

Edgar Filing: NASB FINANCIAL INC - Form 10-Q

NASB FINANCIAL INC
Form 10-Q
August 07, 2009

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 June 30, 2009

or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 0-24033

NASB Financial, Inc.

(Exact name of registrant as specified in its charter)

Missouri
(State or other jurisdiction of
incorporation or organization)

43-1805201
(IRS Employer
Identification No.)

12498 South 71 Highway, Grandview, Missouri 64030
(Address of principal executive offices) (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 X 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

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	\$ 1,615,130	1,516,761
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Customer deposit accounts	\$ 693,426	691,615
Brokered deposit accounts	246,749	77,764
Advances from Federal Home Loan Bank	467,042	550,091
Subordinated debentures	25,774	25,774
Escrows	8,074	9,776
Income taxes payable	2,562	4,002
Liability for unrecognized tax benefit	850	850
Accrued expenses and other liabilities	8,716	4,477
	-----	-----
Total liabilities	1,453,193	1,364,349
	-----	-----
Stockholders' equity:		
Common stock of \$0.15 par value:		
20,000,000 authorized; 9,857,112		
issued at June 30, 2009, and		
September 30, 2008	1,479	1,479
Additional paid-in capital	16,557	16,484
Retained earnings	180,573	172,612
Treasury stock, at cost; 1,989,498		
shares at June 30, 2009, and		
at September 30, 2008	(38,418)	(38,418)
Accumulated other comprehensive		
income	1,746	255
	-----	-----
Total stockholders' equity	161,937	152,412
	-----	-----
	\$ 1,615,130	1,516,761
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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NASB FINANCIAL, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Income (Unaudited)
(In thousands, except share data)

	Three months ended June 30,		Nine months ended June 30,	
	2009	2008	2009	2008
	-----	-----	-----	-----
Interest on loans receivable	\$ 20,993	22,261	64,110	69,818

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Interest on mortgage-backed securities	451	648	1,494	1,962
Interest and dividends on securities	1,081	232	1,542	824
Other interest income	2	47	94	143
	-----	-----	-----	-----
Total interest income	22,527	23,188	67,240	72,747
	-----	-----	-----	-----
Interest on customer and brokered deposit accounts	6,246	7,169	19,543	23,980
Interest on advances from FHLB	3,920	5,866	13,212	18,697
Interest on subordinated debentures	173	295	709	1,071
	-----	-----	-----	-----
Total interest expense	10,339	13,330	33,464	43,748
	-----	-----	-----	-----
Net interest income	12,188	9,858	33,776	28,999
Provision for loan losses	4,000	1,600	5,250	3,000
	-----	-----	-----	-----
Net interest income after provision for loan losses	8,188	8,258	28,526	25,999
	-----	-----	-----	-----
Other income (expense):				
Loan servicing fees, net	112	172	(120)	51
Impairment (loss) recovery on mortgage servicing rights	(11)	(36)	30	23
Customer service fees and charges	2,127	1,448	5,264	4,166
Provision for loss on real estate owned	--	(400)	(250)	(1,250)
Gain on sale of securities available for sale	548	--	548	122
Gain from sale of loans receivable held for sale	9,170	4,251	19,415	9,956
Other	796	1,337	2,284	1,382
	-----	-----	-----	-----
Total other income	12,742	6,772	27,171	14,450
	-----	-----	-----	-----
General and administrative expenses:				
Compensation and fringe benefits	5,094	4,136	13,221	11,748
Commission-based mortgage banking compensation	4,695	2,214	10,318	5,741
Premises and equipment	928	1,004	2,991	3,113
Advertising and business promotion	1,079	1,144	3,473	3,106
Federal deposit insurance premiums	843	23	914	70
Other	1,393	1,387	4,258	3,913
	-----	-----	-----	-----
Total general and administrative expenses	14,032	9,908	35,175	27,691
	-----	-----	-----	-----
Income before income tax expense	6,898	5,122	20,522	12,758
Income tax expense	2,656	1,512	7,901	4,473
	-----	-----	-----	-----
Net income	\$ 4,242	3,610	12,621	8,285
	=====	=====	=====	=====
Basic earnings per share	\$ 0.54	0.46	1.60	1.05
	=====	=====	=====	=====
Diluted earnings per share	\$ 0.54	0.45	1.60	1.04
	=====	=====	=====	=====
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.

