NASB FINANCIAL INC
Form 10-K
December 16, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

x **Annual Report Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934**
For fiscal year ended September 30, 2013

or

¨ **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________

Commission File Number 0-24033

NASB FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Missouri	**43-1805201**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

12498 South 71 Highway, Grandview, Missouri 64030
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code

(816) 765-2200

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.15 par value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes x No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ¨	Accelerated filer x

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting Company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes x No

The aggregate market value of the voting common equity held by non-affiliates of the registrant, computed by reference to the average of the closing bid and asked price of such common equity as of March 31, 2013, was approximately $75.3 million.

As of December 10, 2013, there were issued and outstanding 7,867,614 shares of the Registrant s common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Part II - Annual report to Stockholders for the Fiscal Year Ended September 30, 2013.

2. Part III - Proxy Statement for the 2014 Annual Meeting of Stockholders.

Cautionary Statement about Forward-Looking Statements

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled Risk Factors (refer to Part I, Item 1A). We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. Business

General Description

NASB Financial, Inc. (the Company) was formed in 1998 as a unitary thrift holding company of North American Savings Bank, F.S.B. (North American or the Bank). The Bank is a federally chartered stock savings bank, with its headquarters in the Kansas City area. The Bank began operating in 1927, and became a member of the Federal Home Loan Bank of Des Moines (FHLB) in 1940. Its customer deposit accounts are insured by the Deposit Insurance Fund (DIF), a division of the Federal Deposit Insurance Corporation (FDIC). The Bank converted to a stock form of ownership in September 1985.

The Bank s primary market area includes the counties of Jackson, Cass, Clay, Buchanan, Andrew, Platte, and Ray in Missouri, and Johnson and Wyandotte counties in Kansas. The Bank currently has nine retail deposit offices in Missouri including one each in Grandview, Lee s Summit, Independence, Harrisonville, Excelsior Springs, Platte City, and St. Joseph, and two in Kansas City. North American also operates loan production offices in Kansas City, Lee s Summit and Springfield in Missouri. The economy of the Kansas City area is diversified with major employers in agribusiness, greeting cards, automobile production, transportation, telecommunications, and government.

The Bank s principal business is to attract deposits from the general public and to originate real estate loans, other loans and short-term investments. The Bank obtains funds mainly from deposits received from the general public, sales of loans and loan participations, advances from the FHLB, and principal repayments on loans and mortgage-backed securities (MBS). The Bank s primary sources of income include interest on loans, interest on MBS, interest on investment securities, customer service fees, and mortgage banking fees. Its primary expenses are interest payments on customer deposit accounts and borrowings and normal operating costs.

Weighted Average Yields and Rates

The following table presents the balances of interest-earning assets and interest-costing liabilities with weighted average yields and rates. Average balances and weighted average yields include all accrual and non-accrual loans. Dollar amounts are expressed in thousands.

	Fiscal 2013		Fiscal 2012		Fiscal 2011	
	Average Balance	Yield/ Rate	Average Balance	Yield/ Rate	Average Balance	Yield/ Rate
Interest-earning assets:						
Loans	$ 812,452	5.62%	$ 954,304	5.96%	$ 1,070,569	6.21%
Mortgage-backed securities	21,824	2.77%	33,455	5.15%	44,098	5.17%
Investments	252,101	1.69%	120,612	2.48%	67,624	5.88%
Bank deposits	15,993	0.14%	17,208	0.08%	11,081	0.07%
Total earning assets	1,102,370	4.59%	1,125,579	5.47%	1,193,372	6.09%
Non-earning assets	76,054		91,936		109,262	
Total	$ 1,178,424		$ 1,217,515		$ 1,302,634	
Interest-costing liabilities:						
Customer checking and savings deposit accounts	$ 336,386	0.43%	$ 269,166	0.48%	$ 209,737	0.50%
Customer and brokered certificates of deposit	485,764	0.80%	587,659	1.34%	674,655	2.10%
FHLB advances	129,082	1.55%	161,314	1.52%	222,551	2.17%
Subordinated debentures	25,000	2.02%	25,000	2.14%	25,000	1.98%
Other borrowings	356	5.06%		%		%
Total costing liabilities	976,588	0.81%	1,043,139	1.16%	1,131,943	1.81%
Non-costing liabilities	16,062		14,871		14,903	
Stockholders equity	185,774		159,505		155,788	
Total	$ 1,178,424		$ 1,217,515		$ 1,302,634	
Net earning balance	$ 125,782		$ 82,440		$ 61,429	
Earning yield less costing rate		3.78%		4.31%		4.28%

Ratios

The following table sets forth, for the periods indicated, the Company s return on assets (net income divided by average total assets), return on equity (net income divided by average equity), equity-to-assets ratio (equity divided by total assets), and dividend payout ratio (total cash dividends paid divided by net income).

