ended June 30, 2001 compared to \$64,000 for the same period in 2000. For the nine months ended June 30, 2001, income tax expense was \$782,000 compared to \$1,061,000 for the same period in 2000. The increase for the three-month period and the decrease for the nine-month period reflects the difference in the level of taxable income between the comparable periods. In addition, income tax expense for the nine-month period ended June 30, 2001 was reduced by the resolution of a tax contingency in the net amount of \$117,000.

Extraordinary Item. During the three months ended June 30, 2000, the Company recognized a gain on the transfer of FHLB advances totaling \$352,000, net of related income taxes. The transfer of FHLB advances was in conjunction with a restructuring of the balance sheet wherein lower yielding securities were sold, with the proceeds reinvested in higher yielding loans and used to repay borrowings.

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.

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 June 30, 2001, the Company had commitments to originate and purchase loans totaling \$24.7 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.

On April 4, 2001, the Company entered into an agreement to purchase an existing building located at 3401 Ingersoll Avenue, Des Moines, Iowa. The building will be used as an additional branch office facility, which is scheduled to open for business in November 2001. The source of funds for capital improvements of this type is from the normal operations of the Company.

On July 16, 2001, the Company's trust subsidiary, First Midwest Capital Trust I, (the "Trust") sold \$10.0 million of floating rate cumulative trust preferred securities. The trust preferred securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended (the "Act") and have not been registered under the Act. The securities may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The Trust used the proceeds from the sale of the preferred securities to purchase floating rate junior subordinated deferrable interest debt securities of the Company. The subordinated debentures mature in the year 2031 and are redeemable at any time after five years. The Company will use the proceeds from the subordinated debentures for general corporate purposes. The offering will not have a material negative impact on net income as the effect will be neutralized through leverage of the funds.

Regulations require First Federal and 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 First Federal's and Security's actual capital and required capital amounts and ratios at June 30, 2001 which, at that date, exceeded the capital adequacy requirements:

At June 30, 2001 ----- (Dollars in Thousands)	Actual -----		Minimum Requirement For Capital Adequacy Purposes -----		Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions -----	
	Amount -----	Ratio -----	Amount -----	Ratio -----	Amount -----	Ratio -----
Total Capital (to risk weighted assets):						
First Federal	\$36,246	11.5%	\$25,188	8.0%	\$31,486	10.0%
Security	4,409	15.0	2,344	8.0	2,930	10.0
Tier 1 (Core) Capital (to risk weighted assets):						
First Federal	32,541	10.3	12,594	4.0	18,891	6.0
Security	4,078	13.9	1,172	4.0	1,172	6.0
Tier 1 (Core) Capital (to average assets):						
First Federal	32,541	7.1	18,396	4.0	22,995	5.0
Security	4,078	9.3	1,756	4.0	2,195	5.0
Tier 1 (Core) Capital (to adjusted total assets):						
First Federal	32,541	6.9	18,852	4.0	23,566	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 June 30, 2001, First Federal and Security exceeded minimum requirements for the well-capitalized category.

Forward-Looking Statements

The Company, and its wholly-owned subsidiaries, First Federal and Security, may from time to time make written or oral "forward-looking statements," including statements contained in its filings with the Securities and Exchange Commission, in its reports to shareholders, and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements with respect to the Company's beliefs, expectations, estimates, and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company's control. Such statements address the following subjects: future operating results; customer growth and retention; loan and other product demand; earnings growth and expectations; new products and services; credit quality and adequacy of reserves; technology; and our employees. The following factors, among others, could cause the Company's financial performance to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; inflation, interest rate, market, and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users; the impact of changes in financial services' laws and regulations; technological changes; acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The foregoing list of factors is not exclusive. Additional discussion of factors affecting the Company's business and prospects is contained in the Company's periodic filings with the SEC. The Company does not undertake, and 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.

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. This allows the Company to maintain a portfolio of loans that 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 level 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 that is acceptable given certain interest rate changes.

Presented below, as of June 30, 2001 and September 30, 2000, 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 at June 30, 2001 is somewhat more sensitive to decreasing interest rate changes than to increasing rates. This is a change from September 30, 2000, when the Company's NPV was more sensitive to increasing interest rates. The change reflects management's effort to modify the Company's interest rate sensitivity in light of a significant decline in interest rates during the past

few months. With interest rates at historically low levels, management believes there is less risk from interest rates declining substantially from current levels than from the potential increase in interest rates.

Change in Interest Rates (Basis Points)	Board Limit % Change	At June 30, 2001		At September 30, 2000	
		\$ Change	% Change	\$ Change	% Change
		(Dollars in Thousands)			
+200 bp	(40)%	\$ (5,049)	(11)%	\$ (7,202)	(18)%
+100 bp	(25)	(2,221)	(5)	(3,323)	(8)
0 bp	-	-	-	-	-
-100 bp	(10)	(648)	(1)	2,659	6
-200 bp	(15)	(5,654)	(12)	1,657	4

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: August 9, 2001 By: /s/ James S. Haahr

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

Date: August 9, 2001 By: /s/ Donald J. Winchell

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

End of Filing

Powered By **EDGAR**
Online

© 2005 | EDGAR Online, Inc.