

NASB FINANCIAL INC
Form 10-Q
May 10, 2013

Securities and Exchange Commission

Washington, DC 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the period ended March 31, 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)

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

12498 South 71 Highway, Grandview, Missouri
(Address of principal executive offices)

64030
(Zip Code)

(816) 765-2200

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Small reporting Company

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

The number of shares of Common Stock of the Registrant outstanding as of May 3, 2013, was 7,867,614.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

*NASB Financial, Inc. and Subsidiary**Condensed Consolidated Balance Sheets*

	March 31, 2013 (Unaudited)	September 30, 2012
	(Dollars in thousands)	
ASSETS		
Cash and cash equivalents	\$ 50,720	8,716
Securities:		
Available for sale, at fair value	245,026	214,190
Stock in Federal Home Loan Bank, at cost	6,984	7,073
Mortgage-backed securities:		
Available for sale, at fair value	499	554
Held to maturity, at cost	11,808	25,921
Loans receivable:		
Held for sale, at fair value	100,156	163,834
Held for investment, net	702,425	766,601
Allowance for loan losses	(20,726)	(31,829)
Total loans receivable, net	781,855	898,606
Accrued interest receivable	4,226	4,402
Foreclosed assets held for sale, net	20,597	17,040
Premises and equipment, net	11,670	11,637
Investment in LLCs	16,928	17,222
Deferred income tax asset, net	13,625	17,199
Other assets	15,098	18,266
	\$ 1,179,036	1,240,826
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Customer deposit accounts	\$ 807,288	870,946
Brokered deposit accounts	10,000	21,367
Advances from Federal Home Loan Bank	125,000	127,000
Subordinated debentures	25,774	25,774
Escrows	4,811	8,760
Income taxes payable	3,546	3,490
Accrued expenses and other liabilities	12,299	11,986
Total liabilities	988,718	1,069,323
Stockholders equity:		
Common stock of \$0.15 par value: 20,000,000 shares authorized; 9,857,112 shares issued	1,479	1,479
Additional paid-in capital	16,613	16,657
Retained earnings	208,851	189,516
Treasury stock, at cost; 1,989,498 shares	(38,418)	(38,418)
Accumulated other comprehensive loss	1,793	2,269
Total stockholders equity	190,318	171,503

\$ 1,179,036 1,240,826

See accompanying notes to condensed consolidated financial statements.

*NASB Financial, Inc. and Subsidiary**Condensed Consolidated Statements of Operations (Unaudited)*

	Three months ended March 31,		Six months ended March 31,	
	2013	2012	2013	2012
	(Dollars in thousands, except per share data)			
Interest on loans receivable	\$ 11,740	14,270	24,074	30,163
Interest on mortgage-backed securities	87	463	381	962
Interest and dividends on securities	1,085	498	2,048	1,466
Other interest income	1	4	3	6
Total interest income	12,913	15,235	26,506	32,597
Interest on customer and brokered deposit accounts	1,360	2,435	3,109	4,914
Interest on advances from Federal Home Loan Bank	532	566	1,063	1,201
Interest on subordinated debentures	125	137	254	266
Other interest expense	5		8	
Total interest expense	2,022	3,138	4,434	6,381
Net interest income	10,891	12,097	22,072	26,216
Provision for loan losses	(5,600)	5,000	(9,600)	7,500
Net interest income (loss) after provision for loan losses	16,491	7,097	31,672	18,716
Other income (expense):				
Loan servicing fees, net	26	18	52	65
Customer service fees and charges	1,357	1,202	2,831	2,612
Provision for loss on real estate owned	(242)	(2,069)	(817)	(3,423)
Loss on sale of securities available for sale				(343)
Gain on sale of securities held to maturity	257		257	
Gain from loans receivable held for sale	19,281	8,565	35,387	19,836
Impairment loss on investment in LLCs		(200)		(200)
Other income (expense)	(1,714)	773	(2,248)	291
Total other income	18,965	8,289	35,462	18,838
General and administrative expenses:				
Compensation and fringe benefits	6,502	5,473	12,858	10,821
Commission-based mortgage banking compensation	5,124	3,608	10,937	7,309
Premises and equipment	1,222	1,294	2,544	2,485
Advertising and business promotion	1,396	1,370	2,559	2,381
Federal deposit insurance premiums	664	400	1,250	787
Other	2,632	2,626	5,547	5,125
Total general and administrative expenses	17,540	14,771	35,695	28,908
Income before income tax expense	17,916	615	31,439	8,646
Income tax expense	6,898	240	12,104	3,332
Net income	\$ 11,018	375	19,335	5,314
Basic earnings per share	\$ 1.40	0.05	2.46	0.68

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Diluted earnings per share	\$	1.40	0.05	2.46	0.68
Basic weighted average shares outstanding		7,867,614	7,867,614	7,867,614	7,867,614

See accompanying notes to condensed consolidated financial statements.

NASB Financial, Inc. and Subsidiary

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three months ended March 31, 2013 2012 (Dollars in thousands)	
Net income	\$ 11,018	375
Other comprehensive income (loss):		
Unrealized gain (loss) on available for sale securities, net of income tax expense (benefit) of \$(323) and \$503 at March 31, 2013 and 2012, respectively	(516)	803
Reclassification adjustment for (gain) loss included in net income		
Change in unrealized gain (loss) on available for sale securities, net of income tax expense (benefit) of \$(323) and \$503 at March 31, 2013 and 2012, respectively	(516)	803
Comprehensive income	\$ 10,502	1,178

	Six months ended March 31, 2013 2012 (Dollars in thousands)	
Net income	\$ 19,335	5,314
Other comprehensive income (loss):		
Unrealized gain (loss) on available for sale securities, net of income tax expense (benefit) of \$(298) and \$389 at March 31, 2013 and 2012, respectively	(476)	622
Reclassification adjustment for loss included in net income, net of income tax benefit of \$132 at March 31, 2012		211
Change in unrealized gain (loss) on available for sale securities, net of income tax expense (benefit) of \$(298) and \$521 at March 31, 2013 and 2012, respectively	(476)	833
Comprehensive income	\$ 18,859	6,147

See accompanying notes to condensed consolidated financial statements.

NASB Financial, Inc. and Subsidiary

Condensed Consolidated Statement of Stockholders Equity (Unaudited)

	Common stock	Additional paid-in capital	Retained Earnings	Treasury stock	Accumulated other comprehensive Income	Total stockholders equity
	(Dollars in thousands)					
Balance at October 1, 2012	\$ 1,479	16,657	189,516	(38,418)	2,269	171,503
Comprehensive income:						
Net income			19,335			19,335
Other comprehensive income, net of tax:						
Unrealized gain on securities available for sale					(476)	(476)
Total comprehensive income						18,859
Stock based compensation		(44)				(44)
Balance at March 31, 2013	\$ 1,479	16,613	208,851	(38,418)	1,793	190,318

See accompanying notes to condensed consolidated financial statements.

*NASB Financial, Inc. and Subsidiary**Condensed Consolidated Statements of Cash Flows (Unaudited)*

	Six months ended March 31,	
	2013	2012
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	\$ 19,335	5,314
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,077	976
Amortization and accretion, net	510	(806)
Loss on sale of securities available for sale		343
Gain on sale of securities held to maturity	(257)	
(Gain) loss from investment in LLCs	300	(2)
Impairment loss on investment in LLCs		200
Gain from loans receivable held for sale	(35,387)	(19,836)
Provision for loan losses	(9,600)	7,500
Provision for loss on real estate owned	817	3,423
Origination of loans receivable held for sale	(1,044,057)	(849,286)
Sale of loans receivable held for sale	1,143,123	850,565
Stock based compensation - stock options	(44)	3
Changes in:		
Net fair value of loan-related commitments	1,837	(231)
Accrued interest receivable	176	785
Prepaid and accrued expenses, other liabilities, and income taxes payable	5,159	(1,976)
Net cash provided by (used in) operating activities	82,989	(3,028)
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	3,456	6,343
Available for sale	48	88
Principal repayments of mortgage loans receivable held for investment	111,689	105,939
Principal repayments of other loans receivable	2,111	2,054
Principal repayments of investment securities available for sale	20,006	25,109
Loan origination - mortgage loans receivable held for investment	(57,393)	(37,915)
Loan origination - other loans receivable	(1,148)	(1,245)
Purchase of mortgage loans receivable held for investment	(647)	(588)
Proceeds from sale of Federal Home Loan Bank stock	89	5,919
Purchase of investment securities available for sale	(52,525)	(57,055)
Proceeds from sale of investment securities available for sale		19,678
Proceeds from sale of mortgage-backed securities held to maturity	10,800	
Proceeds from sale of real estate owned	4,268	5,196
Purchases of premises and equipment, net	(65)	(1,690)
Investment in LLCs	(6)	(4)
Other	(1,107)	(75)
Net cash provided by investing activities	39,576	71,754

*NASB Financial, Inc. and Subsidiary**Condensed Consolidated Statements of Cash Flows (Unaudited)*

	Six months ended March 31,	
	2013	2012
	(Dollars in thousands)	
Cash flows from financing activities:		
Net increase (decrease) in customer and brokered deposit accounts	(75,034)	60,947
Proceeds from advances from Federal Home Loan Bank	25,000	
Repayment on advances from Federal Home Loan Bank	(27,000)	(122,000)
Change in escrows	(3,949)	(5,128)
Proceeds from other borrowings	422	
Net cash used in financing activities	(80,561)	(66,181)
Net increase in cash and cash equivalents	42,004	2,545
Cash and cash equivalents at beginning of the period	8,716	5,030
Cash and cash equivalents at end of period	\$ 50,720	7,575
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	\$ 8,176	4,349
Cash paid for interest	4,247	6,432
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned, net of specific reserves	\$ 9,168	12,747
Conversion of real estate owned to loans receivable	224	360
See accompanying notes to condensed consolidated financial statements.		

NASB Financial Inc

(1) BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of NASB Financial, Inc. (the Company), its wholly-owned subsidiary, North American Savings Bank, F.S.B. (North American or the Bank), and the Bank's wholly-owned subsidiary, Nor-Am Service Corporation. All significant inter-company transactions have been eliminated in consolidation. The consolidated financial statements do not include the accounts of our wholly-owned statutory trust, NASB Preferred Trust I (the Trust). The Trust qualifies as a special purpose entity that is not required to be consolidated in the financial statements of NASB Financial, Inc. The Trust Preferred Securities issued by the Trust are included in Tier I capital for regulatory capital purposes. See Footnote 8, Subordinated Debentures.

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. All adjustments are of a normal and recurring nature, and, in the opinion of management, the statements include all adjustments considered necessary for fair presentation. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2012, filed with the Securities and Exchange Commission on December 14, 2012. Operating results for the six month period ended March 31, 2013, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2013. The condensed consolidated balance sheet of the Company as of September 30, 2012, has been derived from the audited balance sheet of the Company as of that date.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowances for losses on loans, valuation of foreclosed assets held for sale, accruals for loan recourse provisions, and fair values of financial instruments, among other items. Management believes that these estimates are adequate; however, future additions to the allowance or changes in the estimates may be necessary based on changes in economic conditions.

The Company's critical accounting policies involving the more significant judgments and assumptions used in the preparation of the condensed consolidated financial statements as of March 31, 2013, have remained unchanged from September 30, 2012. These policies relate to the allowance for loan losses, the valuation of foreclosed assets held for sale, the valuation of derivative instruments, and the valuation of equity method investments. Disclosure of these critical accounting policies is incorporated by reference under Item 8 Financial Statements and Supplementary Data in the Company's Annual Report on Form 10-K for the Company's year ended September 30, 2012.

Certain quarterly amounts for previous periods have been reclassified to conform to the current quarter's presentation.

(2) RECONCILIATION OF BASIC EARNINGS PER SHARE TO DILUTED EARNINGS PER SHARE

The following table presents a reconciliation of basic earnings per share to diluted earnings per share for the periods indicated.

	Three months ended		Six months ended	
	3/31/13	3/31/12	3/31/13	3/31/12
Net income (in thousands)	\$ 11,018	375	19,335	5,314
Average common shares outstanding	7,867,614	7,867,614	7,867,614	7,867,614
Average common share stock options outstanding				
Average diluted common shares	7,867,614	7,867,614	7,867,614	7,867,614
Earnings per share:				
Basic	\$ 1.40	0.05	2.46	0.68
Diluted	1.40	0.05	2.46	0.68

At March 31, 2013 and 2012, options to purchase 41,138 and 47,538 shares, respectively, of the Company's stock were outstanding. These options were not included in the calculation of diluted earnings per share because the option exercise price was greater than the average market price of the common shares for the period, thus making the options anti-dilutive.