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NASB FINANCIAL, INC. AND SUBSIDIARY
 Condensed Consolidated Statement of Stockholders' Equity (Unaudited)
 (In thousands)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income	Tota stockho equit
(Dollars in thousands)						
Balance at October 1, 2008	\$ 1,479	16,484	172,612	(38,418)	255	152,
Comprehensive income:						
Net income	--	--	12,621	--	--	12,
Other comprehensive income, net of tax:						
Unrealized gain on securities available for sale	--	--	--	--	1,491	1,
Total comprehensive income						14,
Cash dividends paid	--	--	(5,310)	--	--	(5,
Stock based compensation expense	--	73	--	--	--	
Adoption of FAS 159	--	--	650	--	--	
Balance at June 30, 2009	\$ 1,479	16,557	180,573	(38,418)	1,746	161,

See accompanying notes to condensed consolidated financial statements.

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NASB FINANCIAL, INC. AND SUBSIDIARY
 Condensed Consolidated Statements of Cash Flows (Unaudited)
 (In thousands)

Nine months ended
 June 30,

 2009 2008

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Cash flows from operating activities:		
Net income	\$ 12,621	8,285
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	1,322	1,363
Amortization and accretion, net	(3,520)	(981)
Gain on sale of securities available for sale	(548)	(122)
Loss from investment in LLCs	54	119
Impairment recovery on mortgage servicing rights	(30)	(23)
Gain from loans receivable held for sale	(19,415)	(9,956)
Provision for loan losses	5,250	3,000
Provision for loss on real estate owned	250	1,250
Origination of loans receivable held for sale	(1,189,455)	(681,837)
Sale of loans receivable held for sale	1,154,301	667,297
Stock based compensation - stock options	73	66
Changes in:		
Net fair value of loan-related commitments	(2,123)	(716)
Accrued interest receivable	(100)	1,514
Accrued expenses and other liabilities and income taxes payable	3,051	(1,208)
	-----	-----
Net cash used in operating activities	(38,269)	(11,949)
Cash flows from investing activities:		
Principal repayments of mortgage-backed securities:		
Held to maturity	13	48
Available for sale	11,238	15,747
Principal repayments of mortgage loans receivable held for investment	208,348	245,873
Principal repayments of other loans receivable	4,279	8,806
Maturity of investment securities available for sale	5	4
Loan origination - mortgage loans receivable held for investment	(199,295)	(298,575)
Loan origination - other loans receivable	(3,428)	(6,529)
Purchase of mortgage loans receivable held for investment	(1,049)	(330)
Purchase of Federal Home Loan Bank stock	(356)	(3,888)
Purchase of investment securities available for sale	(104,412)	--
Proceeds from sale of securities available for sale	28,262	122
Proceeds from sale of real estate owned	6,086	4,202
Purchases of premises and equipment, net	(374)	(388)
Investment in LLCs	(476)	(1,055)
Other	198	426
	-----	-----
Net cash used in investing activities	(50,961)	(35,537)

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	Nine months ended June 30,	
	2009	2008
Cash flows from financing activities:		
Net increase (decrease) in customer and brokered deposit accounts	170,369	(24,305)
Proceeds from advances from Federal Home Loan Bank	319,000	324,000
Repayment on advances from Federal Home Loan Bank	(402,000)	(236,650)
Cash dividends paid	(5,310)	(5,311)
Change in escrows	(1,702)	(2,080)
Net cash provided by financing activities	80,357	55,654
Net (decrease) increase in cash and cash equivalents	(8,873)	8,168
Cash and cash equivalents at beginning of the period	21,735	26,050
Cash and cash equivalents at end of period	\$ 12,862	34,218
Supplemental disclosure of cash flow information:		
Cash paid for income taxes (net of refunds)	\$ 9,336	5,078
Cash paid for interest	32,072	45,287
Supplemental schedule of non-cash investing and financing activities:		
Conversion of loans receivable to real estate owned	\$ 15,716	8,413
Conversion of real estate owned to loans receivable	391	2,499

See accompanying notes to condensed consolidated financial statements.

