

# META FINANCIAL GROUP INC

## FORM 10-Q (Quarterly Report)

Filed 5/14/1999 For Period Ending 3/31/1999

Address	121 EAST FIFTH STREET P O BOX 1307 STORM LAKE, Iowa 50588
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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, 1999

☐ **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 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:  
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Common Stock, \$.01 par value

Outstanding at March 31, 1999:  
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2,529,796 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, 1999	September 30, 1998
Assets		
Cash and due from banks	\$ 1,233,660	\$ 908,984
Interest-bearing deposits in other financial institutions - short-term (cost approximates market value)	8,672,842	5,818,460
	-----	-----
Total cash and cash equivalents	9,906,502	6,727,444
Securities available for sale, amortized cost of \$157,793,349 and \$119,336,365	157,784,363	120,609,531
Loans receivable - net of allowances of \$2,669,024 and \$2,908,902	286,573,326	270,286,189
Foreclosed real estate, net	217,840	1,063,317
Accrued interest receivable	3,858,699	4,968,607
Federal Home Loan Bank stock, at cost	7,793,300	5,505,800
Premises and equipment, net	4,015,989	4,048,945
Excess of cost over net assets acquired	4,315,349	4,497,815
Other assets	627,981	672,747
	-----	-----
Total Assets	\$475,093,349	\$418,380,395
	=====	=====
Liabilities and Shareholders' Equity		
Liabilities		
Deposits	\$298,383,183	\$283,858,152
Advances from Federal Home Loan Bank	130,699,916	85,263,562
Securities sold under agreements to repurchase	2,067,902	4,074,567
Other borrowings	-	550,000
Advances from borrowers for taxes and insurance	430,018	405,218
Accrued interest payable	767,748	834,741
Other liabilities	632,728	1,108,592
	-----	-----
Total Liabilities	432,981,495	376,094,832
	-----	-----

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

	March 31, 1999	September 30, 1998
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 2,529,796 shares outstanding at March 31, 1999;		
2,957,999 shares issued and 2,553,245 shares outstanding at September 30, 1998	29,580	29,580
Additional paid-in capital	21,244,977	21,330,075
Retained earnings - substantially restricted	29,000,795	27,985,814
Accumulated other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale, net of tax of (\$2,797) and \$474,346	(6,189)	798,820
Unearned Employee Stock Ownership Plan shares	(267,150)	(367,200)
Treasury stock, 428,203 and 404,754 common shares, at cost	(7,890,159)	(7,491,526)
	-----	-----
Total Shareholders' Equity	42,111,854	42,285,563
	-----	-----
Total Liabilities and Shareholders' Equity	\$475,093,349	\$418,380,395
	=====	=====

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,	
	1999	1998	1999	1998
Interest and Dividend Income:				
Loans receivable .....	\$5,748,647	\$5,700,185	\$11,780,103	\$11,452,017
Securities available for sale .....	2,723,478	2,051,050	5,354,114	4,096,475
Dividends on Federal Home Loan Bank stock .....	113,134	88,546	212,166	186,023
Total interest and dividend income .....	8,585,259	7,839,781	17,346,383	15,734,515
Interest Expense:				
Deposits .....	3,552,305	3,265,793	7,199,726	6,488,588
Other borrowings .....	1,920,532	1,356,978	3,615,368	2,846,822
Total interest expense .....	5,472,837	4,622,771	10,815,094	9,335,410
Net interest income .....	3,112,422	3,217,010	6,531,289	6,399,105
Provision for loan losses .....	358,000	1,545,000	601,000	1,580,000
Net interest income after provision for loan losses ...	2,754,422	1,672,010	5,930,289	4,819,105
Non-interest income:				
Loan fees and deposit account service charges .....	335,669	281,097	695,217	609,305
Gain on sales of securities available for sale, net .....	271,645	108,786	293,756	222,925
Brokerage commissions from subsidiary .....	16,475	29,817	31,389	44,068
Other .....	22,643	40,679	74,101	73,178
Total non-interest income .....	646,432	460,379	1,094,463	949,476
Non-interest expense:				
Compensation and benefits .....	1,254,958	1,146,330	2,481,750	2,305,037
Occupancy and equipment .....	292,254	277,406	575,425	564,602
Federal deposit insurance .....	39,819	38,523	74,785	74,090
Data processing .....	89,140	89,740	187,106	172,750
Other .....	452,643	396,264	916,886	785,835
Total non-interest expense .....	2,128,814	1,948,263	4,235,952	3,902,314
Income before income taxes .....	1,272,040	184,126	2,788,800	1,866,267
Income tax expense .....	512,540	137,810	1,120,783	830,896
Net income .....	\$ 759,500	\$ 46,316	\$ 1,668,017	\$ 1,035,371
Earnings Per Share (see Note 2):				
Basic .....	\$ .31	\$ .02	\$ .68	\$ .40
Diluted .....	\$ .30	\$ .02	\$ .66	\$ .37