(3) SECURITIES AVAILABLE FOR SALE

The following table presents a summary of securities available for sale at March 31, 2013. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities	\$ 69,293	3,193	184	72,302
U.S. government sponsored agency securities	172,422	476	596	172,302
Municipal securities	422			422
Total	\$ 242,137	3,669	780	245,026

The following table presents a summary of securities available for sale at September 30, 2012. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities	\$ 57,983	3,035		61,018
U.S. government sponsored agency securities	152,546	624	4	153,166
Municipal securities	6			6
Total	\$ 210,535	3,659	4	214,190

There were no sales of securities available for sale during the six month period ended March 31, 2013. During the six month period ended March 31, 2012, the Company realized gross gains of \$227,000 and gross losses of \$570,000 on the sale of securities available for sale.

The following table presents a summary of the fair value and gross unrealized losses of those securities available for sale which had unrealized losses at March 31, 2013. Dollar amounts are expressed in thousands.

	Less than 12 months Estimated fair value	Gross unrealized Losses	12 months or longer Estimated fair value	Gross unrealized losses
Corporate debt securities	\$ 4,947	184	\$	
U.S. government sponsored agency securities	59,881	596		
Total	\$ 64,828	780	\$	

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The scheduled maturities of securities available for sale at March 31, 2013 are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due in less than one year	\$ 11,679	7		11,686
Due from one to five years	154,175	3,406	187	157,394
Due from five to ten years	24,991	254		25,245
Due after ten years	51,292	2	593	50,701
Total	\$ 242,137	3,669	780	245,026

(4) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

The following table presents a summary of mortgage-backed securities available for sale at March 31, 2013. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA fixed rate	\$ 74	2		76
Pass-through certificates guaranteed by FNMA adjustable rate	132	7		139
FHLMC participation certificates:				
Fixed rate	149	10		159
Adjustable rate	118	7		125
Total	\$ 473	26		499

The following table presents a summary of mortgage-backed securities available for sale at September 30, 2012. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA fixed rate	\$ 78	3		81
Pass-through certificates guaranteed by FNMA adjustable rate	143	9		152
FHLMC participation certificates:				
Fixed rate	176	14		190
Adjustable rate	123	8		131
Total	\$ 520	34		554

There were no sales of mortgage-backed securities available for sale during the six month periods ended March 31, 2013 and 2012.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The scheduled maturities of mortgage-backed securities available for sale at March 31, 2013 are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due from one to five years	\$ 149	10		159
Due after ten years	324	16		340
Total	\$ 473	26		499

Actual maturities and pay-downs of mortgage-backed securities available for sale will differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments, on which borrowers have the right to prepay certain obligations.

(5) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

The following table presents a summary of mortgage-backed securities held to maturity at March 31, 2013. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
FHLMC participation certificates:				
Fixed rate	\$ 34	3		37
FNMA pass-through certificates:				
Fixed rate	2			2
Balloon maturity and adjustable rate	22			22
Collateralized mortgage obligations	11,750	79	56	11,773
Total	\$ 11,808	82	56	11,834

The following table presents a summary of mortgage-backed securities held to maturity at September 30, 2012. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
FHLMC participation certificates:				
Fixed rate	\$ 37	3		40
FNMA pass-through certificates:				
Fixed rate	3			3
Balloon maturity and adjustable rate	24	1		25
Collateralized mortgage obligations	25,857	390	198	26,049
Total	\$ 25,921	394	198	26,117

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

During the six month period ended March 31, 2013, the Bank recognized a gain of \$38,000 and a loss of \$295,000 on the sale of two mortgage backed securities which were classified as held to maturity. The securities had a combined amortized cost of \$10.5 million at the time of sale. The decision was made to sell the securities after it was determined that there was a significant deterioration in the issuer's creditworthiness. There were no sales of mortgage-backed securities held to maturity during the six month period ended March 31, 2012.

The following table presents a summary of the fair value and gross unrealized losses of those mortgage-backed securities held to maturity which had unrealized losses at March 31, 2013. Dollar amounts are expressed in thousands.

	Less than 12 months Estimated fair value	Gross unrealized losses	12 months or longer Estimated fair value	Gross unrealized losses
Collateralized mortgage obligations	\$		\$ 4,317	56
Total	\$		\$ 4,317	56

Management monitors the securities portfolio for impairment on an ongoing basis by evaluating market conditions and other relevant information, including external credit ratings, to determine whether or not a decline in value is other-than-temporary. When the fair value of a security is less than its amortized cost, an other-than-temporary impairment is considered to have occurred if the present value of expected cash flows is not sufficient to recover the entire amortized cost, or if the Company intends to, or will be required to, sell the security prior to the recovery of its amortized cost. The unrealized losses at March 31, 2013, are primarily the result of changes in market yields from the time of purchase. Management generally views changes in fair value caused by changes in interest rates as temporary. In addition, all scheduled payments for securities with unrealized losses at March 31, 2013, have been made, and it is anticipated that the Company will hold such securities to maturity and that the entire principal balance will be collected.

The scheduled maturities of mortgage-backed securities held to maturity at March 31, 2013, are presented in the following table. Dollar amounts are expressed in thousands.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Due from one to five years	\$ 25	2		27
Due from five to ten years	990	1	25	966
Due after ten years	10,793	79	31	10,841
Total	\$ 11,808	82	56	11,834

Actual maturities and pay-downs of mortgage-backed securities held to maturity will differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments, on which borrowers have the right to prepay certain obligations.

(6) LOANS RECEIVABLE

The Bank has traditionally concentrated its lending activities on mortgage loans secured by residential and business property and, to a lesser extent, development lending. Residential mortgage loans have either long-term fixed or 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 North American's loan portfolio consists of non-mortgage commercial loans and installment loans.

The following table presents the Bank's total loans receivable. Dollar amounts are expressed in thousands.

	3/31/13	9/30/12
HELD FOR INVESTMENT		
Mortgage loans:		
Permanent loans on:		
Residential properties	\$ 327,288	331,310
Business properties	281,555	321,559
Partially guaranteed by VA or insured by FHA	4,850	3,950
Construction and development	95,422	110,718
Total mortgage loans	709,115	767,537
Commercial loans	12,400	17,570
Installment loans and lease financing to individuals	6,419	7,753
Total loans receivable held for investment	727,934	792,860
Less:		
Undisbursed loan funds	(20,787)	(21,014)
Unearned discounts and fees on loans, net of deferred costs	(4,722)	(5,245)
Net loans receivable held for investment	\$ 702,425	766,601
HELD FOR SALE		
Mortgage loans:		
Permanent loans on:		
Residential properties	\$ 100,156	163,834

Included in the loans receivable balances at March 31, 2013, are participating interests in mortgage loans and wholly-owned mortgage loans serviced by other institutions in the amount of \$1.2 million. Loans and participations serviced for others amounted to approximately \$27.3 million at March 31, 2013. Loans serviced for others are not included in the accompanying condensed consolidated balance sheets.

Lending Practices and Underwriting Standards

Residential real estate loans - The Bank offers a range of residential loan programs, including programs offering loans guaranteed by the Veterans Administration (VA) and loans insured by the Federal Housing Administration (FHA). 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.

The Bank's residential real estate loan underwriters are grouped into three different levels, based upon each underwriter's experience and proficiency. Underwriters within each level are authorized to approve loans up to prescribed dollar amounts. Any loan over \$1 million must also be approved by either the CEO or the EVP/Chief Credit Officer. Conventional residential real estate loans are underwritten using FNMA's Desktop Underwriter or FHLMC's Loan Prospector automated underwriting systems, which analyze credit history, employment and income information, qualifying ratios, asset reserves, and loan-to-value ratios. If a loan does not meet the automated underwriting standards, it is underwritten manually. Full documentation to support each applicant's credit history, income, and sufficient funds for closing is required on all loans. An appraisal report, performed in conformity with the Uniform Standards of Professional Appraisers Practice by an outside licensed appraiser, is required for all loans. Typically, the Bank requires borrowers to purchase private mortgage insurance when the loan-to-value ratio exceeds 80%.

NASB originates Adjustable Rate Mortgages (ARMs), which fully amortize and typically have initial rates that are fixed for one to seven years before becoming adjustable. Such loans are underwritten based on the initial interest rate and the borrower's ability to repay based on the maximum first adjustment rate. Each underwriting decision takes into account the type of loan and the borrower's ability to pay at higher rates. While lifetime rate caps are taken into consideration, qualifying ratios may not be calculated at this level due to an extended number of years required to reach the fully-indexed rate. NASB does not originate any hybrid loans, such as payment option ARMs, nor does the Bank originate any subprime loans, generally defined as high risk or loans of substantially impaired quality.

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.

Construction and development loans - Construction and land development loans are made primarily to builders/developers, who construct properties for resale. The Bank's requirements for a construction loan are similar to those of a mortgage on an existing residence. In addition, the borrower must submit accurate plans, specifications, and cost projections of the property to be constructed. All construction and development loans are manually underwritten using NASB's internal underwriting standards. All construction and development loans must be approved by the CEO and either the EVP/ Chief Credit Officer or SVP/Construction Lending. Prior approval is required from the Bank's Board of Directors for newly originated construction and development loans with a proposed balance of \$1.0 million or greater. The bank has adopted internal loan-to-value limits consistent with regulations, which are 65% for raw land, 75% for land development, and 85% for residential and non-residential construction. An appraisal report performed in conformity with the Uniform Standards of Professional Appraisers Practice by an outside licensed appraiser is required on all loans in excess of \$250,000. Generally, the Bank will commit to an initial term of 12 to 18 months on construction loans, and an initial term of 24 to 48 months on land acquisition and development loans, with six month renewals thereafter. Interest rates on construction loans typically adjust daily and are tied to a predetermined index. NASB's staff regularly performs inspections of each property during its construction phase to help ensure adequate progress is achieved before making scheduled loan disbursements.

When construction and development loans mature, the Bank typically considers extensions for short, six-month term periods. This allows the Bank to more frequently evaluate the loan, including creditworthiness and current market conditions and, if management believes it's in the best interest of the Company, to modify the terms accordingly. This portfolio consists primarily of assets with rates tied to the prime rate and, in most cases, the conditions for loan renewal include an interest rate floor in accordance with the market conditions that exist at the time of renewal.

During the six month period ended March 31, 2013, the Bank renewed forty-two 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 Troubled Debt Restructurings (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).

Commercial real estate loans - The Bank purchases and originates several different types of commercial real estate loans. 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.

The Bank's commercial real estate loans are secured primarily by multi-family and nonresidential properties. Such loans are manually underwritten using NASB's internal underwriting standards, which evaluate the sources of repayment, including the ability of income producing property to generate sufficient cash flow to service the debt, the capacity of the borrower or guarantors to cover any shortfalls in operating income, and, as a last resort, the ability to liquidate the collateral in such a manner as to completely protect the Bank's investment. All commercial real estate loans must be approved by the CEO and either the EVP/ Chief Credit Officer or SVP/Commercial Lending. Prior approval is required from the Bank's Board of Directors for newly originated commercial loans with a proposed balance of \$1.0 million or greater. Typically, loan-to-value ratios do not exceed 80%; however, exceptions may be made when it is determined that the safety of the loan is not compromised, and the rationale for exceeding this limit is clearly documented. An appraisal report performed in conformity with the Uniform Standards of Professional Appraisers Practice by an outside licensed appraiser is required on all loans in excess of \$250,000. Interest rates on commercial loans may be either fixed or tied to a predetermined index and adjusted daily.

The Bank typically obtains full personal guarantees from the primary individuals involved in the transaction. Guarantor financial statements and tax returns are reviewed annually to determine their continuing ability to perform under such guarantees. The Bank typically pursues repayment from guarantors when the primary source of repayment is not sufficient to service the debt. However, the Bank may decide not to pursue a guarantor if, given the guarantor's financial condition, it is likely that the estimated legal fees would exceed the probable amount of any recovery. Although the Bank does not typically release guarantors from their obligation, the Bank may decide to delay the decision to pursue civil enforcement of a deficiency judgment.

At least once during each calendar year, a review is prepared for each borrower relationship in excess of \$5 million and for each individual loan over \$1 million. Collateral inspections are obtained on an annual basis for each loan over \$1 million, and on a triennial basis for each loan between \$500,000 and \$1 million. Financial information, such as tax returns, is requested annually for all commercial real estate loans over \$500,000, which is consistent with industry practice, and the Bank believes it has sufficient monitoring procedures in place to identify potential problem loans. A loan is deemed impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement. Any loans deemed impaired, regardless of their balance, are reviewed by management at the time of the impairment determination, and monitored on a quarterly basis thereafter, including calculation of specific valuation allowances, if applicable.