(1) BASIS OF PRESENTATION

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 to the Securities and Exchange

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Commission. Operating results for the quarter and nine months ended June 30, 2009, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2009. The condensed consolidated balance sheet of the Company as of September 30, 2008, 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, real estate owned, valuation of mortgage servicing rights, and unrecognized tax benefits. Management believes that these allowances are adequate, however, future additions to the allowances may be necessary based on changes in economic conditions.

The Company's critical accounting policies involving the more significant judgements and assumptions used in the preparation of the condensed consolidated financial statements as of June 30, 2009, have remained unchanged from September 30, 2008. These policies relate to the allowance for loan losses and the valuation of mortgage servicing rights. 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, 2008.

Subsequent events have been evaluated through August 7, 2009, which is the date the financial statements were issued.

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		Nine months ended	
	6/30/09	6/30/08	6/30/09	6/30/08
Net income (in thousands)	\$ 4,242	3,610	12,621	8,285
Average common shares outstanding	7,867,614	7,867,614	7,867,614	7,867,614
Average common share stock options outstanding	--	112,568	--	109,257
Average diluted common shares	7,867,614	7,980,182	7,867,614	7,976,871
Earnings per share:				
Basic	\$ 0.54	0.46	1.60	1.05

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Diluted 0.54 0.45 1.60 1.04

The dilutive securities included for each period presented above consist entirely of stock options granted to employees as incentive stock options under Section 442A of the Internal Revenue Code as amended.

At June 30, 2009, options to purchase 72,038 shares of the Company's stock were outstanding. These options were not included in the calculation of diluted earnings per share, as they were considered anti-dilutive.

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(3) SECURITIES AVAILABLE FOR SALE

The following table presents a summary of securities available for sale. Dollar amounts are expressed in thousands.

	June 30, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Debt securities	\$ 77,113	2,866	(5)	79,974
Municipal securities	30	--	--	30
Total	\$ 77,143	2,866	(5)	80,004

During the quarter and nine month period ended June 30, 2009, the Company realized gross gains of \$548,000 and no gross losses on the sale of securities available for sale.

The following tables present a summary of the fair value and gross unrealized losses of those securities available for sale which had unrealized losses at June 30, 2009. Dollar amounts are expressed in thousands.

	Less Than 12 Months		12 Months or Longer	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
Debt securities	\$ 1,524	5	\$ --	--

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The scheduled maturities of securities available for sale at June 30, 2009, 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	\$ 5	--	--	5
Due from one to five years	45,262	1,136	--	46,398
Due from five to ten years	31,876	1,730	(5)	33,601
Total	\$ 77,143	2,866	(5)	80,004

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(4) MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

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

	June 30, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Pass-through certificates guaranteed by GNMA				
- fixed rate	\$ 119	--	--	119
Pass-through certificates guaranteed by FNMA				
- adjustable rate	6,305	--	(16)	6,289
FHLMC participation certificates:				
- fixed rate	583	16	--	599
- adjustable rate	41,145	19	(40)	41,124
Total	\$ 48,152	35	(56)	48,131

There were no sales of mortgage-backed securities available for sale during quarter or nine month period ended June 30, 2009.

The following tables present a summary of the fair value and gross unrealized losses of those mortgage-backed securities available for sale which had unrealized losses at June 30, 2009. Dollar amounts are expressed in thousands.

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	Less Than 12 Months		12 Months or Longer	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
Pass-through certificates guaranteed by FNMA - adjustable rate	\$ 6,289	16	\$ --	--
FHLMC participation certificates - adjustable rate	17,894	40	--	--
Total	\$ 24,183	56	\$ --	--

The scheduled maturities of mortgage-backed securities available for sale at June 30, 2009, 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 five to ten years	\$ 583	16	--	599
Due after ten years	47,569	19	(56)	47,532
Total	\$ 48,152	35	(56)	48,131

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

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(5) MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

June 30, 2009				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
FHLMC participation certificates:				
Balloon maturity and adjustable rate	\$ 68	2	--	70
FNMA pass-through certificates:				
Fixed rate	11	--	--	11

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Balloon maturity and adjustable rate	44	--	--	44
Total	\$ 123	2	--	125

The scheduled maturities of mortgage-backed securities held to maturity at June 30, 2009, 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 five to ten years	\$ 84	2	--	86
Due after ten years	39	--	--	39
Total	\$ 123	2	--	125