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	1999	1998	1999	1998
Net income .....	\$ 759,500	\$ 46,316	\$ 1,668,017	\$ 1,035,371
Other comprehensive income (loss):				
Change in unrealized gains or losses on securities available for sale .....	(321,875)	(400,295)	(1,282,152)	(326,563)
Less deferred income tax provision (benefit)	(119,802)	(148,960)	(477,143)	(120,155)
Net other comprehensive income (loss) .....	(202,073)	(251,335)	(805,009)	(206,408)
Comprehensive income (loss) .....	\$ 557,427	\$ (205,019)	\$ 863,008	\$ 828,963
	=====	=====	=====	=====

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, 1999

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders' Equity
	-----	-----	-----	-----	-----	-----	-----
Balance at September 30, 1998	\$ 29,580	\$21,330,075	\$27,985,814	\$ 798,820	\$(367,200)	\$(7,491,526)	\$42,285,563
15,000 common shares committed to be released under the ESOP	-	136,928	-	-	100,050	-	236,978
Cash dividends declared on common stock (\$0.26 per share)	-	-	(653,036)	-	-	-	(653,036)
Purchase of 46,500 common shares of treasury stock	-	-	-	-	-	(790,500)	(790,500)
Issuance of 23,051 common shares from treasury stock due to exercise of stock options	-	(222,026)	-	-	-	391,867	169,841
Change in unrealized gain on securities available for sale, net of income tax of (\$477,143)	-	-	-	(805,009)	-	-	(805,009)
Net income for the six months ended March 31, 1999	-	-	1,668,017	-	-	-	1,668,017
	-----	-----	-----	-----	-----	-----	-----
Balance at March 31, 1999	\$ 29,580	\$21,244,977	\$29,000,795	\$ (6,189)	\$(267,150)	\$(7,890,159)	\$42,111,854
	=====	=====	=====	=====	=====	=====	=====

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, 1999	1998
	-----	-----
Cash flows from operating activities:		
Net income .....	\$ 1,668,017	\$ 1,035,371
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amortization and accretion, net .....	727,714	652,563
Provision for loan losses .....	601,000	1,580,000
Gain on sales of securities available for sale, net .....	(293,755)	(222,925)
Loss on sales of real estate owned, net .....	(1,750)	11,093
Proceeds from sales of loans held for sale .....	1,000,000	2,341,180
Originations of loans held for sale .....	(1,000,000)	(2,341,180)
Net change in accrued interest receivable .....	1,109,908	1,069,715
Net change in other assets .....	44,766	337,680
Net change in accrued interest payable .....	(66,993)	(168,933)
Net change in accrued expenses and other liabilities .....	1,304	481,288
	-----	-----
Net cash from operating activities .....	3,790,211	4,775,852
	-----	-----
Cash flows from investing activities:		
Purchase of securities available for sale .....	(19,308,844)	(21,463,483)
Purchase of mortgage-backed securities available for sale .....	(61,618,382)	(30,260,583)
Purchase of Federal Home Loan Bank stock .....	(2,287,500)	(6,200)
Proceeds from sales of securities available for sale .....	23,166,846	6,788,526
Proceeds from maturities of securities available for sale .....	10,200,000	31,500,000
Proceeds from principal repayment of mortgage-backed securities .....	9,229,127	6,526,071
Net change in loans receivable .....	13,009,040	18,085,991
Loans purchased .....	(30,111,614)	(13,783,790)
Proceeds from sales of foreclosed real estate .....	1,102,001	162,028
Purchase of premises and equipment, net .....	(147,653)	(119,611)
	-----	-----
Net cash from investing activities .....	(56,766,979)	(2,571,051)
	-----	-----