Installment Loans - 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.

Allowance for Loan Losses

The Allowance for Loan and Lease Losses (ALLL) recognizes the inherent risks associated with lending activities for individually identified problem assets as well as the entire homogenous and non-homogenous loan portfolios. ALLLs are established by charges to the provision for loan losses and carried as contra assets. Management analyzes the adequacy of the allowance on a quarterly basis and appropriate provisions are made to maintain the ALLLs at adequate levels. At any given time, the ALLL should be sufficient to absorb at least all estimated credit losses on outstanding balances over the next twelve months. While management uses information currently available to determine these allowances, they can fluctuate based on changes in economic conditions and changes in the information available to management. Also, regulatory agencies review the Bank's allowances for loan loss as part of their examination, and they may require the Bank to recognize additional loss provisions, within their regulatory filings, based on the information available at the time of their examinations.

The ALLL is determined based upon two components. The first is made up of specific reserves for loans which have been deemed impaired in accordance with GAAP. The second component is made up of general reserves for loans that are not impaired. 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. Prior to the quarter ended March 31, 2012, the Bank recorded a specific allowance equal to the amount of measured impairment.

In July 2011, the Office of Thrift Supervision (OTS) merged with and into the Office of the Comptroller of the Currency (OCC), and the OCC became the Bank's primary regulator. Beginning with the quarter ended March 31, 2012, the Bank was required to file a Consolidated Report of Condition and Income (Call Report) instead of the previously required Thrift Financial Report (TFR). With the adoption of the Call Report, the Bank was required to discontinue using specific valuation allowances on loans deemed impaired. The TFR had allowed any measured impairments to be carried as specific valuation allowances, whereas the Call Report required any measured impairments that are deemed confirmed losses to be charged-off and netted from their respective loan balances. For impaired loans that are collateral dependent, a confirmed loss is generally the amount by which the loan's recorded investment exceeds the fair value of its collateral. If a loan is considered uncollectible, the entire balance is deemed a confirmed loss and is fully charged-off. During the quarter ended March 31, 2012, the Bank charged-off against ALLL the aggregate confirmed losses of \$23.3 million that were carried as specific valuation allowances in prior periods, and netted them against their respective loan balances for reporting purposes. This change had no impact on net loans receivable as presented in the consolidated balance sheet. In addition, this change did not materially impact the analysis of ALLL, which is described in more detail in the following paragraph, as specific valuation allowances were previously considered in the determination of historical loss ratios.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Loans that are not impaired are evaluated based upon the Bank's historical loss experience, as well as various subjective factors, to estimate potential unidentified losses within the various loan portfolios. These loans are categorized into pools based upon certain characteristics such as loan type, collateral type and repayment source. In addition to analyzing historical losses, the Bank also evaluates the following subjective factors for each loan pool to estimate future losses: changes in lending policies and procedures, changes in economic and business conditions, changes in the nature and volume of the portfolio, changes in management and other relevant staff, changes in the volume and severity of past due loans, changes in the quality of the Bank's loan review system, changes in the value of the underlying collateral for collateral dependent loans, changes in the level of lending concentrations, and changes in other external factors such as competition and legal and regulatory requirements. Historical loss ratios are adjusted accordingly, based upon the effect that the subjective factors have in estimated future losses. These adjusted ratios are applied to the balances of the loan pools to determine the adequacy of the ALLL each quarter. For purposes of calculating historical loss ratios, specific valuation allowances established prior to March 31, 2012, are considered charge-offs during the periods in which they are established.

The Bank does not routinely obtain updated appraisals for their collateral dependent loans that are not adversely classified. However, when analyzing the adequacy of its allowance for loan losses, the Bank considers potential changes in the value of the underlying collateral for such loans as one of the subjective factors used to estimate future losses in the various loan pools.

The following table presents the balance in the allowance for loan losses for the three and six months ended March 31, 2013 and 2012. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
Allowance for loan losses:							
Balance at January 1, 2013	\$ 8,493		7,429	11,205	65	661	27,853
Provision for loan losses	(610)		326	(4,955)	(5)	(356)	(5,600)
Losses charged off	(692)		(505)	(629)		(1)	(1,827)
Recoveries	189		3	6		102	300
Balance at March 31, 2013	\$ 7,380		7,253	5,627	60	406	20,726
Balance at January 1, 2012	\$ 5,382	18	21,404	27,650	2,536	955	57,945
Provision for loan losses	3,445	(15)	2,273	1,306	(1,885)	(124)	5,000
Losses charged off	(1,955)		(9,796)	(13,787)		(679)	(26,217)
Recoveries	69						69
Balance at March 31, 2012	\$ 6,941	3	13,881	15,169	651	152	36,797
Balance at October 1, 2012	\$ 6,941		7,086	16,590	513	699	31,829
Provision for loan losses	1,346		492	(10,653)	(453)	(332)	(9,600)
Losses charged off	(1,156)		(574)	(669)		(87)	(2,486)
Recoveries	249		249	359		126	983
Balance at March 31, 2013	\$ 7,380		7,253	5,627	60	406	20,726
Balance at October 1, 2011	\$ 6,663	12	13,201	41,863	7,682	845	70,266
Provision for loan losses	2,714	(9)	11,913	(2,661)	(4,462)	5	7,500
Losses charged off	(2,542)		(11,233)	(24,033)	(2,569)	(698)	(41,075)
Recoveries	106						106
Balance at March 31, 2012	\$ 6,941	3	13,881	15,169	651	152	36,797

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method at March 31, 2013. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
Allowances for loan losses:							
Ending balance of allowance for loan losses related to loans at March 31, 2013:							
Individually evaluated for impairment	\$ 231		351	4	25		611
Collectively evaluated for impairment	\$ 7,149		6,902	5,623	35	406	20,115
Acquired with deteriorated credit quality*	\$ 21						21
Loans:							
Balance at March 31, 2013	\$ 329,369	100,156	279,629	74,608	12,400	6,419	802,581
Ending balance:							
Loans individually evaluated for impairment	\$ 24,617		13,739	32,772	11,251		82,379
Loans collectively evaluated for impairment	\$ 304,752	100,156	265,890	41,836	1,149	6,419	720,202
Loans acquired with deteriorated credit quality	\$ 3,696						3,696

* Included in ending balance of allowance for loan losses related to loans individually evaluated for impairment at March 31, 2013.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method at September 30, 2012. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
Allowance for loan losses:							
Ending balance of allowance for loan losses related to loans at September 30, 2012:							
Individually evaluated for impairment	\$ 975		7	42			1,024
Collectively evaluated for impairment	\$ 5,966		7,079	16,548	513	699	30,805
Acquired with deteriorated credit quality	\$						
Loans:							
Balance at September 30, 2012	\$ 332,320	163,834	319,272	89,689	17,567	7,753	930,435
Ending balance:							
Loans individually evaluated for impairment	\$ 18,440		24,895	42,267		69	85,671
Loans collectively evaluated for impairment	\$ 310,635	163,834	294,377	47,422	17,567	7,684	841,519
Loans acquired with deteriorated credit quality	\$ 3,245						3,245

Classified Assets, Delinquencies, and Non-accrual Loans

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 the 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 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.

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 presents the credit risk profile of the Company's loan portfolio based on risk rating category as of March 31, 2013. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
Rating:							
Pass	\$ 272,804	100,156	205,774	14,879		6,419	600,032
Pass Watch	25,790		57,252	21,796	1,149		105,987
Special Mention	228		3,670				3,898
Substandard	30,499		12,582	37,933	11,251		92,265
Doubtful	48		351				399
Loss							
Total	\$ 329,369	100,156	279,629	74,608	12,400	6,419	802,581

The following table presents the credit risk profile of the Company's loan portfolio based on risk rating category as of September 30, 2012. Dollar amounts are expressed in thousands.

	Residential	Residential Held For Sale	Commercial Real Estate	Construction & Development	Commercial	Installment	Total
Rating:							
Pass	\$ 283,771	163,834	256,158	14,370	1,318	7,621	727,072
Pass Watch	11,076		28,439	19,054			58,569
Special Mention	4,689		323				5,012
Substandard	32,011		34,352	56,261	16,249	132	139,005
Doubtful	773			4			777
Loss							
Total	\$ 332,320	163,834	319,272	89,689	17,567	7,753	930,435

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents the Company's loan portfolio aging analysis as of March 31, 2013. Dollar amounts are expressed in thousands.

	Greater Than				Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
	30-59 Days	60-90 Days	90 Days	Total Past			
	Past Due	Past Due	Past Due	Due			
Residential	\$ 2,095	337	6,449	8,881	320,488	329,369	155
Residential held for sale	2			2	100,154	100,156	
Commercial real estate			700	700	278,929	279,629	
Construction & development	368		2,546	2,914	71,694	74,608	
Commercial					12,400	12,400	
Installment	37			37	6,382	6,419	
Total	\$ 2,502	337	9,695	12,534	790,047	802,581	155

The following table presents the Company's loan portfolio aging analysis as of September 30, 2012. Dollar amounts are expressed in thousands.

	Greater Than				Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
	30-59 Days	60-90 Days	90 Days	Total Past			
	Past Due	Past Due	Past Due	Due			
Residential	\$ 1,727	1,439	16,430	19,596	312,724	332,320	5,183
Residential held for sale					163,834	163,834	
Commercial real estate	217	714	6,082	7,013	312,259	319,272	
Construction & development	567	633	5,487	6,687	83,002	89,689	1,931
Commercial					17,567	17,567	
Installment	181	67	64	312	7,441	7,753	
Total	\$ 2,692	2,853	28,063	33,608	896,827	930,435	7,114

When a loan becomes 90 days past due, or when full payment of interest and principal is not expected, the Bank stops accruing interest and establishes a reserve for the unpaid interest accrued-to-date. In some instances, a loan may become 90 days past due if it has exceeded its maturity date but the Bank and borrower are still negotiating the terms of an extension agreement. In those instances, the Bank typically continues to accrue interest, provided the borrower has continued making interest payments after the maturity date and full payment of interest and principal is expected.

The following table presents the Company's loans meeting the regulatory definition of nonaccrual, which includes certain loans that are current and paying as agreed. This table does not include purchased impaired loans or troubled debt restructurings that are performing. Dollar amounts are expressed in thousands.

	3/31/13	9/30/12
Residential	\$ 22,216	23,147
Residential held for sale		
Commercial real estate	9,023	20,952
Construction & development	18,939	30,606
Commercial		
Installment		62
Total	\$ 50,178	74,767

As of March 31, 2013, \$39.3 million (78.3%) of the loans classified as nonaccrual were current and paying as agreed.

During the quarter ended March 31, 2012, the Company's nonaccrual loans increased \$41.4 million. This increase resulted from management's decision to move certain impaired collateral dependent loans secured by land development, commercial real estate, and residential rental properties to nonaccrual, even though the majority of such loans were current and paying in accordance with their contractual terms. Due to the continued deterioration in the real estate markets, management determined that the full collection of principal and interest was uncertain. Such loans currently remain in non-accrual status, but may be moved back to a performing status upon sustained improvement in the real estate markets. In accordance with GAAP, these loans have been charged-down to the fair value of their underlying collateral, and therefore, the recorded investment in the loan is deemed fully collectable at March 31, 2013. Interest income is recognized on a cash-basis as payments are received.

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. 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. Loans modified in troubled debt restructurings are also considered impaired. Concessions granted in a TDR could include a reduction in interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. 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. Unless the loan is performing prior to the restructure, TDRs are placed in non-accrual status at the time of restructuring and may only be returned to performing status after the borrower demonstrates sustained repayment performance for a reasonable period, generally six months.

The following table presents the recorded balance of troubled debt restructurings. Dollar amounts are expressed in thousands.

	3/31/13	9/30/12
Troubled debt restructurings:		
Residential	\$ 10,149	6,156
Residential held for sale		
Commercial real estate	7,357	17,384
Construction & development	31,841	39,844
Commercial	11,251	
Installment		
Total	\$ 60,598	63,384
Performing troubled debt restructurings:		
Residential	\$ 1,953	593
Residential held for sale		
Commercial real estate	2,475	3,812
Construction & development	13,832	11,521
Commercial	11,251	
Installment		
Total	\$ 29,511	15,926

At March 31, 2013, the Bank had outstanding commitments of \$3,000 to be advanced in connection with TDRs.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents the number of loans and the Company's recorded investment in TDRs modified during the six month period ended March 31, 2013. Dollar amounts are expressed in thousands.