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

(6) LOANS RECEIVABLE

Loans receivable are as follows:

	June 30, 2009
	(Dollars in thousands)
LOANS HELD FOR INVESTMENT:	
Mortgage loans:	
Permanent loans on:	
Residential properties	\$ 364,536
Business properties	470,502
Partially guaranteed by VA or insured by FHA	3,521
Construction and development	348,312
Total mortgage loans	1,186,871
Commercial loans	125,399
Installment loans to individuals	14,069
Total loans held for investment	1,326,339
Less:	
Undisbursed loan funds	(44,007)
Unearned discounts and fees and costs on loans, net	(8,382)
Net loans held for investment	\$1,273,950

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	June 30, 2009

	(Dollars in thousands)
LOANS HELD FOR SALE:	
Mortgage loans:	
Permanent loans on:	
Residential properties	\$ 178,007
Less:	
Undisbursed loan funds	(58,077)

Net loans held for sale	\$ 119,930
	=====

Included in the loans receivable balances at June 30, 2009, are participating interests in mortgage loans and wholly owned mortgage loans serviced by other institutions in the amount of \$43,000. Loans and participations serviced for others amounted to approximately \$99.8 million at June 30, 2009.

The following table presents the activity in the allowance for losses on loans for the period ended June 30, 2009. Allowance for losses on mortgage loans includes specific valuation allowances and valuation allowances associated with homogenous pools of loans. Dollar amounts are expressed in thousands.

Balance at October 1, 2008	\$ 13,807
Provisions	5,250
Charge-offs	(2,836)
Recoveries	8

Balance at June 30, 2009	\$ 16,229
	=====

(7) FORECLOSED ASSETS HELD FOR SALE

Real estate owned and other repossessed property consisted of the following:

	June 30, 2009

	(Dollars in thousands)
Real estate acquired through (or deed in lieu of) foreclosure	\$ 12,184
Less: allowance for losses	(147)

Total	\$ 12,037
	=====

Foreclosed assets held for sale are initially recorded at fair value as of the date of foreclosure minus 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.

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(8) MORTGAGE SERVICING RIGHTS

The following provides information about the Bank's mortgage servicing rights for the period ended June 30, 2009. Dollar amounts are expressed in thousands.

Balance at October 1, 2008	\$	716
Additions:		
Impairment recovery		30
Reductions:		
Amortization		(301)

Balance at June 30, 2009	\$	445
		=====

(9) SUBORDINATED DEBENTURES

On December 13, 2006, NASB Financial, Inc. (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 NASB Financial Inc.'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 NASB Financial, Inc. upon formation, NASB Financial, Inc. owns all the common securities of the Trust.

In accordance with Financial Accounting Standards Board Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R), 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 debentures 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 from 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.

(10) INCOME TAXES

As of June 30, 2009, the Company's liability for unrecognized tax benefits of \$850,000 included \$149,000 of related interest and penalties. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits within income tax expense in the consolidated statements of income.

The Company's liability for unrecognized tax benefit is expected to decrease in the next twelve months as a result of the settlements with various taxing authorities.

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The Company's federal and state income tax returns for fiscal years 2006 through 2008 remain subject to examination by the Internal Revenue Service and various state jurisdictions, based on the statute of limitations.

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(11) 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 June 30, 2009	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 12,349	--	(161)	12,188
Provision for loan losses	4,000	--	--	4,000
Other income	1,517	11,735	(510)	12,742
General and administrative expenses	5,772	8,522	(262)	14,032
Income tax expense (benefit)	1,576	1,237	(157)	2,656
Net income	\$ 2,518	1,976	(252)	4,242

Three months ended June 30, 2008	Banking	Mortgage Banking	Other and Eliminations	Consolidated
-------------------------------------	---------	---------------------	---------------------------	--------------

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Net interest income	\$ 10,128	--	(270)	9,858
Provision for loan losses	1,600	--	--	1,600
Other income	1,247	6,273	(748)	6,772
General and administrative expenses	4,542	5,522	(156)	9,908
Income tax expense (benefit)	2,015	289	(792)	1,512
Net income	\$ 3,218	462	(70)	3,610