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

	Six Months Ended March 31, 1999	1998
	-----	-----
Cash flows from financing activities:		
Net change in non-interest bearing demand, savings, NOW and money market demand accounts .....	3,043,296	6,166,800
Net change in other time deposits .....	11,481,735	11,801,789
Proceeds from advances from Federal Home Loan Bank .....	206,600,000	56,100,000
Payments of advances from Federal Home Loan Bank .....	(161,163,646)	(70,956,182)
Net change in securities sold under agreements to repurchase .....	(2,006,665)	1,168,334
Net change in other borrowings .....	(550,000)	(2,900,000)
Net change in advances from borrowers for taxes and insurance .....	24,800	36,673
Cash dividends paid .....	(653,036)	(642,824)
Proceeds from exercise of stock options .....	169,842	28,695
Purchase of treasury stock .....	(790,500)	(1,320,325)
	-----	-----
Net cash from financing activities .....	56,155,826	(517,040)
	-----	-----
Net change in cash and cash equivalents .....	3,179,058	1,687,761
Cash and cash equivalents at beginning of period .....	6,727,444	12,852,426
	-----	-----
Cash and cash equivalents at end of period .....	\$ 9,906,502	\$ 14,540,187
	=====	=====
Supplemental disclosure of non-cash investing and financing activities:		
Loans transferred to foreclosed real estate .....	\$ 254,774	\$ 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, 1998.

**Comprehensive Income:** Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes the net change in unrealized appreciation (depreciation) on securities available for sale, net of tax, which is also recognized as a separate component of shareholders' equity. The accounting standard that requires reporting of comprehensive income first applied for the quarter ended December 31, 1998, with prior information restated to be comparable.

**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 of the basic earnings per common share and earnings per common share assuming dilution computations for the three months and six months ended March 31, 1999 and 1998 is presented below.

	Three Months Ended March 31,		Six Months Ended March 31,	
	1999	1998	1999	1998
Basic Earnings Per Common Share:				
Numerator:				
Net Income .....	\$ 759,500	\$ 46,316	\$ 1,668,017	\$ 1,035,371
	=====	=====	=====	=====
Denominator:				
Weighted average common shares outstanding .....	2,519,436	2,664,178	2,516,048	2,679,856
Less: Weighted average unallocated ESOP shares .....	(45,080)	(75,080)	(48,871)	(78,872)
	-----	-----	-----	-----
Weighted average common shares outstanding for basic earnings per share .....	2,474,356	2,589,098	2,467,177	2,600,984
	=====	=====	=====	=====
Basic earnings per common share .....	\$ 0.31	\$ 0.02	\$ 0.68	\$ 0.40
	=====	=====	=====	=====
Diluted Earnings Per Common Share:				
Numerator:				
Net Income .....	\$ 759,500	\$ 46,316	\$ 1,668,017	\$ 1,035,371
	=====	=====	=====	=====
Denominator:				
Weighted average common shares outstanding for basic earnings per common share .....	2,474,356	2,589,098	2,467,177	2,600,984
Add: Dilutive effects of assumed exercises of stock options .....	75,889	173,534	78,782	167,425
	-----	-----	-----	-----
Weighted average common and dilutive potential common shares outstanding .....	2,550,245	2,762,632	2,545,959	2,768,409
	=====	=====	=====	=====
Diluted earnings per common share	\$ 0.30	\$ 0.02	\$ 0.66	\$ 0.37
	=====	=====	=====	=====

### 3. COMMITMENTS

At March 31, 1999 and September 30, 1998, the Company had outstanding commitments to originate and purchase loans totaling \$21.2 million and \$27.4 million, respectively, excluding undisbursed portions of loans in process. It is expected that outstanding loan commitments will be funded with existing liquid assets.

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

**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, 1999, compared to September 30, 1998, and the consolidated results of operations for the three months and six months ended March 31, 1999, compared to the same periods in 1998. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 1998.

**FINANCIAL CONDITION**

Total assets increased by \$56.7 million, or 13.6%, from \$418.4 million at September 30, 1998, to \$475.1 million at March 31, 1999. The increase was attributable to an increase in the Company's net loans receivable and securities available for sale, which was funded through internal growth of the deposit portfolio and through Federal Home Loan Bank advances.

Cash and cash equivalents increased \$3.2 million, or 47.8%, to \$9.9 million at March 31, 1999, from \$6.7 million at September 30, 1998. The increase was due to the accumulation of liquid funds from repayments of loans receivable and internal growth in deposits during the period.