	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification	Increase in ALLL or Charge-offs
Residential	12	\$ 4,562	\$ 4,504	\$ 19
Residential held for sale				
Commercial real estate	2	746	746	
Construction & development	14	18,328	18,328	
Commercial	1	16,251	13,751	25
Installment				
Total	29	\$ 39,887	\$ 37,329	\$ 44

The following table presents the number of loans and the Company's recorded investment in TDRs modified during the six month period ended March 31, 2012. Dollar amounts are expressed in thousands.

	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification	Increase in ALLL or Charge-offs
Residential	2	\$ 155	\$ 155	\$
Residential held for sale				
Commercial real estate				
Construction & development	15	21,078	20,659	418
Commercial	1	3,000	1,500	
Installment				
Total	18	\$ 24,233	\$ 22,314	\$ 418

The following table presents TDRs restructured during the six month period ended March 31, 2013 by type of modification. Dollar amounts are expressed in thousands.

	Extension of Maturity	Interest Only Period	Combination of Terms Modified	Total Recorded Investment Prior to Modification
Residential	\$ 3,906		656	4,562
Residential held for sale				
Commercial real estate			746	746
Construction & development	18,328			18,328
Commercial			16,251	16,251
Installment				
Total	\$ 22,234		17,653	39,887

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents TDRs restructured during the six month period ended March 31, 2012 by type of modification. Dollar amounts are expressed in thousands.

	Extension of Maturity	Interest Only Period	Combination of Terms Modified	Total Recorded Investment Prior to Modification
Residential	\$ 155			155
Residential held for sale				
Commercial real estate				
Construction & development	21,078			21,078
Commercial			3,000	3,000
Installment				
Total	\$ 21,233		3,000	24,233

The following table presents the Company's recorded investment and number of loans considered TDRs at March 31, 2013 and 2012, that defaulted during the six month period. Dollar amounts are expressed in thousands.

	March 31, 2013		March 31, 2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential	21	\$ 4,699	10	\$ 3,040
Residential held for sale				
Commercial real estate	3	646	2	3,696
Construction & development	2	1,760	7	5,010
Commercial				
Installment				
Total	26	\$ 7,105	19	\$ 11,746

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents impaired loans, including troubled debt restructurings, as of March 31, 2013. Dollar amounts are expressed in thousands.

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	YTD Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Residential	\$ 22,611	25,448		23,027	596
Residential held for sale					
Commercial real estate	11,668	19,505		11,883	591
Construction & development	29,743	33,650		31,601	1,055
Commercial					
Installment		436		56	29
Loans with a specific valuation allowance:					
Residential	\$ 2,006	2,029	231	2,039	53
Residential held for sale					
Commercial real estate	2,071	2,155	351	2,089	67
Construction & development	3,029	3,163	4	3,029	61
Commercial	11,251	11,251	25	14,168	511
Installment					
Total:					
Residential	\$ 24,617	27,477	231	25,066	649
Residential held for sale					
Commercial real estate	13,739	21,660	351	13,972	658
Construction & development	32,772	36,813	4	34,630	1,116
Commercial	11,251	11,251	25	14,168	511
Installment		436		56	29

The following table presents impaired loans, including troubled debt restructurings, as of September 30, 2012. Dollar amounts are expressed in thousands.

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	YTD Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Residential	\$ 16,849	19,394		18,252	776
Residential held for sale					
Commercial real estate	21,574	30,652		24,961	1,796
Construction & development	40,633	45,873		46,820	2,658
Commercial					
Installment	68	570		69	17
Loans with a specific valuation allowance:					
Residential	\$ 4,836	4,910	974	4,836	260
Residential held for sale					
Commercial real estate	3,322	3,955	7	3,949	215
Construction & development	1,634	1,668	42	1,698	100
Commercial					
Installment					
Total:					
Residential	\$ 21,685	24,304	974	23,088	1,036
Residential held for sale					
Commercial real estate	24,896	34,607	7	28,910	2,011
Construction & development	42,267	47,541	42	48,518	2,758
Commercial					
Installment	68	570		69	17

(7) FORECLOSED ASSETS HELD FOR SALE

The following table presents real estate owned and other repossessed property. Dollar amounts are expressed in thousands.

	3/31/13	9/30/12
Real estate acquired through (or deed in lieu of) foreclosure	\$ 20,597	17,040
Less: allowance for losses		
Total	\$ 20,597	17,040

Foreclosed assets held for sale are initially recorded at fair value as of the date of foreclosure less any estimated selling costs (the new basis) and are subsequently carried at the lower of the new basis or fair value less selling costs on the current measurement date. When foreclosed assets are acquired, any excess of the loan balance over the new basis of the foreclosed asset is charged to the allowance for loan losses. Subsequent adjustments for estimated losses are charged to operations when the fair value declines to an amount less than the carrying value. Costs and expenses related to major additions and improvements are capitalized, while maintenance and repairs that do not improve or extend the lives of the respective assets are expensed. Applicable gains and losses on the sale of real estate owned are realized when the asset is disposed of, depending on the adequacy of the down payment and other requirements.

With the adoption of the Call Report during the quarter ended March 31, 2012, the Bank was required to begin following regulatory guidance related to the Call Report requirements. One such requirement resulted in a change in the treatment of specific loss reserves for foreclosed assets held for sale. Previous Thrift Financial Report guidance allowed banks to reduce an asset's carrying value through a specific allowance when the fair value declined to an amount less than its carrying value. Call Report guidance requires that the carrying value of foreclosed assets held for sale be written down to fair value through a charge to earnings. During the quarter ended March 31, 2012, the Bank charged-off the previously established specific allowances on such assets of \$9.4 million. This change had no impact on net foreclosed assets held for sale as presented in the consolidated balance sheet.

(8) SUBORDINATED DEBENTURES

On December 13, 2006, the Company, through its wholly-owned statutory trust, NASB Preferred Trust I (the Trust), issued \$25 million of pooled Trust Preferred Securities. The Trust used the proceeds from the offering to purchase a like amount of the Company's subordinated debentures. The debentures, which have a variable rate of 1.65% over the 3-month LIBOR and a 30-year term, are the sole assets of the Trust. In exchange for the capital contributions made to the Trust by the Company upon formation, the Company owns all the common securities of the Trust.

In accordance with Financial Accounting Standards Board ASC 810-10, the Trust qualifies as a special purpose entity that is not required to be consolidated in the financial statements of the Company. The \$25.0 million Trust Preferred Securities issued by the Trust will remain on the records of the Trust. The Trust Preferred Securities are included in Tier I capital for regulatory capital purposes.

The Trust Preferred Securities have a variable interest rate of 1.65% over the 3-month LIBOR, and are mandatorily redeemable upon the 30-year term of the debentures, or upon earlier redemption as provided in the Indenture. The debentures are callable, in whole or in part, after five years of the issuance date. The Company did not incur a placement or annual trustee fee related to the issuance. The securities are subordinate to all other debt of the Company and interest may be deferred up to five years.

On July 11, 2012, the Company notified security holders that it was exercising its right to defer the payment of interest on its Trust Preferred Securities for a period of up to five years.

(9) INCOME TAXES

The Company's federal and state income tax returns for fiscal years 2009 through 2011 remain subject to examination by the Internal Revenue Service and various state jurisdictions, based on the statute of limitations.

(10) SEGMENT INFORMATION

The Company has identified two principal operating segments for purposes of financial reporting: Banking and Mortgage Banking. These segments were determined based on the Company's internal financial accounting and reporting processes and are consistent with the information that is used to make operating decisions and to assess the Company's performance by the Company's key decision makers.

The Mortgage Banking segment originates mortgage loans for sale to investors and for the portfolio of the Banking segment. The Banking segment provides a full range of banking services through the Bank's branch network, exclusive of mortgage loan originations. A portion of the income presented in the Mortgage Banking segment is derived from sales of loans to the Banking segment based on a transfer pricing methodology that is designed to approximate economic reality. The Other and Eliminations segment includes financial information from the parent company plus inter-segment eliminations.

The following table presents financial information from the Company's operating segments for the periods indicated. Dollar amounts are expressed in thousands.

Three months ended March 31, 2013	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 11,015		(124)	10,891
Provision for loan losses	(5,600)			(5,600)
Other income	735	18,782	(552)	18,965
General and administrative expenses	6,469	11,144	(73)	17,540
Income tax expense	4,189	2,941	(232)	6,898
Net income	\$ 6,692	4,697	(371)	11,018

Three months ended March 31, 2012	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 12,234		(137)	12,097
Provision for loan losses	5,000			5,000
Other income	(1,560)	10,397	(548)	8,289
General and administrative expenses	6,542	8,411	(182)	14,771
Income tax expense (benefit)	(334)	765	(191)	240
Net income (loss)	\$ (534)	1,221	(312)	375

Six months ended March 31, 2013	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 22,325		(253)	22,072
Provision for loan losses	(9,600)			(9,600)
Other income	785	35,803	(1,126)	35,462
General and administrative expenses	13,219	22,832	(356)	35,695
Income tax expense	7,504	4,994	(394)	12,104
Net income	\$ 11,987	7,977	(629)	19,335

Six months ended March 31, 2012	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 26,482		(266)	26,216
Provision for loan losses	7,500			7,500
Other income	(2,332)	22,082	(912)	18,838
General and administrative expenses	12,574	16,675	(341)	28,908
Income tax expense	1,569	2,082	(319)	3,332
Net income	\$ 2,507	3,325	(518)	5,314

(11) DERIVATIVE INSTRUMENTS

The Company has commitments outstanding to extend credit that have not closed prior to the end of the period. As the Company enters into commitments to originate loans, it also enters into commitments to sell the loans in the secondary market. Such commitments to originate loans held for sale are considered derivative instruments in accordance with GAAP, which requires the Company to recognize all derivative instruments in the balance sheet and to measure those instruments at fair value. As a result of marking to market commitments to originate loans, the Company recorded an increase in other assets of \$659,000, a decrease in other liabilities of \$636,000, and an increase in other income of \$1.3 million for the quarter ended March 31, 2013. The Company recorded a decrease in other assets of \$1.6 million, a decrease in other liabilities of \$14,000, and a decrease in other income of \$1.6 million for the six month period ended March 31, 2013. As a result of marking to market commitments to originate loans, the Company recorded a decrease in other assets of \$1,000, an increase in other liabilities of \$560,000, and a decrease in other income of \$561,000 for the quarter ended March 31, 2012. The Company recorded a decrease in other assets of \$662,000, an increase in other liabilities of \$27,000, and a decrease in other income of \$689,000 for the six month period ended March 31, 2012.

Additionally, the Company has commitments to sell loans that have closed prior to the end of the period. Due to the mark to market adjustment on commitments to sell loans held for sale, the Company recorded a decrease in other assets of \$2.8 million, an increase in other liabilities of \$21,000, and a decrease in other income of \$2.8 million during the quarter ended March 31, 2013. The Company recorded a decrease in other assets of \$370,000, a decrease in other liabilities of \$96,000, and a decrease in other income of \$274,000 during the six month period ended March 31, 2013. Due to the mark to market adjustment on commitments to sell loans held for sale, the Company recorded an increase in other assets of \$1.4 million, a decrease in other liabilities of \$26,000, and an increase in other income of \$1.4 million during the quarter ended March 31, 2012. The Company recorded an increase in other assets of \$733,000, a decrease in other liabilities of \$187,000, and an increase in other income of \$920,000 during the six month period ended March 31, 2012.

The balance of derivative instruments related to commitments to originate and sell loans at March 31, 2013, is disclosed in Footnote 12, Fair Value Measurements.

(12) FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would likely be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. GAAP identifies three primary measurement techniques: the market approach, the income approach, and the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuations or techniques to convert future amounts, such as cash flows or earnings, to a single present amount. The cost approach is based on the amount that currently would be required to replace the service capability of an asset.

GAAP establishes a fair value hierarchy and prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The maximization of observable inputs and the minimization of the use of unobservable inputs are required. Classification within the fair value hierarchy is based upon the objectivity of the inputs that are significant to the valuation of an asset or liability as of the measurement date. The three levels within the fair value hierarchy are characterized as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3 Unobservable inputs for the asset or liability for which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the Company's own assumptions about what market participants would use to price the asset or liability. These inputs may include internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

The Company measures certain financial assets and liabilities at fair value in accordance with GAAP. These measurements involve various valuation techniques and assume that the transactions would occur between market participants in the most advantageous market for the Company.