Nine months ended June 30, 2009	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 34,447	--	(671)	33,776
Provision for loan losses	5,250	--	--	5,250
Other income	3,191	25,582	(1,602)	27,171
General and administrative expenses	15,424	20,415	(664)	35,175
Income tax expense (benefit)	6,531	1,989	(619)	7,901
Net income	\$ 10,433	3,178	(990)	12,621

Nine months ended June 30, 2008	Banking	Mortgage Banking	Other and Eliminations	Consolidated
Net interest income	\$ 30,009	--	(1,010)	28,999
Provision for loan losses	3,000	--	--	3,000
Other income	1,560	15,804	(2,914)	14,450
General and administrative expenses	13,117	15,163	(589)	27,691
Income tax expense (benefit)	5,949	247	(1,723)	4,473
Net income	\$ 9,503	394	(1,612)	8,285

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On October 1, 2008, the Company elected to measure loans held for sale at fair value. This portfolio is made up entirely of mortgage loans held for immediate sale with servicing released. Such loans are sold prior to origination at a contracted price to outside investors on a best-efforts basis (i.e., the loan becomes mandatorily deliverable to the investor only when, and if, it closes) and remain on the Company's balance sheet for a very short period of time, typically less than one month. It is management's opinion, given the short-term nature of these loans, that fair value provides a reasonable measure of the economic value of these assets. In addition, carrying such loans at fair value eliminates some measure of volatility created by the timing of sales proceeds from outside investors, which typically occur in the month following origination.

The Company elected the fair value option for the following item (in thousands):

	Balance Sheet Prior to Adoption 10/1/08	Gain Upon Adoption	Balance Sheet After Adoption 10/1/08
Loans held for sale	\$ 64,030	1,058	65,088
Pre-tax cumulative effect of adoption		\$ 1,058	
Decrease in deferred tax asset		(408)	

Cumulative effect of adoption		\$ 650	
		=====	

The difference between the aggregate fair value and the aggregate unpaid principal balance of these loans was \$1.9 million at June 30, 2009. Interest income on loans held for sale is included in interest on loans receivable in the accompanying statements of income.

(13) 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 on a best-efforts basis. Such commitments to originate and sell loans on a best efforts basis 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 \$288,000, a decrease in other liabilities of \$17,000, and an increase in other income of \$304,000 for the quarter ended June 30, 2009. The Company recorded a decrease in other assets of \$21,000, an increase in other liabilities of \$104,000, and a decrease in other income of \$125,000 for the nine month period ended June 30, 2009.

Additionally, the Company has commitments to sell loans that have closed prior to the end of the period on a best efforts basis. Due to the mark to market adjustment on commitments to sell loans held for sale, the Company recorded an increase in other assets of \$484,000, an increase in other liabilities of \$93,000, and an increase in other income of \$390,000 during the quarter ended June 30, 2009. The Company

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recorded an increase in other assets of \$1.9 million, a decrease in other liabilities of \$356,000, and an increase in other income of \$2.2 million during the nine month period ended June 30, 2009.

The balance of derivative instruments related to commitments to originate and sell loans at June 30, 2009, is disclosed in Footnote 14, Fair Value Measurements.

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(14) 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.

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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 securities and are valued using quoted market prices in an active market. This measurement is classified as Level 1 within the hierarchy.

Mortgage-backed available for sale securities are valued using industry-standard pricing models that consider assumptions, including market yield and prepayment speeds. These measurements are classified as Level 2.

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.

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Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active market with readily observable market prices. Therefore, fair value is assessed using a valuation model that calculates the discounted cash flow using assumption such as estimates of prepayment speeds, market discount rates, servicing fee income, and cost of servicing. These measurements are classified as Level 3. Mortgage servicing rights are carried on the Company's books at fair value and are amortized over the period of net servicing income. Additionally, they are evaluated for impairment monthly.

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. These measurements use significant unobservable inputs and are classified as Level 3 within the hierarchy.