The portfolio of securities available for sale increased \$37.2 million, or 30.8%, to \$157.8 million at March 31, 1999, from \$120.6 million at September 30, 1998. The increase was the result of securities purchased during the period in an amount greater than sales, maturities and principal repayments received on securities. Securities purchased during the period consist primarily of fixed-rate mortgage-backed securities, and were funded by advances from the Federal Home Loan Bank of Des Moines and through internal deposit growth.

The portfolio of net loans receivable increased by \$16.3 million, or 6.0%, to \$286.6 million at March 31, 1999, from \$270.3 million at September 30, 1998. The increase was due to increases in residential mortgage loans, commercial and multi-family real estate loans, and commercial business loans in the amounts of \$24.4 million, \$3.5 million, and \$442,000, respectively. The increase in residential mortgage loans was due primarily to the purchase of adjustable-rate loans totaling \$25.5 million during the period. The increase in net loans receivable was partially offset by decreases in consumer loans and agricultural loans in the amounts of \$3.9 million and \$8.4 million, respectively. The decrease in consumer loans was primarily due to prepayments as a result of the relatively low interest rate environment. The reduction in agricultural loans was primarily due to seasonal repayment of loans used in agricultural operations.

Deposit balances increased by \$14.5 million, or 5.1%, to \$298.4 million at March 31, 1999, from \$283.9 million at September 30, 1998. The increase in deposit balances resulted from increases in checking accounts, money market accounts and certificates of deposit, which increased by \$2.8 million, \$12.1 million and \$1.1 million, respectively. This increase resulted from the Company's emphasis on promoting transaction accounts that generally carry a lower interest cost. The increase was partially offset by a decrease in savings accounts in the amount of \$1.5 million.

The balance in advances from the Federal Home Loan Bank of Des Moines (FHLB) increased by \$45.4 million, or 53.2%, to \$130.7 million at March 31, 1999 from \$85.3 million at September 30, 1998. The increase in FHLB advances was used to fund the purchase of residential mortgage loans and available for sale securities.

Other borrowings, consisting of short-term borrowings from the Federal Reserve Bank, were reduced to zero at March 31, 1999 from \$550,000 at September 30, 1998. The reduction was due to repayment of these short-term borrowings used primarily to fund seasonal loans to agricultural customers.

Total shareholders' equity decreased \$174,000, or 0.4%, to \$42.1 million at March 31, 1999 from \$42.3 million at September 30, 1998. The decrease in shareholders' equity was due to the purchase of treasury stock, the payment of cash dividends to shareholders, and the reduction of unrealized gains on securities available for sale in an aggregate amount that exceeded net 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, 1999. At March 31, 1999, loans delinquent 30 days and over totaled 4.7% of total loans as compared to 6.2% at September 30, 1998.

	30-59 Days			Loans Delinquent For: 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 .....	27	\$1,323	1.18%	21	\$ 755	0.67%	17	\$ 766	0.68%
Commercial and multi-family .....	5	2,671	2.67	0	0	0.00	3	1,402	1.39
Agricultural real estate ..	10	1,122	11.19	2	36	0.36	0	0	0.00
Consumer .....	58	399	1.79	14	92	0.41	35	176	0.79
Agricultural operating .....	44	3,090	10.52	15	408	1.39	33	660	2.25
Commercial business .....	7	87	0.38	2	49	0.22	10	816	3.70
	---	-----		--	-----		--	-----	
Total .....	151	\$8,692	2.93%	54	\$1,340	0.45%	98	\$3,820	1.29%
	===	=====		==	=====		==	=====	

At March 31, 1999, commercial and multi-family real estate loans delinquent 30 days and over totaled \$4.1 million, or 1.4% of the total loan portfolio as compared to \$9.3 million, or 3.3% of total loans at September 30, 1998. 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 March 31, 1999, agricultural operating loans delinquent 30 days and over totaled \$4.2 million, or 1.4% of the total loan portfolio as compared to \$3.2 million, or 1.1% of total loans at September 30, 1998. A substantial number of the Company's agricultural operating loans come up for renewal on an annual basis during the quarter ending March 31. These loans are reviewed in detail to determine the appropriate level of continued financing to be provided based on the borrower's current situation. In several instances, loans became past due prior to the review process being completed. This is reflected in the increased level of delinquencies at March 31, 1999. The majority of these loans have since been renewed and are no longer delinquent.

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. Foreclosed assets include assets acquired in settlement of loans.