The following is a summary of valuation techniques utilized by the Company for its significant financial assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy:

Available for sale securities

Securities available for sale consist of corporate debt, trust preferred, U. S. government sponsored agency, and municipal securities. Such securities are valued using market prices in an active market, if available. This measurement is classified as Level 1 within the hierarchy. Less frequently traded securities are valued using industry standard models which utilize various assumptions such as historical prices of the same or similar securities, and observation of market prices of securities of the same issuer, market prices of same-sector issuers, and fixed income indexes. Substantially all of these assumptions are observable in the marketplace or can be derived from observable data. These measurements are classified as Level 2 within the hierarchy.

At March 31, 2012, mortgage-backed securities available for sale, which consist of agency pass-through and participation certificates issued by GNMA, FNMA, and FHLMC, were valued by using broker-dealer quotes for similar assets in markets that are not active. Although the Company did not validate these quotes, they were reviewed by management for reasonableness in relation to current market conditions. Additionally, they were obtained from experienced brokers who had an established relationship with the Bank and deal regularly with these types of securities. The Company did not make any adjustment to the quotes received from broker-dealers. These measurements are classified as Level 2. At March 31, 2013, mortgage-backed securities available for sale were valued by using industry standard models which utilize various inputs and assumptions such as historical prices of benchmark securities, prepayment estimates, loan type, and year of origination. Substantially all of these assumptions are observable in the marketplace or can be derived from observable data. These measurements are classified as Level 2 within the hierarchy.

Loans held for sale

Loans held for sale are valued using quoted market prices for loans with similar characteristics. This measurement is classified as Level 2 within the hierarchy.

Commitments to Originate Loans and Forward Sales Commitments

Commitments to originate loans and forward sales commitments are valued using a valuation model which considers differences between current market interest rates and committed rates. The model also includes assumptions, which estimate fall-out percentages, for commitments to originate loans, and average lives. Fall-out percentages, which range from ten to forty percent, are estimated based upon the difference between current market rates and committed rates. Average lives are based upon estimates for similar types of loans. These measurements use significant unobservable inputs and are classified as Level 3 within the hierarchy.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall at March 31, 2013 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities, available for sale				
U.S. government sponsored agency securities	\$ 172,302	101,623	70,679	
Corporate debt securities	72,302		72,302	
Municipal securities	422		422	
Mortgage-backed securities, available for sale				
Pass through certificates guaranteed by GNMA fixed rate	76		76	
Pass through certificates guaranteed by FNMA adjustable rate	139		139	
FHLMC participation certificates:				
Fixed rate	159		159	
Adjustable rate	125		125	
Loans held for sale	100,156		100,156	
Commitments to originate loans	982			982
Forward sales commitments	1,824			1,824
Total assets	\$ 348,487	101,623	244,058	2,806
Liabilities:				
Commitments to originate loans	\$ 498			498
Forward sales commitments	37			37
Total liabilities	\$ 535			535

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall at September 30, 2012 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities, available for sale				
U.S. government sponsored agency securities	\$ 153,166	142,359	10,807	
Corporate debt securities	61,018		61,018	
Municipal securities	6		6	
Mortgage-backed securities, available for sale				
Pass through certificates guaranteed by GNMA fixed rate	81		81	
Pass through certificates guaranteed by FNMA adjustable rate	152		152	
FHLMC participation certificates:				
Fixed rate	190		190	
Adjustable rate	131		131	
Loans held for sale	163,834		163,834	
Commitments to originate loans	2,559			2,559
Forward sales commitments	2,194			2,194
Total assets	\$ 383,331	142,359	236,219	4,753
Liabilities:				
Commitments to originate loans	\$ 512			512
Forward sales commitments	133			133
Total liabilities	\$ 645			645

The following tables present a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs for the six month periods ended March 31, 2013 and 2012 (in thousands):

	Commitments to Originate Loans	Forward Sales Commitments
Balance at October 1, 2012	\$ 2,047	2,061
Total realized and unrealized losses:		
Included in net income	(1,563)	(274)
Balance at March 31, 2013	\$ 484	1,787
	Commitments to Originate Loans	Forward Sales Commitments
Balance at October 1, 2011	\$ 360	1,328
Total realized and unrealized gains (losses):		
Included in net income	(689)	920

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Balance at March 31, 2012	\$ (329)	2,248
---------------------------	----------	-------

Realized and unrealized gains and losses noted in the table above and included in net income for the six month period ended March 31, 2013, are reported in the consolidated statements of income as follows (in thousands):

	Other Income
Total losses	\$ (1,837)
Changes in unrealized losses relating to assets still held at the balance sheet date	\$

Realized and unrealized gains and losses noted in the table above and included in net income for the six month period ended March 31, 2012, are reported in the consolidated statements of income as follows (in thousands):

	Other Income
Total gains	\$ 231
Changes in unrealized losses relating to assets still held at the balance sheet date	\$

The following is a summary of valuation techniques utilized by the Company for its significant financial assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy:

Impaired loans

Loans for which it is probable that the Company will not collect principal and interest due according to contractual terms are measured for impairment. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and other internal assessments of value. Appraisals are obtained when an impaired loan is deemed to be collateral dependent and at least annually thereafter. Fair value is generally the appraised value less estimated selling costs and may be discounted further if management believes any other factors or events have affected the fair value. Impaired loans are classified within Level 3 of the fair value hierarchy.

The carrying value of impaired loans that were re-measured during the six month period ended March 31, 2013, was \$26.7 million. The carrying value of impaired loans that were re-measured during the six month period ended March 31, 2012, was \$78.7 million.

Foreclosed Assets Held For Sale

Foreclosed assets held for sale are initially recorded at fair value as of the date of foreclosure less any estimated selling costs (the new basis) and are subsequently carried at the lower of the new basis or fair value less selling costs on the current measurement date. Fair value is estimated through current appraisals, broker price opinions, or listing prices. Appraisals are obtained when the real estate is acquired and at least annually thereafter. Foreclosed assets held for sale are classified within Level 3 of the fair value hierarchy.

The carrying value of foreclosed assets held for sale was \$20.6 million at March 31, 2013. Charge-offs related to foreclosed assets held for sale that were re-measured during the six month period ended March 31, 2013, totaled \$713,000. Charge-offs and increases in specific reserves related to foreclosed assets held for sale that were re-measured during the six month period ended March 31, 2012, totaled \$2.8 million.

Investment in LLCs

Investments in LLCs are accounted for using the equity method of accounting. These investments are analyzed for impairment in accordance with ASC 323-10-35-32, which states that an other than temporary decline in value of an equity method investment should be recognized. The Company utilizes a multi-faceted approach to measure the potential impairment. The internal model utilizes the following valuation methods: 1) liquidation or appraised values determined by an independent third party appraisal; 2) an on-going business, or discounted cash flows method wherein the cash flows are derived from the sale of fully-developed lots, the development and sale of partially-developed lots, the operation of the homeowner's association, and the value of raw land obtained from an independent third party appraiser; and 3) an on-going business method, which utilizes the same inputs as method 2, but presumes that cash flows will first be generated from the sale of raw ground and then from the sale of fully-developed and partially-developed lots and the operation of the homeowner's association. The significant inputs include raw land values, absorption rates of lot sales, and a market discount rate. Management believes this multi-faceted approach is reasonable given the highly subjective nature of the assumptions and the differences in valuation techniques that are utilized within each approach (e.g., order of distribution of assets upon potential liquidation). Investment in LLCs is classified within Level 3 of the fair value hierarchy.

The carrying value of the Company's investment in LLCs was \$16.9 million at March 31, 2013, and \$17.2 million at September 30, 2012.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value:

Cash and cash equivalents

The carrying amount reported in the consolidated balance sheets is a reasonable estimate of fair value.

Securities and mortgage-backed securities held to maturity

Securities that trade in an active market are valued using market prices, if available. Securities that do not trade in an active market were valued by using industry standard models which utilize various inputs and assumptions such as historical prices of similar securities, estimated delinquencies, defaults, and loss severity.

Stock in Federal Home Loan Bank (FHLB)

The carrying value of stock in Federal Home Loan Bank approximates its fair value.

Loans receivable held for investment

Fair values are computed for each loan category using market spreads to treasury securities for similar existing loans in the portfolio and management's estimates of prepayments.

Customer and brokered deposit accounts

The estimated fair values of demand deposits and savings accounts are equal to the amount payable on demand at the reporting date. Fair values of certificates of deposit are computed at fixed spreads to treasury securities with similar maturities.

Advances from FHLB

The estimated fair values of advances from FHLB are determined by discounting the future cash flows of existing advances using rates currently available for new advances with similar terms and remaining maturities.

Subordinated debentures

Fair values are based on quotes from broker-dealers that reflect estimated offer prices.

Commitments to originate, purchase and sell loans

The estimated fair value of commitments to originate, purchase, or sell loans is based on the difference between current levels of interest rates and the committed rates.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2013 (in thousands):

	Carrying Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Cash and cash equivalents	\$ 50,720	50,720		
Stock in Federal Home Loan Bank	6,984		6,984	
Mortgage-backed securities held to maturity	11,808		11,834	
Loans receivable held for investment	681,699			704,361
Financial Liabilities:				
Customer deposit accounts	807,288			808,933
Brokered deposit accounts	10,000			10,000
Advances from FHLB	125,000			127,847
Subordinated debentures	25,774			10,309

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2012 (in thousands):

	Carrying Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Cash and cash equivalents	\$ 8,716	8,716		
Stock in Federal Home Loan Bank	7,073		7,073	
Mortgage-backed securities held to maturity	25,921		26,117	
Loans receivable held for investment	734,772			763,017
Financial Liabilities:				
Customer deposit accounts	870,946			872,160
Brokered deposit accounts	21,367			21,365
Advances from FHLB	127,000			130,393
Subordinated debentures	25,774			9,021

The following tables present the carrying values and fair values of the Company's unrecognized financial instruments. Dollar amounts are expressed in thousands.

	March 31, 2013		September 30, 2012	
	Contract or notional amount	Estimated unrealized gain (loss)	Contract or notional amount	Estimated unrealized gain
Unrecognized financial instruments:				
Lending commitments - fixed rate, net	\$ 5,431	25	\$ 2,446	11
Lending commitments - floating rate	2,242	(15)	926	9
Commitments to sell loans				

The fair value estimates presented are based on pertinent information available to management as of March 31, 2013, and September 30, 2012. Although management is not aware of any factors that would significantly affect the estimated fair values, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date. Therefore, current estimates of fair value may differ significantly from the amounts presented above.

(13) INVESTMENT IN LLCs

The Company is a partner in two limited liability companies, Central Platte Holdings LLC (Central Platte) and NBH, LLC (NBH), which were formed for the purpose of purchasing and developing vacant land in Platte County, Missouri. These investments are accounted for using the equity method of accounting.

The Company's investment in Central Platte consists of a 50% ownership interest in an entity that develops land for residential real estate sales. Sales of lots have not met previous expectations and, as a result, the Company evaluated its investment for impairment, in accordance with ASC 323-10-35-32, which provides guidance related to a loss in value of an equity method investment. The Company utilizes a multi-faceted approach to measure the potential impairment. The internal model utilizes the following valuation methods: 1) liquidation or appraised values determined by an independent third party appraisal; 2) an on-going business, or discounted cash flows method wherein the cash flows are derived from the sale of fully-developed lots, the development and sale of partially-developed lots, the operation of the homeowner's association, and the value of raw land obtained from an independent third party appraiser; and 3) another on-going business method, which utilizes the same inputs as method 2, but presumes that cash flows will first be generated from the sale of raw ground and then from the sale of fully-developed and partially-developed lots and the operation of the homeowner's association. The internal model also includes method 4, an on-going business method wherein the cash flows are derived from the sale of fully-developed lots, the development and sale of partially-developed lots, the operation of the homeowner's association, and the development and sale of lots from the property that is currently raw land. However, management does not feel the results from this method provide a reliable indication of value because the time to build-out the development exceeds 18 years. Because of this unreliability, the results from method 4 are given a zero weighting in the final impairment analysis. The significant inputs include raw land values, absorption rates of lot sales, and a market discount rate. Management believes this multi-faceted approach is reasonable given the highly subjective nature of the assumptions and the differences in valuation techniques that are utilized within each approach (e.g., order of distribution of assets upon potential liquidation). It is management's opinion that no one valuation method within the model is preferable to the other and that no one method is more likely to occur than the other. Therefore, the final estimate of value is determined by assigning an equal weight to the values derived from each of the first three methods described above.