	Year ended September 30,				
	2013	2012	2011	2010	2009
Return on average assets	2.32%	1.45%	(1.21)%	0.42%	1.22%
Return on average equity	15.05%	11.25%	(10.23)%	3.78%	11.74%
Equity to assets ratio	17.09%	13.82%	12.00%	11.70%	10.67%
Dividend payout ratio	%	%	%	55.99%	37.84%

The following table sets forth the amount of cash dividends per share paid on the Company s common stock during the months indicated.

	Calendar year				
	2013	2012	2011	2010	2009
February				$ 0.225	$ 0.225
May					0.225
August					0.225
November					0.225

ASSET ACTIVITIES

Lending Activities

The Bank has traditionally concentrated its lending activities on mortgage loans secured by residential and business property and, to a lesser extent, development lending. The residential mortgage loans originated have predominantly long-term fixed and adjustable rates. The Bank also has a portfolio of mortgage loans that are secured by multifamily, construction, development, and commercial real estate properties. The remaining part of the Bank s loan portfolio consists of non-mortgage commercial loans and installment loans. The following table presents the Bank s total loans receivable, held for investment plus held for sale, for the periods indicated. The related discounts, premiums, deferred fees and loans-in-process accounts are excluded. Dollar amounts are expressed in thousands.

	September 30,									
	2013		2012		2011		2010		2009	
	Amount	Pct.	Amount	Pct.	Amount	Pct.	Amount	Pct.	Amount	Pct.
Mortgage loans:										
Permanent loans on:										
Residential properties	$ 434,327	53	495,144	52	493,507	42	633,943	46	492,658	34
Business properties	268,641	33	321,559	34	409,737	35	450,305	32	474,487	34
Partially guaranteed by VA or insured by FHA	7,694	1	3,950		3,947		3,801		4,771	
Construction and development	91,451	11	110,718	11	181,663	15	208,039	15	329,457	23
Total mortgage loans	802,113	98	931,371	97	1,088,854	92	1,296,088	93	1,301,373	91
Commercial loans	12,226	1	17,570	2	80,937	7	79,138	6	121,168	8
Installment loans to individuals	5,599	1	7,753	1	9,028	1	11,573	1	13,861	1
	$ 819,938	100	956,694	100	1,178,819	100	1,386,799	100	1,436,402	100

The following table sets forth information at September 30, 2013, regarding the dollar amount of loans maturing in the Bank s portfolio based on their contractual terms to maturity. Demand loans, which have no stated schedule of repayment and no stated maturity, are reported as due in one year or less. Scheduled repayments are reported in the maturity category in which the payment is due. Dollar amounts are expressed in thousands.

	2014	2015 Through 2018	After 2018	Total
Mortgage loans:				
Permanent:				
- at fixed rates	$ 9,813	79,799	285,569	375,181
- at adjustable rates	468	67,067	267,946	335,481
Construction and development:				
- at fixed rates	4,859	6,283	242	11,384
- at adjustable rates	66,803	12,388	876	80,067
Total mortgage loans	81,943	165,537	554,633	802,113
Commercial loans	11,250	976		12,226
Installment loans to individuals	574	1,089	3,936	5,599
Total loans receivable	$ 93,767	167,602	558,569	819,938

Residential Real Estate Loans

The Bank offers a range of residential loan programs. At September 30, 2013, 53% of total loans receivable were permanent loans on residential properties. Also, the Bank is authorized to originate loans guaranteed by the Veterans Administration (VA) and loans insured by the Federal Housing Administration (FHA). Included in residential loans as of September 30, 2013, are $7.7 million or 1% of the Bank s total loans that were insured by the FHA or VA. The Bank s residential loans come from several sources. The loans that the Bank originates are generally a result of direct solicitations of real estate brokers, builders, developers, or potential borrowers via the internet. North American periodically purchases real estate loans from other financial institutions or mortgage bankers.

At the time a potential borrower applies for a residential mortgage loan, it is designated as either a portfolio loan, which is held for investment and carried at amortized cost, or a loan held-for-sale in the secondary market and carried at fair value. All the loans on single family property that the Bank holds for sale conform to secondary market underwriting criteria established by various institutional investors. All loans originated, whether held for sale or held for investment, conform to internal underwriting guidelines, which consider, among other things, a property s value and the borrower s ability to repay the loan.

A restructuring of debt is considered a Troubled Debt Restructuring (TDR) if, because of a debtor s financial difficulty, a creditor grants concessions that it would not otherwise consider. At September 30, 2013, the Bank had TDRs in its residential real estate loan portfolio of $9.4 million. Management evaluates payment history of the loan and the modified terms to determine if a TDR should be in accrual or non-accrual status. TDRs that are placed in non-accrual status do not return to accrual status until they have made a minimum of six consecutive timely payments under the restructured terms. Loans are removed from the TDR classification after twelve consecutive months of satisfactory repayment performance under the new loan terms.

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Construction and Development Loans

Construction and land development loans are made primarily to builders/developers, who construct properties for resale. As of September 30, 2013, 11% of the Bank s total loans receivable were construction and development loans. The Bank originates both fixed and variable rate construction loans, and most are due and payable within one year. In some cases, extensions are permitted if payments are current and construction has progressed satisfactorily.