	March 31, 1999	September 30, 1998
	-----	-----
	(Dollars in Thousands)	
Non-accruing loans:		
One-to four family .....	\$ 766	\$ 298
Commercial and multi-family .....	1,402	777
Consumer .....	174	142
Agricultural operating .....	660	1,738
Commercial business .....	816	209
	-----	-----
Total non-accruing loans .....	3,818	3,164
Accruing loans delinquent 90 days or more .....	2	3,905
	-----	-----
Total non-performing loans .....	3,820	7,069
	-----	-----
Foreclosed assets:		
One- to four family .....	158	19
Commercial real estate .....	--	1,324
Consumer .....	60	19
	-----	-----
Total .....	218	1,362
Less: Allowance for losses .....	--	299
	-----	-----
Total .....	218	1,063
	-----	-----
Total non-performing assets .....	\$4,038	\$8,132
	=====	=====
Total as a percentage of total assets .....	0.85%	1.94%
	=====	=====

For the three months ended March 31, 1999, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately \$99,000, of which none was included in interest income.



Other Loans of Concern. At March 31, 1999, there were loans totaling \$3.1 million not included in the table above where known information about 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 six one- to four-family residential real estate loans totaling \$200,000, two commercial real estate loans totaling \$320,000, seven commercial business loans totaling \$334,000, eight consumer loans totaling \$64,000, and thirty agricultural loans totaling \$2.2 million. At September 30, 1998, other loans of concern totaled \$3.9 million.

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, 1999, the Company had classified a total of \$5.6 million of its assets as substandard, \$540,000 as doubtful and none as loss as compared to classifications at September 30, 1998 of \$6.4 million substandard, \$835,000 doubtful and none 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.

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 and livestock have generally been depressed since mid-1998. Livestock prices have recovered to some extent, but are still relatively low. Grain crop prices remain at historically low levels and are not expected to increase significantly in the near term. 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 could result in weakness in the agricultural loan portfolio that could create a need for the Company to increase its allowance for loan losses through increased charges to provision for loan losses.

At March 31, 1999, the Company has established an allowance for loan losses totaling \$2.7 million. The allowance represents approximately 70% of the total non-performing loans at March 31, 1999.

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

	(In Thousands)
Balance, September 30, 1998	\$ 2,909
Charge-offs	(855)
Recoveries	14
Additions charged to operations	601
	-----
Balance, March 31, 1999	\$ 2,669
	=====

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, 1999, the Company recorded net income of \$760,000 compared to net income of \$46,000 for the same period in 1998. For the six months ended March 31, 1999, net income was \$1,668,000 compared to \$1,035,000 for the same period in 1998. The increase in net income for both periods reflects an additional charge to provision for loan losses during the 1998 periods in the amount of \$1,500,000, or \$940,000 net of income taxes, related to management's determination to increase the allowance for loan losses as a result of mismanagement and possible fraud by one loan officer who is no longer with the Company.

**Interest and Dividend Income.** Total interest and dividend income for the three months ended March 31, 1999 increased by \$745,000, or 9.5%, to \$8,585,000, compared to \$7,840,000 during the same period in 1998. For the six months ended March 31, 1999, interest and dividend income increased \$1,611,000, or 10.2%, to \$17,346,000 from \$15,735,000 during 1998. The increase for both periods was due to higher balances in interest earning assets during the 1999 periods compared to the previous year as a result of increased purchases of securities available for sale and the increased origination and purchase of loans.

**Interest Expense.** Total interest expense for the three months ended March 31, 1999 increased by \$850,000, or 18.4%, to \$5,473,000 from \$4,623,000 during the same period in 1998. For the six months ended March 31, 1999, interest expense increased \$1,480,000, or 15.9%, to \$10,815,000 from \$9,335,000 for the same period in 1998. The increase in interest expense for both periods reflects a higher average balance in deposit accounts during the 1999 periods due to internal growth of the deposit portfolio. In addition, the increase reflects increased balances in Federal Home Loan Bank advances used to fund the purchase of securities available for sale and the origination and purchase of loans.