As a result of this analysis, the Company determined that its investment in Central Platte was materially impaired and recorded an impairment charge of \$2.0 million (\$1.2 million, net of tax) during the year ended September 30, 2010. During the quarter ended March 31, 2012, list prices of fully-developed lots in Central Platte's residential development were reduced. The Company incorporated these lower prices into its internal valuation model, which resulted in an additional impairment charge of \$200,000 (\$123,000, net of tax) during the quarter ended March 31, 2012. No other events have occurred that would indicate any additional impairment of the Company's investment in Central Platte.

The following table displays the results derived from the Company's internal valuation model at March 31, 2013, and the carrying value of its investment in Central Platte at March 31, 2013. Dollar amounts are expressed in thousands.

Method 1	\$ 15,017
Method 2	15,787
Method 3	18,129
Average of methods 1, 2, and 3	\$ 16,311
Carrying value of investment in Central Platte Holdings, LLC	\$ 15,562

The Company's investment in NBH consists of a 50% ownership interest in an entity that holds raw land, which is currently zoned as agricultural. The general managers intend to rezone this property for commercial and/or residential development. The raw land was purchased in 2002. The Company accounts for its investment in NBH under the equity method. Due to the overall economic conditions surrounding real estate, the Company evaluated its investment for impairment in accordance with ASC 323-10-35-32, which provides guidance related to a loss in value of an equity method investment. Potential impairment was measured based on liquidation or appraised values determined by an independent third party appraisal. As a result of this analysis, the Company determined that its investment in NBH was materially impaired and recorded an impairment charge of \$1.1 million (\$693,000, net of tax) during the year ended September 30, 2010. The results of this analysis as of September 30, 2012, did not indicate any additional impairment of the Company's investment in NBH. No events have occurred during the six month period ended March 31, 2013, that would indicate any additional impairment of the Company's investment. The carrying value of the Company's investment in NBH was \$1.4 million at March 31, 2013.

(14) REGULATORY AGREEMENTS

On April 30, 2010, the Board of Directors of North American Savings Bank, F.S.B. (the Bank), a wholly-owned subsidiary of the Company, entered into a Supervisory Agreement with the Office of Thrift Supervision (OTS), the Bank's primary regulator at that time. The agreement required, among other things, that the Bank revise its policies regarding internal asset review, obtain an independent assessment of its allowance for loan and lease losses methodology and conduct an independent third-party review of a portion of its commercial and construction loan portfolios. The agreement also directed the Bank to provide a plan to reduce its classified assets and its reliance on brokered deposits, and restricted the payment of dividends or other capital distributions by the Bank during the period of the agreement. The agreement did not direct the Bank to raise capital, make management or board changes, revise any loan policies or restrict lending growth.

On April 30, 2010, the Company's Board of Directors entered into an agreement with the OTS, the Company's primary regulator at that time. The agreement restricted the payment of dividends or other capital distributions by the Company and restricted the Company's ability to incur, issue or renew any debt during the period of the agreement.

The Bank's Supervisory Agreement and the Company's agreement with the OTS were assigned to their new primary regulators, the Office of the Comptroller of the Currency (OCC) and Board of Governors of the Federal Reserve System (Federal Reserve Board or FRB), respectively, on July 21, 2011.

On May 22, 2012, the Board of Directors of the Bank agreed to a Consent Order with the OCC. This Consent Order replaces and terminates the previous Supervisory Agreement. The Consent Order requires that the Bank establish various plans and programs to improve its asset quality and to ensure the adequacy of allowances for loan and lease losses. It requires the Bank to obtain an independent third-party review of its non-homogenous loan portfolios and to enhance its credit administration systems. Among other items, it also requires a written capital maintenance plan to ensure that the Bank's Tier 1 leverage capital and total risk-based capital ratios remain equal to or greater than 10% and 13%, respectively. As of March 31, 2013, the Bank's actual Tier 1 leverage capital and total risk-based capital ratios were 16.5% and 20.7%, respectively. The Consent Order does not direct the Bank to raise capital, make management or board changes, or restrict lending.

On November 29, 2012 the Company's Board of Directors entered into a formal written agreement with the Federal Reserve Bank of Kansas City, which replaces and terminates the Company's previous agreement with the OTS. The agreement with FRB restricts the payment of dividends or other capital distributions by the Company, restricts the Company's ability to incur, increase, or guarantee any debt, and restricts the Company's ability to purchase or redeem any of its stock. In addition, the agreement restricts the Company and its wholly-owned statutory trust, NASB Preferred Trust I, from making distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities.

On February 1, 2013, the Board of Directors of the Bank signed an additional Consent Order with the OCC, effective as of that date. This Consent Order requires the Bank to take corrective action to enhance its program for compliance with the Bank Secrecy Act (BSA) and other anti-money laundering requirements. The Consent Order requires, among other things, that the Bank improve its processes to better identify and monitor accounts and transactions that pose a greater than normal risk for compliance with the BSA. The Consent Order also requires the Bank to maintain an effective risk assessment process, monitoring mechanisms, training programs and appropriate systems to review the activities of customer accounts.

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

FORWARD-LOOKING STATEMENTS

We may from time to time make written or oral forward-looking statements, including statements contained in our filings with the Securities and Exchange Commission (SEC). These forward-looking statements may be included in this quarterly report and in other communications by the Company, which are made in good faith by us pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements about our beliefs, plans, objectives, goals, expectations, anticipations, 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 our control. The words may, could, should, would, believe, anticipate, estimate, expect, intend, plan, and similar expressions identify forward-looking statements. The following factors, as well as those discussed under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2012, filed with the Securities and Exchange Commission, among others, could cause our financial performance to differ materially from the plans, objectives, goals, expectations, anticipations, estimates and intentions expressed in the forward-looking statements:

the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;

the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;

the effects of, and changes in, foreign and military policy of the United States Government; inflation, interest rate, market and monetary fluctuations;

the timely development and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;

the willingness of users to substitute competitors' products and services for our products and services;

our success in gaining regulatory approval of our products, services and branching locations, when required;

the impact of changes in financial services laws and regulations, including laws concerning taxes, banking, securities and insurance;

technological changes;

acquisitions and dispositions;

changes in consumer spending and saving habits;

our success at managing the risks involved in our business; and

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

changes in the fair value or economic value of, impairments of, and risks associated with the Bank's investments in real estate owned, mortgage backed securities and other assets.

This list of important factors is not all-inclusive. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or the Bank. For further discussion of these factors, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2012, filed with the Securities and Exchange Commission, and in our Quarterly Reports, if applicable.

GENERAL

NASB Financial, Inc. was formed in 1998 as a unitary thrift holding company of North American Savings Bank, F.S.B. 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.

FINANCIAL CONDITION

Assets

The Company's total assets as of March 31, 2013 were \$1,179.0 million, a decrease of \$61.8 million from September 30, 2012, the prior fiscal year end.

Loans receivable held for investment were \$702.4 million as of March 31, 2013, a decrease of \$64.2 million during the six month period. The weighted average rate on such loans as of March 31, 2013, was 5.61%, a decrease from 5.88% as of March 31, 2012.

Loans receivable held for sale as of March 31, 2013, were \$100.2 million, a decrease of \$63.7 million from September 30, 2012. This portfolio consists of residential mortgage loans originated by the Bank's mortgage banking division that will be sold with servicing released. The Company has elected to carry loans held for sale at fair value, as permitted under GAAP.

As the Bank originates mortgage loans each month, management evaluates the existing market conditions to determine which loans will be held in the Bank's portfolio and which loans will be sold in the secondary market. Loans sold in the secondary market can be sold with servicing released or converted into MBS and sold with the loan servicing retained by the Bank. At the time of each loan commitment, a decision is made to either hold the loan for investment, hold it for sale with servicing retained, or hold it for sale with servicing released. Management monitors market conditions to decide whether loans should be held in portfolio or sold and if sold, which method of sale is appropriate. During the six months ended March 31, 2013, the Bank originated and purchased \$1,044.1 million in mortgage loans held for sale, \$58.0 million in mortgage loans held for investment, and \$1.1 million in other loans. This total of \$1,103.2 million in loans compares to \$889.0 million in loans originated and purchased during the six months ended March 31, 2012.

The Bank classifies problem assets as substandard, doubtful or loss. Substandard assets have one or more defined weaknesses, and it is possible that the Bank will sustain some loss unless the deficiencies are corrected. Doubtful assets have the same defects as substandard assets plus other weaknesses that make collection or full liquidation improbable. Assets classified as loss are considered uncollectible and of little value.

The following table summarizes the Bank's classified assets, including foreclosed assets held for sale, as reported to their primary regulator, plus any classified assets of the holding company. Dollar amounts are expressed in thousands.

	3/31/13	9/30/12	3/31/12
Asset Classification:			
Substandard	\$ 113,368	156,117	167,826
Doubtful	400	777	
Loss*			
	113,768	156,894	167,826
Allowance for loan losses	(20,726)	(31,829)	(36,797)
	\$ 93,042	125,065	131,029

* Assets classified as loss represent the amount of measured impairment related to loans and foreclosed assets held for sale that have been deemed impaired. 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 ALLL at the time they are deemed to be a confirmed loss.

The following table summarizes non-performing assets, troubled debt restructurings, and real estate acquired through foreclosure, net of specific loss allowances. Dollar amounts are expressed in thousands.

	3/31/13	9/30/12	3/31/12
Total Assets	\$ 1,179,036	1,240,826	1,192,208
Non-accrual loans	50,178	74,767	73,127
Performing troubled debt restructurings	29,511	15,926	27,636
Net real estate and other assets acquired through foreclosure	20,597	17,040	21,155
Total	100,286	107,733	121,918
Percent of total assets	\$ 8.51%	8.68%	10.23%

Management records a provision for loan losses in amounts sufficient to cover current net charge-offs and an estimate of probable losses based on an analysis of risks that management believes to be inherent in the loan portfolio. The Allowance for Loan and Lease Losses recognizes the inherent risks associated with lending activities for individually identified problem assets as well as the entire homogenous and non-homogenous loan portfolios. Management believes that the specific loss allowances and ALLL are adequate. While management uses available information to determine these allowances, future provisions may be necessary because of changes in economic conditions or changes in the information available to management. Also, regulatory agencies review the Bank's allowance for losses as part of their examinations, and they may require the Bank to recognize additional loss provisions based on the information available at the time of their examinations.

With the exception of certain residential loans, which are not deemed impaired until they reach 180 days past due, loans in non-accrual status are considered impaired. (At March 31, 2013, residential loans of \$1.1 million in non-accrual status were not deemed impaired.) 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. Any measured impairment that is deemed a confirmed loss is charged off and netted from the respective loan balance. For collateral dependent loans, which make up the majority of the Bank's impaired loans, a confirmed loss is generally the amount by which the loan's recorded investment exceeds the fair value of its collateral. Therefore, risks associated with non-accrual loans have been addressed within Bank's quarterly analysis of the adequacy of its ALLL, as essentially all were individually analyzed for impairment.

If loans classified as substandard are also impaired, they are individually analyzed for impairment, as noted above. At March 31, 2013, \$75.8 million of loans classified as substandard have also been deemed impaired. In addition, the Bank utilizes a qualitative adjustment related to changes and trends in past due, non-accrual, and adversely classified loans. This adjustment is applied to the various pools of unimpaired loans when determining adequacy of the Bank's ALLL.

Investment securities were \$245.0 million as of March 31, 2013, an increase of \$30.8 million from September 30, 2012. During the six month period, the Bank purchased \$52.5 million of securities available for sale and received principal repayments related to such securities of \$20.0 million. There were no sales of investment securities during the six month period ended March 31, 2013.

Mortgage-backed securities were \$12.3 million as of March 31, 2013, a decrease of \$14.2 million from the prior year end. During the six month period, the Bank sold \$10.8 million of mortgage-backed securities held to maturity following significant deterioration in the issuer's creditworthiness. There were no sales from the Company's portfolio of mortgage-backed securities available for sale during the six month period ended March 31, 2013. The average yield on the mortgage-backed securities portfolio was 3.67% at March 31, 2013, a decrease from 4.78% at March 31, 2012.

The Company's investment in LLCs, which is accounted for using the equity method, was \$16.9 million at March 31, 2013, a decrease of \$294,000 from September 30, 2012. During the year ended September 30, 2012, the Company recorded a \$200,000 impairment charge related to its investment in LLCs. There have been no events subsequent to September 30, 2012, that would indicate an additional impairment in value of the Company's investment in LLCs at March 31, 2013.