During the year ended September 30, 2013, the Bank renewed seventy-six loans within its construction and land development portfolio due to slower home and lot sales in the current economic environment. Such extensions were accounted for as TDRs if the restructuring was related to the borrower s financial difficulty, and if the Bank made concessions that it would not otherwise consider. In order to determine whether or not a renewal should be accounted for as a TDR, management reviewed the borrower s current financial information, including an analysis of income and liquidity in relation to debt service requirements. The large majority of these modifications did not result in a reduction in the contractual interest rate or a write-off of the principal balance (although the Bank does commonly require the borrower to make a principal reduction at renewal). If such concessions were made and the modification was the result of the borrower s financial difficulty, the extension/renewal was accounted for as a TDR. The Bank expects to collect all principal and interest, including accrued interest, during the term of the extension for all restructured loans not accounted for as a TDR. At September 30, 2013, the Bank had TDRs in its construction and development loan portfolio of $23.1 million.

Commercial Real Estate Loans

The Bank purchases and originates several different types of commercial real estate loans. As of September 30, 2013, commercial real estate loans on business properties were $268.6 million or 33% of the Bank s total loan portfolio. Permanent multifamily mortgage loans on properties of 5 to 36 dwelling units have a 50% risk-weight for risk-based capital requirements if they have an initial loan-to-value ratio of not more than 80% and if their annual average occupancy rate exceeds 80%. All other performing commercial real estate loans have 100% risk-weights.

A restructuring of debt is considered a TDR if, because of a debtor s financial difficulty, a creditor grants concessions that it would not otherwise consider. In order to determine whether or not a modification should be accounted for as a TDR, the Bank reviews the current financial information of the borrower(s) and, if applicable, guarantor(s), including an analysis of income, assets and credit history. In addition, a market analysis of the property is prepared. All pertinent information is considered, including debt service requirements. The majority of these modifications did not result in a reduction in the contractual interest rate or a write-down of the principal balance. If such concessions were made and the modification was the result of the borrower s financial difficulty, the extension was accounted for as a TDR. The Bank expects to collect all principal and interest, including accrued interest, for restructured loans not accounted for as a TDR. At September 30, 2013, the Bank had TDRs in its commercial real estate loan portfolio of $6.1 million.

Installment Loans

As of September 30, 2013, consumer installment loans and lease financing to individuals represented approximately 1% of loans receivable. These loans consist primarily of loans on savings accounts and consumer lines of credit that are secured by a customer s equity in their primary residence.

Sales of Mortgage Loans

The Bank is an active seller of loans in the national secondary mortgage market. A portion of loans originated are sold to various institutional investors, along with the rights to service the loans (servicing released). Another portion are originated for sale with loan servicing rights kept by the Bank (servicing retained), or with servicing rights sold to a third party servicer. At the time of each loan commitment, management decides if the loan will be held in portfolio or sold and, if sold, which investor is appropriate. During fiscal 2013, proceeds of $1,820.8 million were received on the sale of loans sold with servicing released.

The Bank records loans held for sale at fair value, and any adjustments made to record them at estimated fair value are made through the income statement. As of September 30, 2013, the Bank had loans held for sale with a carrying value of $69.1 million.

Classified Assets, Delinquencies, and Allowance for Loss

Classified Assets. In accordance with the Bank s asset classification system, problem assets are classified with risk ratings of either substandard, doubtful, or loss. An asset is considered substandard if it is inadequately protected by the borrower s ability to repay, or the value of collateral. Substandard assets include those characterized by a possibility that the institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have the same weaknesses of those classified as substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are considered uncollectible and of little value. Prior to quarter ended March 31, 2012, the Bank established a specific valuation allowance for such assets. In conjunction with the adoption of the Call Report during the quarter ended March 31, 2012, such assets are charged-off against the Allowance for Loan and Lease Losses (ALLL) at the time they are deemed to be a confirmed loss.

In addition to the risk rating categories for problem assets noted above, loans may be assigned a risk rating of pass, pass-watch, or special mention. The pass category includes loans with borrowers and/or collateral that is of average quality or better. Loans in this category are considered average risk and satisfactory repayment is expected. Assets classified as pass-watch are those in which the borrower has the capacity to perform according to the terms and repayment is expected. However, one or more elements of uncertainty exist. Assets classified as special mention have a potential weakness that deserves management s close attention. If left undetected, the potential weakness may result in deterioration of repayment prospects.

A loan becomes impaired when management believes it will be unable to collect all principal and interest due according to the contractual terms of the loan. Once a loan has been deemed impaired, the impairment must be measured by comparing the recorded investment in the loan to the present value of the estimated future cash flows discounted at the loan s effective rate, or to the fair value of the loan based on the loan s observable market price, or to the fair value of the collateral if the loan is collateral dependent.

Each quarter, management reviews the problem loans in its portfolio to determine whether changes to the asset classifications or allowances are needed. The following table summarizes the Bank s classified assets as reported to their primary regulator, plus any classified assets of the holding company. Dollar amounts are expressed in thousands.