**Net Interest Income.** Net interest income decreased by \$105,000, or 3.3%, to \$3,112,000 for the three months ended March 31, 1999 from \$3,217,000 for the same period in 1998. For the six months ended March 31, 1999, net interest income increased \$132,000, or 2.1%, to \$6,531,000 from \$6,399,000 for the same period in 1998. The decrease in net interest income for the three month period reflects the general reduction of the interest rate spread between interest-earning assets and interest-bearing liabilities due to the historically low interest rate environment. As borrowers have taken the opportunity to refinance higher yielding loans, these loans have been replaced at relatively lower interest rates thus reducing the Company's overall yield on its loan portfolio. As interest-bearing liabilities continue to reprice in the lower interest rate environment, the Company's cost of funds is also declining. The reduction in cost of funds, however, has not occurred at the same pace as the reduction in the yield on assets. The increase in net interest income for the six month period is due to the overall increase in net earning assets between the comparable periods, which was partially offset by the reduction in the spread between interest-earning assets and interest-bearing liabilities.

**Provision for Loan Losses.** For the three month and six month periods ended March 31, 1999, the provision for loan losses was \$358,000 and \$601,000, respectively. For the comparable periods in 1998, the provision for loan losses was \$1,545,000 and \$1,580,000, respectively. The decrease reflects an additional charge to provision for loan losses taken during the 1998 periods as a result of an increase in the level of classified assets and the related determination by management that the allowance for loan losses should be increased.

**Non-Interest Income.** Non-interest income increased by \$186,000, or 40.4%, to \$646,000 for the three months ended March 31, 1999, from \$460,000 for the same period in 1998. For the six months ended March 31, 1999, non-interest income increased \$145,000, or 15.3%, to \$1,094,000 from \$949,000 for the same period in 1998. The increase in non-interest income for both periods reflects the higher collection of fees from the origination, purchase and prepayment of loans, service charges on deposit accounts, and the gain on sales of securities available for sale.

**Non-Interest Expense.** Non-interest expense increased \$181,000, or 9.3%, to \$2,129,000 for the three months ended March 31, 1999, from \$1,948,000 for the same period in 1998. For the six months ended March 31, 1999, non-interest expense increased \$334,000, or 8.6%, to \$4,236,000 from \$3,902,000 for the same period in 1998. The increase in non-interest expense for both periods is due primarily to recruitment, compensation, and benefits expenses related to additions to the Company's staff of officers and employees. The additions to staff reflect the Company's previous growth and enhances the level of expertise available to support continued growth in the future.

**Income Tax Expense.** Income tax expense was \$513,000 for the three months ended March 31, 1999 as compared to \$138,000 for the same period in 1998. For the six months ended March 31, 1999, income tax expense was \$1,121,000 as compared to \$831,000 in 1998. The increase for both periods is due to higher levels 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, 1999 and September 30, 1998, were 21.0% and 15.4%, 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, 1999, the Company had commitments to originate and purchase loans totalling \$21.2 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, 1999 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)	\$33,925	12.7%	\$21,341	8.0%	\$26,676	10.0%
Tier 1 (Core) Capital (to risk weighted assets)	\$31,588	11.8%	\$10,670	4.0%	\$16,005	6.0%
Tier 1 (Core) Capital (to adjusted total assets)	\$31,588	7.3%	\$12,986	3.0%	N/A	N/A
Tangible Capital (to adjusted total assets)	\$31,588	7.3%	\$ 6,493	1.5%	N/A	N/A
Tier 1 (Core) Capital (to average assets)	\$31,588	7.2%	\$17,670	4.0%	\$22,087	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, 1999 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)	\$3,855	16.2%	\$1,904	8.0%	\$2,380	10.0%
Tier 1 Capital (to risk weighted assets)	\$3,735	15.7%	\$ 952	4.0%	\$1,428	6.0%
Tier 1 Capital (to average assets)	\$3,735	9.3%	\$1,599	4.0%	\$1,999	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, 1999, 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 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 is heavily dependent on computer processing in its business activities and the Year 2000 issue creates risk for the Company from unforeseen problems in the Company's computer system and from third parties whom the Company uses to process information. Such failures of the Company's computer system and/or third parties computer systems could have a material impact on the Company's ability to conduct its business.

The Company's primary data processing is provided by a major third party vendor. This provider has advised the Company that it has completed the renovation of its system to be Year 2000 ready, and has provided users of the system the opportunity to test the system for readiness. The Company has completed testing of its primary data processing system for Year 2000 readiness.

The Company has performed an assessment of its internal computer hardware and software and, where needed, has upgraded those systems to be Year 2000 ready. In addition, the Company has reviewed other external third party vendors that provide services to the Company (i.e. utility companies, electronic funds transfer providers, alarm companies, insurance providers, loan participation companies, and mortgage loan secondary market agencies), and has requested or already received certification letters from these vendors that their systems will be Year 2000 ready on a timely basis. Testing has been, or will be, performed with these service providers, where possible, to determine their Year 2000 readiness.