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 June 30, 2009 (in thousands):

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	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	\$ 80,004	80,004	--	--
Mortgage-backed securities available for sale	48,131	--	48,131	--
Loans held for sale	119,930	--	119,930	--
Mortgage servicing rights	445	--	--	445
Commitments to originate loans	562	--	--	562
Forward sales commitments	2,063	--	--	2,063
Total assets	\$ 251,135	80,004	168,061	3,070
Liabilities:				
Commitments to originate loans	\$ 360	--	--	360
Forward sales commitments	134	--	--	134
Total liabilities	\$ 494	--	--	494

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The following table is 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 (in thousands):

	Mortgage Servicing Rights	Commitments to Originate Loans	Forward Sales Commitments
Asset balance at October 1, 2008	\$ 716	327	(319)
Total realized and unrealized gains (losses):			
Included in net income	(271)	(125)	2,248

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Included in other comprehensive income	--	--	--
Purchases, issuances, and settlements	--	--	--
Transfers in (out) of Level 3	--	--	--
Asset balance at June 30, 2009	\$ 445	202	1,929

Realized and unrealized gains and losses noted in the table above and included in net income for the nine month period ended June 30, 2009, are reported in the consolidated statements of income as follows (in thousands):

	Loan Servicing Fees	Impairment Recovery on Mortgage Servicing Rights	Other Income
Total gains (losses)	\$ (301)	30	2,123
Changes in unrealized gains (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 in accordance with Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans, or, where the loan is determined not to be collateral dependent, using the discounted cash flows.

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. If the impaired loan is determined not to be collateral dependent, then the discounted cash flow method is used. This method requires the impaired loan to be recorded at the present value of expected future cash flows discounted at the loans effective interest rate. Impaired loans are classified within Level 3 of the fair value hierarchy.

The carrying value of impaired loans was \$14.2 million at June 30, 2009.

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The following table presents the carrying values and fair values of the Company's financial instruments at June 30, 2009, presented in accordance with GAAP. Dollar amounts are expressed in thousands.

	Carrying value	Estimated fair value

Financial Assets:		
Cash and cash equivalents	\$ 12,862	12,862
Securities available for sale	80,004	80,004
Stock in Federal Home Loan Bank	26,640	26,640
Mortgage-backed securities:		
Available for sale	48,131	48,131
Held to maturity	123	125
Loans receivable:		
Held for sale	119,930	119,930
Held for investment	1,257,721	1,309,572
Mortgage servicing rights	445	445
Lending commitments on mortgage loans		
held for sale - fixed rate	237	237
Lending commitments on mortgage loans		
held for sale - floating rate	326	326
Commitments to sell loans	2,063	2,063
Financial Liabilities:		
Customer deposit accounts	693,426	697,660
Brokered deposit accounts	246,749	246,209
Advances from FHLB	467,042	472,510
Subordinated debentures	25,774	25,774
Lending commitments on mortgage loans		
held for sale - fixed rate	245	245
Lending commitments on mortgage loans		
held for sale - floating rate	115	115
Commitments to sell loans	134	134

	Contract or notional amount	Estimated unrealized gain (loss)

Unrecognized financial instruments:		
Lending commitments - fixed rate, net	\$ 12,127	(4)

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Lending commitments - floating rate	--	--
Commitments to sell loans	--	--

The fair value estimates presented are based on pertinent information available to management as of June 30, 2009. 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.

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

GENERAL

The principal business of the Company is to provide banking services through the Bank. Specifically, the Bank obtains savings and checking deposits from the public, then uses those funds to originate and purchase real estate loans and other loans. The Bank also purchases mortgage-backed securities ("MBS") and other investment securities from time to time as conditions warrant. In addition to customer deposits, the Bank obtains funds from the sale of loans held-for-sale, the sale of securities available-for-sale, repayments of existing mortgage assets, advances from the Federal Home Loan Bank ("FHLB"), and the purchase of brokered deposit accounts. The Bank's primary sources of income are interest on loans, MBS, and investment securities plus customer service fees and income from mortgage banking activities. Expenses consist primarily of interest payments on customer deposits and other borrowings and general and administrative costs.

The Bank is regulated by the Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation ("FDIC"), and is subject to periodic examination by both entities. The Bank is also subject to the regulations of the Board of Governors of the Federal Reserve System ("FRB"), which establishes rules regarding reserves that must be maintained against customer deposits.

FINANCIAL CONDITION

ASSETS

The Company's total assets as of June 30, 2009, were \$1,615.1 million, an increase of \$98.4 million from September 30, 2008, the prior fiscal year end.