Liabilities and Equity

Customer and brokered deposit accounts decreased \$75.0 million during the six months ended March 31, 2013. This decrease was due to a \$128.1 million decrease in certificates of deposits during the period, which was partially offset by increases in savings, money market, and checking accounts. The weighted average rate on customer and brokered deposits as of March 31, 2013, was 0.60%, a decrease from 1.15% as of March 31, 2012.

Advances from the FHLB were \$125.0 million as of March 31, 2013, a decrease of \$2.0 million from September 30, 2012. During the six month period, the Bank borrowed \$25.0 million of new advances and repaid \$27.0 million. Management regularly uses FHLB advances as an alternate funding source to provide operating liquidity and to fund the origination and purchase of mortgage loans.

Subordinated debentures were \$25.8 million as of March 31, 2013. Such debentures resulted from the issuance of Trust Preferred Securities through the Company's wholly-owned statutory trust, NASB Preferred Trust I. The Trust used the proceeds from the offering to purchase a like amount of the Company's subordinated debentures. The debentures, which have a variable rate of 1.65% over the 3-month LIBOR and a 30-year term, are the sole assets of the Trust.

Escrows were \$4.8 million as of March 31, 2013, a decrease of \$3.9 million from September 30, 2012. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2012.

Total stockholders' equity as of March 31, 2013, was \$190.3 million (16.1% of total assets). This compares to \$171.5 million (13.8% of total assets) at September 30, 2012. On a per share basis, stockholders' equity was \$24.19 on March 31, 2013, compared to \$21.80 on September 30, 2012.

The Company did not pay any cash dividends to its stockholders during the six month period ended March 31, 2013. In accordance with the agreement, which is described more fully in Footnote 14, Regulatory Agreements, the Company is restricted from the payment of dividends or other capital distributions during the period of the agreement without prior written consent from its primary regulator.

Total stockholders' equity as of March 31, 2013, includes an unrealized gain, net of deferred income taxes, on available for sale securities of \$1.8 million. This amount is reflected in the line item Accumulated other comprehensive income.

Ratios

The following table illustrates the Company's return on assets (annualized net income divided by average total assets); return on equity (annualized net income divided by average total equity); equity-to-assets ratio (ending total equity divided by ending total assets); and dividend payout ratio (dividends paid divided by net income).

	Six months ended	
	3/31/13	3/31/12
Return on assets	3.20%	0.87%
Return on equity	21.38%	6.93%
Equity-to-assets ratio	16.14%	13.13%
Dividend payout ratio	%	%

RESULTS OF OPERATIONS - Comparison of three and six months ended March 31, 2013 and 2012.

For the three months ended March 31, 2013, the Company had net income of \$11.0 million or \$1.40 per share. This compares to a net income of \$375,000 or \$0.05 per share for the three month period ended March 31, 2012.

For the six months ended March 31, 2013, the Company had net income of \$19.3 million or \$2.46 per share. This compares to a net income of \$5.3 million or \$0.68 per share for the six month period ended March 31, 2012.

Net Interest Margin

The Company's net interest margin is comprised of the difference (spread) between interest income on loans, MBS and investments and the interest cost of customer and brokered deposits and other borrowings. Management monitors net interest spreads and, although constrained by certain market, economic, and competition factors, it establishes loan rates and customer deposit rates that maximize net interest margin.

The following table presents the total dollar amounts of interest income and expense on the indicated amounts of average interest-earning assets or interest-costing liabilities for the six months ended March 31, 2013 and 2012. Average yields reflect reductions due to non-accrual loans. Once a loan becomes 90 days delinquent, or when full payment of interest and principal is not expected, any interest that has accrued up to that time is reversed and no further interest income is recognized unless the loan is paid current. Average balances and weighted average yields for the periods include all accrual and non-accrual loans. The table also presents the interest-earning assets and yields for each respective period. Dollar amounts are expressed in thousands.

	Six months ended 3/31/13			As of	Six months ended 3/31/12			As of
	Average Balance	Interest	Yield/Rate	3/31/13 Yield/Rate	Average Balance	Interest	Yield/Rate	3/31/12 Yield/Rate
Interest-earning assets								
Loans	\$ 843,897	24,074	5.71%	5.33%	\$ 995,651	30,163	6.06%	5.59%
Mortgage-backed securities	24,559	381	3.10%	3.67%	36,123	962	5.33%	4.78%
Securities	252,681	2,048	1.62%	1.57%	63,153	1,466	4.64%	2.19%
Bank deposits	19,568	3	0.03%	0.01%	19,137	6	0.06%	0.01%
Total earning assets	1,140,705	26,506	4.65%	4.23%	1,114,064	32,597	5.85%	5.26%
Non-earning assets	73,425				98,596			
Total	\$ 1,214,130				\$ 1,212,660			
Interest-costing liabilities								
Customer checking and savings deposit accounts	\$ 312,204	701	0.45%	0.41%	\$ 258,090	610	0.47%	0.43%
Customer and brokered certificates of deposit	543,037	2,408	0.89%	0.74%	587,151	4,304	1.47%	1.47%
FHLB Advances	139,006	1,063	1.53%	1.66%	172,865	1,201	1.39%	1.79%
Subordinated debentures	25,000	254	2.02%	1.95%	25,000	266	2.13%	2.20%
Other borrowings	301	8	5.32%	5.00%			%	%
Total costing liabilities	1,019,548	4,434	0.87%	0.77%	1,043,106	6,381	1.22%	1.25%
Non-costing liabilities	15,115				13,920			
Stockholders' equity	179,467				155,634			
Total	\$ 1,214,130				\$ 1,212,660			
Net earning balance	121,157				70,958			
Earning yield less costing rate			3.78%	3.46%			4.63%	4.01%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	\$ 1,140,705	22,072	3.87%		\$ 1,114,064	26,216	4.71%	

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The following table provides information regarding changes in interest income and interest expense. For each category of interest-earning asset and interest-costing liability, information is provided on changes attributable to (1) changes in rates (change in rate multiplied by the old volume), and (2) changes in volume (change in volume multiplied by the old rate), and (3) changes in rate and volume (change in rate multiplied by the change in volume). Average balances, yields and rates used in the preparation of this analysis come from the preceding table. Dollar amounts are expressed in thousands.

	Six months ended March 31, 2013, compared to six months ended March 31, 2012			
	Yield	Volume	Yield/ Volume	Total
Components of interest income:				
Loans	\$ (1,742)	(4,598)	251	(6,089)
Mortgage-backed securities	(403)	(308)	130	(581)
Securities	(954)	4,397	(2,861)	582
Bank deposits	(3)			(3)
Net change in interest income	(3,102)	(509)	(2,480)	(6,091)
Components of interest expense:				
Customer and brokered deposit accounts	(1,817)	58	(46)	(1,805)
FHLB Advances	121	(235)	(24)	(138)
Subordinated debentures	(13)		1	(12)
Other borrowings			8	8
Net change in interest expense	(1,709)	(177)	(61)	(1,947)
Increase in net interest margin	\$ (1,393)	(332)	(2,419)	(4,144)

Net interest margin before loan loss provision for the six months ended March 31, 2013, decreased \$4.1 million from the same period in the prior year. Specifically, interest income decreased \$6.0 million, which was offset by a \$1.9 million decrease in interest expense for the period. Interest on loans decreased \$6.1 million as the result of a \$151.8 million decrease in the average balance of loans receivable outstanding during the period and a 35 basis point decrease in the average rate earned on such loans during the period. Interest on mortgage-backed securities decreased \$581,000 due to an \$11.6 million decrease in the average balance of mortgage-backed securities during the period and a 223 basis point decrease in the average rate earned on such securities during the period. Interest earned on investment securities increased \$582,000 resulting from a \$189.5 million increase in the average balance of such securities during the period, the effect of which was offset by a 302 basis point decrease in the average rate earned on such securities. Interest expense on customer and brokered deposit accounts decreased \$1.8 million due to a 43 basis point decrease in the average rate paid on such liabilities. Interest expense on FHLB advances decreased \$138,000 as the result a \$33.9 million decrease in the average balance of advances outstanding during the period, the effect of which was partially offset by a 14 basis point increase in the average rate paid of such liabilities.

Provision for Loan Losses

The Company recorded a negative provision for loan losses of \$9.6 million during the six month period. Based upon management's analysis, the resulting allowance for loan losses of \$20.7 million is adequate at March 31, 2013.

The negative provision for loan loss for the current quarter was based upon the Bank's ALLL methodology, which contains both qualitative and quantitative factors. Specifically, activity during the quarter reflected in quantitative factors included the following:

The Bank's portfolio of loans held to maturity decreased \$64.2 million during the six month period, to \$702.4 million. This decrease consisted almost entirely of declines within the Bank's commercial real estate and construction and land development portfolios, which historically have experienced higher credit losses than the Bank's other portfolios.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

The level of criticized loans (those classified as special mention, substandard, or doubtful) decreased \$48.2 million during the six month period. Of this decline, \$36.4 million related to loans within the Bank's commercial real estate and construction and land development portfolios.

The Bank's loss experience during the period was much better than the previous 36 months. During the six month period ended March 31, 2013, the Bank recorded net charge-offs of \$1.5 million.

The level of nonperforming loans decreased \$24.6 million during the six month period. Similar to the decrease in gross loan balances, this decline consisted almost entirely of loans within the Bank's commercial real estate and construction and land development portfolios. In addition to the quantitative factors noted above, management observed the following qualitative factors when determining the appropriate level of the Bank's ALLL at March 31, 2013:

The housing market in the Kansas City metropolitan area, where all of the Bank's construction and land development lending is concentrated, has shown renewed strength during the period. In terms of new building permits, the market experienced its best fourth calendar quarter since 2008, and the supply of new housing inventory has dropped below the equilibrium level, resulting in an increase in new housing starts. New building permits issued during the first calendar quarter of 2013 remained strong and were also at their highest level since 2008.

During the current period, an independent third party review was completed, which included approximately 80% of the loans within the Bank's commercial real estate and construction and land development portfolios. This review resulted in no loan classification discrepancies, validating the effectiveness of the Bank's internal asset review process.

The Company recorded a provision for loan losses of \$5.0 million during the quarter ended March 31, 2012, due primarily to declines in the value of collateral securing impaired loans that are collateral dependent. This increase in the ALLL, resulting from the provision for loan loss, was offset by net charge offs of \$26.2 million during the three month period, as the Bank's elimination of the use of specific valuation allowances. Prior to the quarter ended March 31, 2012, measured impairments were recorded as specific valuation allowances and carried as contra-assets to reduce a loan's carrying value to fair value. When the Bank adopted the Call Report, during the quarter ended March 31, 2012, the cumulative specific valuation allowance that were considered confirmed losses were charged-off and netted against their respective loans balances. For collateral dependent loans that are deemed impaired, a confirmed loss is defined as the amount by which the loan's recorded investment exceeds the fair value of its collateral. If a loan is considered uncollectible, the entire balance is deemed a confirmed loss and is fully charged-off.

The Company recorded a provision for loan losses of \$2.5 million during the three month period ended December 31, 2011, due primarily to increases in specific reserves related to impaired commercial real estate loans. This increase in the ALLL, resulting from the provision for loan loss, was offset by net charge offs of \$14.8 million during the period, which primarily resulted from the foreclosure or sale of certain impaired collateral dependent commercial and land development loans which were being carried at the fair value of the collateral.

On a consolidated basis, the allowance for losses on loans and real estate owned was 18.2% of total classified assets at March 31, 2013, 20.3% at September 30, 2012, and 21.9% at March 31, 2012.

Management believes that the allowance for losses on loans and real estate owned is adequate. The provision can fluctuate based on changes in economic conditions, changes in the level of classified assets, changes in the amount of loan charge-offs and recoveries, or changes in other information available to management. Also, regulatory agencies review the Company's allowances for losses as a part of their examination process, and they may require changes in loss provision based on information available at the time of their examination.

Other Income

Other income for the three months ended March 31, 2013, increased \$10.7 million from the same period in the prior year. Specifically, gain on sale of loans held for sale increased \$10.7 million from the same period in the prior year due to increased mortgage banking volume and spreads. Provision for loss on real estate owned decreased \$1.8 million due to fewer declines in the fair value of properties within the Bank's portfolio of foreclosed assets held for sale during the period. Gain on sale of securities held to maturity increased \$257,000 as compared to the same period in the prior year, due to the sales of two mortgage-backed securities held to maturity after it was determined that there was a significant deterioration in the issuer's creditworthiness. Customer service fees and charges increased \$155,000 from the same period in the prior year due primarily to an increase in miscellaneous fees related to an increase in residential mortgage origination volume. In addition, the Company recorded a \$200,000 impairment charge related to its investment in Central Platte Holdings, LLC during the quarter ended March 31, 2012, resulting from a decrease in the sales price of fully-developed lots in Central Platte's residential development. These increases were partially offset by a \$2.5 million decrease in other income due primarily to the effect of recording the net fair value of certain loan-related commitments in accordance with GAAP.