The Company could incur losses if loan payments are delayed due to Year 2000 problems affecting significant borrowers. The Company is communicating with such parties to assess their progress in evaluating and implementing any corrective measures required by them to be Year 2000 ready. To date, the Company has not been advised by such parties that they do not have plans in place to address and correct the issues associated with the Year 2000 problem; however, no assurance can be given as to the adequacy of such plans or to the timeliness of their implementation. As part of the current credit approval process, new and renewed loans are evaluated as to the borrower's Year 2000 readiness.

Based on the Company's review of its computer systems, management believes the direct cost of the remediation effort to make its systems Year 2000 ready will be approximately \$60,000, of which approximately \$40,000 has been spent. Such costs will be charged to expense as they are incurred.

The Company, as with all financial institutions, has reviewed the possibility of some level of reduction in deposits during the latter part of 1999. Based on its review, the Company has determined that alternate sources of funds should be available to maintain adequate funding throughout this period.

The Company has developed a Year 2000 contingency plan that addresses, among other issues, critical operations and potential failures thereof, and strategies for business continuation. Virtually all of the Company's mission critical systems are dependent upon third party vendors or service providers, therefore, contingency plans include the selection of a new vendor or service provider and the conversion to a new system. For some systems, contingency plans consist of using internal spreadsheet software or reverting to manual systems until system problems can be corrected.

Although management believes the Company's computer systems and service providers will be Year 2000 ready, there can be no assurance that these systems, or those systems of other companies on which the Company's systems rely, will be fully functional in the Year 2000. Such failure could have a significant adverse impact on the financial condition and results of operations of the Company.

## 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. 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, 1999, 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 declining rate changes than rising rates. This occurs primarily because, as rates decline, the market value of the Company's longer-term fixed-rate borrowings decline. In a rising rate environment, these longer-term fixed-rate borrowings increase in market value and substantially offset the decline in market value of fixed-rate loans, which decline in value 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 change in approximately the same proportion in rising and falling rate scenarios.

At March 31, 1999			
Change in Interest Rate (Basis Points)	Board Limit % Change	\$ Change	% Change
-----	-----	-----	-----
		(Dollars in Thousands)	
+200 bp	(40)%	\$ (497)	(1.2)%
+100 bp	(25)	601	1.5
0 bp	-	-	-
-100 bp	(10)	(1,878)	(4.6)
-200 bp	(15)	(4,826)	(11.8)

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, 1999*  
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*By: /s/ James S. Haahr*  
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*James S. Haahr, Chairman of the Board,  
President and Chief Executive Officer*

*Date: May 14, 1999*  
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*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 1999
PERIOD END	MAR 31 1999
CASH	1,233,660
INT BEARING DEPOSITS	7,297,842
FED FUNDS SOLD	1,375,000
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	157,784,363
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	0
LOANS	289,242,350
ALLOWANCE	2,669,024
TOTAL ASSETS	475,093,349
DEPOSITS	298,383,183
SHORT TERM	19,767,902
LIABILITIES OTHER	1,830,494
LONG TERM	112,999,916
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	29,580
OTHER SE	42,082,274
TOTAL LIABILITIES AND EQUITY	475,093,349
INTEREST LOAN	11,780,103
INTEREST INVEST	5,566,280
INTEREST OTHER	0
INTEREST TOTAL	17,346,383
INTEREST DEPOSIT	7,199,726
INTEREST EXPENSE	10,815,094
INTEREST INCOME NET	6,531,289
LOAN LOSSES	601,000
SECURITIES GAINS	293,756
EXPENSE OTHER	4,235,952
INCOME PRETAX	2,788,800
INCOME PRE EXTRAORDINARY	1,668,017
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,668,017
EPS PRIMARY	.68
EPS DILUTED	.66
YIELD ACTUAL	0
LOANS NON	3,817,878
LOANS PAST	2,386
LOANS TROUBLED	1,164,000
LOANS PROBLEM	3,109,647
ALLOWANCE OPEN	2,908,902
CHARGE OFFS	855,034
RECOVERIES	14,156
ALLOWANCE CLOSE	2,669,024
ALLOWANCE DOMESTIC	2,502,556
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	166,468

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