Other income for the six months ended March 31, 2013, increased \$16.6 million from the same period in the prior year. Specifically, gain on sale of loans held for sale increased \$15.6 million from the same period in the prior year due to increased mortgage banking volume and spreads. Provision for loss on real estate owned decreased \$2.6 million due to fewer declines in the fair value of properties within the Bank's portfolio of foreclosed assets held for sale during the period. Gain on sale of securities held to maturity increased \$257,000 as compared to the same period in the prior year, due to the sales of two mortgage-backed securities held to maturity after it was determined that there was a significant deterioration in the issuer's creditworthiness. In addition, loss on sale of securities available for sale decreased \$343,000 as compared to the same period in the prior year, due to the fact that there were no sales of such securities during the current period. Customer service fees and charges increased \$219,000 from the same period in the prior year due primarily to an increase in miscellaneous fees related to an increase in residential mortgage origination volume. In addition, the Company recorded a \$200,000 impairment charge related to its investment in Central Platte Holdings, LLC during the six month period ended March 31, 2012, resulting from a decrease in the sales price of fully-developed lots in Central Platte's residential development. These increases were partially offset by a \$2.5 million decrease in other income due primarily to the effect of recording the net fair value of certain loan-related commitments in accordance with GAAP and a decrease in loan prepayment penalties.

General and Administrative Expenses

Total general and administrative expenses for the three months ended March 31, 2013, increased \$2.8 million from the same period in the prior year. Specifically, compensation and fringe benefits increased \$1.0 million due to the addition of personnel in the Company's residential lending, internal asset review, information technology, and loan servicing departments. Commission-based mortgage banking compensation increased \$1.5 million due to an increase in residential mortgage loan origination volume from the same period in the prior year. Federal deposit insurance premiums increased \$264,000, due primarily to an increase in premium rates from the same period in the prior year.

Total general and administrative expenses for the six months ended March 31, 2013, increased \$6.8 million from the same period in the prior year. Specifically, compensation and fringe benefits increased \$2.0 million due to the addition of personnel in the Company's residential lending, internal asset review, information technology, and loan servicing departments. Commission-based mortgage banking compensation increased \$3.6 million due to an increase in residential mortgage loan origination volume from the same period in the prior year. Advertising and business promotion expense increased \$178,000 due primarily to the increase in advertising costs related to the mortgage banking operation. Federal deposit insurance premiums increased \$463,000, due primarily to an increase in premium rates from the same period in the prior year. In addition, other expenses increased \$422,000 primarily due to costs related to the increase in residential origination volume and costs incurred to move the Bank's disaster recovery site during the current six month period.

REGULATION

Regulation of the Company

NASB Financial, Inc. is a unitary savings and loan holding company of North American Savings Bank, F.S.B. On July 21, 2011, supervisory responsibility for the Company was transferred from the Office of Thrift Supervision (the "OTS") to the Board of Governors of the Federal Reserve System (Federal Reserve Board or "FRB"), as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). Accordingly, the Company is required to register and file reports with the Federal Reserve Board and is subject to regulation and examination by the Federal Reserve Board. In addition, the Federal Reserve Board has enforcement authority over the Company, which also permits the Federal Reserve Board to restrict or prohibit activities that are determined to present a serious risk to the Bank.

Regulation of the Bank

The Bank is a federally chartered stock savings bank, formed under the authority provided in the Home Owners' Loan Act (as amended, "HOLA"). On July 21, 2011, supervisory responsibility for the Bank was transferred from the OTS to the Office of the Comptroller of the Currency ("OCC"), as required by the Dodd-Frank Act. Although the Bank remains subject to regulations previously promulgated by the OTS, in general, those regulations are now enforced by the OCC.

Recent Legislation

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things:

Centralize responsibility for consumer financial protection by creating the Consumer Financial Protection Bureau (CFPB), with broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws that would apply to all banks and thrifts. Smaller financial institutions, including the Bank, will be subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws.

Require new capital rules that apply the same leverage and risk-based capital requirements applicable to insured depository institutions to savings and loan holding companies.

Require the federal banking regulators to seek to make their capital requirements countercyclical, so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.

Provide for new disclosure and other requirements relating to executive compensation and corporate governance.

Make permanent the \$250,000 limit for federal deposit insurance and provide unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions.

Effective July 21, 2011, repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

Require all depository institution holding companies to serve as a source of financial strength to their depository institution subsidiaries in the event such subsidiaries suffer from financial distress.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company and the financial services industry more generally. The elimination of the prohibition on the payment of interest on demand deposits could materially increase our interest expense, depending on how the marketplace responds. Provisions in the legislation that require revisions to the capital requirements of the Company and the Bank could require the Company and the Bank to seek additional sources of capital in the future.

On January 10, 2013, the CPPB issued a final rule that implements certain provision of the Dodd-Frank Act which prohibit creditors from making residential mortgage loans without regard to the borrower's repayment ability. The rule sets forth specific verification requirements, product features, and underwriting criteria that a lender must follow for residential mortgage loans to be treated as qualified mortgages and, therefore, subject to certain protections from liability. The final rule is effective for residential mortgage loan applications received on or after January 10, 2014.

Capital Requirements

Regulations require that thrifts meet three minimum capital ratios.

Leverage Limit. The leverage limit requires that thrift maintain core capital of at least 4% of its adjusted tangible assets. Core capital includes (i) common stockholders' equity, including retained earnings; non-cumulative preferred stock and related earnings; and minority interest in the equity accounts of consolidated subsidiaries, minus (ii) those intangibles (including goodwill) and investments in and loans to subsidiaries not permitted in computing capital for national banks, plus (iii) certain purchased mortgage servicing rights and certain qualifying supervisory goodwill.

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

Tangible Capital Requirement. The tangible capital requirement mandates that a thrift maintain tangible capital of at least 1.5% of tangible assets. For the purposes of this requirement, adjusted total assets are generally calculated on the same basis as for the leverage ratio requirement. Tangible capital is defined in the same manner as core capital, except that all goodwill and certain other intangible assets must be deducted.

Risk-Based Capital Requirement. OCC standards require that institutions maintain risk-based capital equal to at least 8% of risk-weighted assets. Total risk-based capital includes core capital plus supplementary capital. In determining risk-weighted assets, all assets including certain off-balance-sheet items are multiplied by a risk weight factor from 0% to 100%, based on risk categories assigned by the OCC. Banking regulations categorize banks with risk-based capital ratios over 10% as well capitalized, 8% to 10% as adequately capitalized, and under 8% as undercapitalized.

At March 31, 2013, the Bank exceeds all capital requirements prescribed by the OCC. To calculate these requirements, a thrift must deduct any investments in and loans to subsidiaries that are engaged in activities not permissible for a national bank. As of March 31, 2013, the Bank did not have any investments in or loans to subsidiaries engaged in activities not permissible for national banks.

On May 22, 2012, the Board of Directors of the Bank agreed to a Consent Order with the OCC, which is described more fully in Footnote 14, Regulatory Agreements. Among other items, the Consent Order requires that the Bank maintain a Tier 1 leverage capital ratio equal to or greater than 10% and a risk-based capital ratio equal to or greater than 13%. As of March 31, 2013, the Bank's actual Tier 1 leverage capital and total risk-based capital ratios were 16.5% and 20.7%, respectively. The existence of individual minimum capital requirements means that the Bank may not be deemed well capitalized.

The following tables summarize the relationship between the Bank's capital and regulatory requirements. Dollar amounts are expressed in thousands.

At March 31, 2013	Amount
GAAP capital (Bank only)	\$ 194,586
Adjustment for regulatory capital:	
Intangible assets	(2,321)
Reverse the effect of SFAS No. 115	(1,793)
Tangible capital	190,472
Qualifying intangible assets	
Tier 1 capital (core capital)	190,472
Qualifying general valuation allowance	12,360
Risk-based capital	\$ 202,832

	As of March 31, 2013					
	Actual		Minimum Required for Capital Adequacy		Minimum Required to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets	\$ 202,832	20.7%	78,437	38%	98,046	310%
Tier 1 capital to adjusted tangible assets	190,472	16.5%	46,147	34%	57,684	35%
Tangible capital to tangible assets	190,472	16.5%	17,305	31.5%		
Tier 1 capital to risk-weighted assets	190,472	19.4%			58,827	36%

LIQUIDITY AND CAPITAL RESOURCES

The Bank maintains sufficient liquidity to ensure safe and sound operation. North American maintains a level of liquid assets adequate to meet the requirements of normal banking activities, including the repayment of maturing debt and potential deposit withdrawals. The Bank's primary sources of liquidity are cash and cash equivalents, the sale and repayment of loans, the retention of existing or newly acquired retail deposits, and FHLB advances. Additional sources of liquidity include the sale of investment securities available for sale, reverse repurchase agreements, FRB advances, and the acquisition of deposits through a nationwide internet listing service.

Management continues to use FHLB advances as a primary source of short-term funding. FHLB advances are secured by a blanket pledge agreement covering portions of the loan and securities portfolio as collateral, supported by quarterly reporting of eligible collateral to FHLB. FHLB borrowings are limited based upon a percentage of the Bank's assets and eligible collateral, as adjusted by collateral eligibility and maintenance levels. Management continually monitors the balance of eligible collateral relative to the amount of advances outstanding to determine the availability of additional FHLB advances. At March 31, 2013, the Bank had a total borrowing capacity at FHLB of \$246.4 million, and outstanding advances of \$125.0 million. As an additional source of liquidity, the Bank has \$111.4 million of highly liquid short term U.S. Government sponsored agency securities in its portfolio at March 31, 2013.

In accordance with the Consent Order with the OCC, which is described more fully in Footnote 14, Regulatory Agreements, the Bank is required to meet and maintain specific capital levels. This requirement prohibits the Bank from accepting, renewing, or rolling over any brokered deposits. As of March 31, 2013, the Bank's brokered deposits totaled \$10.0 million. The Bank believes it will have adequate alternate funding sources available to replace such deposits upon their maturity.

Fluctuations in the level of interest rates typically impact prepayments on mortgage loans and mortgage related securities. During periods of falling rates, these prepayments increase and a greater demand exists for new loans. The Bank's ability to attract and retain customer deposits is partially impacted by area competition and by other alternative investment sources that may be available to the Bank's customers in various interest rate environments. Management believes that the Bank will retain most of its maturing time deposits in the foreseeable future. However, any material funding needs that may arise in the future can be reasonably satisfied through the use of the Bank's primary and additional liquidity sources, described above. Management is not currently aware of any other trends, market conditions, or other economic factors that could materially impact the Bank's primary sources of funding or affect its future ability to meet obligations as they come due. Although future changes to the level of market interest rates are uncertain, management believes its sources of funding will continue to remain stable during upward and downward interest rate environments

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a complete discussion of the Company's asset and liability management policies, as well as the potential impact of interest rate changes upon the market value of the Company's portfolio, see the Asset/Liability Management section of the Company's Annual Report for the year ended September 30, 2012.

Management recognizes that there are certain market risk factors present in the structure of the Bank's financial assets and liabilities. Since the Bank does not have material amounts of derivative securities, equity securities, or foreign currency positions, interest rate risk (IRR) is the primary market risk that is inherent in the Bank's portfolio. On a quarterly basis, the Bank monitors the estimate of changes that would potentially occur to its net portfolio value (NPV) of assets, liabilities, and off-balance sheet items assuming a sudden change in market interest rates. Management presents a NPV analysis to the Board of Directors each quarter and NPV policy limits are reviewed and approved. There have been no material changes in the market risk information provided in the Annual Report for the year ended September 30, 2012.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at the end of the period covered by this quarterly report. There were no changes in the Company's internal control over financial reporting during the period covered by this quarterly report on Form 10-Q that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There were no material proceedings pending other than ordinary and routine litigation incidental to the business of the Company.

Item 1A. Risk Factors

There were no material changes during the period from the risk factors previously discussed in Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit 31.1	Certification of Chief Executive Officer pursuant to Rules 13a-15(e) and 15d-15(e)
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Rules 13a-15(e) and 15d-15(e)
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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.

NASB Financial, Inc.
(Registrant)

May 10, 2013

By: /s/ Paul L. Thomas
Paul L. Thomas
Chief Executive Officer

May 10, 2013

By: /s/ Rhonda Nyhus
Rhonda Nyhus
Vice President and Treasurer