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

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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 nine months ended June 30, 2009, the Bank originated and purchased \$1,189.5 million in mortgage loans held for sale, \$200.3 million in mortgage loans held for investment, and \$3.4 million in other loans. This total of \$1,393.2 million in loans compares to \$987.2 million in loans originated and purchased during the nine months ended June 30, 2008.

Loans held for sale as of June 30, 2009, were \$119.9 million, and consisted entirely of mortgage loans held for sale with servicing released. As of October 1, 2008, the Company elected to carry loans held for sale at fair value, as permitted under GAAP.

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 such little value that a specific loss allowance is warranted.

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The following table summarizes the Bank's classified assets as reported to the OTS, plus any classified assets of the holding company. Dollar amounts are expressed in thousands.

	6/30/09	9/30/08	6/30/08
Asset Classification:			
Substandard	\$ 48,906	34,320	30,273
Doubtful	--	--	--
Loss	2,900	1,442	215
	-----	-----	-----
	51,806	35,762	30,488
Allowance for losses on loans and real estate owned	(16,376)	(14,476)	(10,973)
	-----	-----	-----
	\$ 35,430	21,286	19,515
	=====	=====	=====

The following table summarizes non-performing assets, troubled debt restructurings, and real estate acquired through foreclosure or in-substance foreclosure. Dollar amounts are expressed in thousands.

	6/30/09	9/30/08	6/30/08
Total Assets	\$ 1,615,130	1,516,761	1,571,172
	=====	=====	=====
Non-accrual loans	\$ 30,377	35,075	10,936

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Troubled debt restructurings	4,004	--	--
Net real estate and other assets acquired through foreclosure	12,037	6,038	6,230

Total	\$ 46,418	41,113	17,166
	=====		
Percent of total assets	2.87%	2.71%	1.09%
	=====		

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 ("ALLL") recognizes the inherent risks associated with lending activities, but, unlike specific allowances, have not been allocated to particular problem assets but to a homogenous pool of loans. Management believes that the specific loss allowances and ALLL are adequate. While management uses available information to determine these allowances, future allowances may be necessary because of changes in economic conditions. Also, regulatory agencies (OTS and FDIC) 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.

LIABILITIES AND EQUITY

Customer and brokered deposit accounts increased \$170.8 million during the nine months ended June 30, 2009. The weighted average rate on customer and brokered deposits as of June 30, 2009, was 2.53%, a decrease from 3.51% as of June 30, 2008.

Advances from the FHLB were \$467.0 million as of June 30, 2009, a decrease of \$83.0 million from September 30, 2008. During the nine-month period, the Bank borrowed \$319.0 million of new advances and repaid \$402.0 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 June 30, 2009. Such debentures resulted from the issuance of pooled 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.

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Escrows were \$8.1 million as of June 30, 2009, a decrease of \$1.7 million from September 30, 2008. This decrease is due to amounts paid for borrowers' taxes during the fourth calendar quarter of 2008.

Total stockholders' equity as of June 30, 2009, was \$161.9 million (10.0% of total assets). This compares to \$152.4 million (10.0% of total assets) at September 30, 2008. On a per share basis, stockholders' equity was \$20.58 on June 30, 2009, compared to \$19.37 on

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September 30, 2008.

The Company paid cash dividends on its common stock of \$0.225 per share on November 28, 2008, February 27, 2009, and May 29, 2009. Subsequent to the quarter ended June 30, 2009, the Company announced a cash dividend of \$0.225 per share to be paid on August 28, 2009, to stockholders of record as of August 7, 2009.

Total stockholders' equity as of June 30, 2009, includes an unrealized gain of \$1.7 million net of deferred income taxes, on available for sale securities. 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).

	Nine months ended	
	6/30/09	6/30/08
Return on assets	1.07%	0.72%
Return on equity	10.71%	7.31%
Equity-to-assets ratio	10.03%	9.72%
Dividend payout ratio	42.07%	64.10%

RESULTS OF OPERATIONS - Comparison of three and nine months ended June 30, 2009 and 2008.

For the three months ended June 30, 2009, the Company had net income of \$4,242,000 or \$0.54 per share. This compares to net income of \$3,610,000 or \$0.46 per share for the quarter ended June 30, 2008.

For the nine months ended June 30 2009, the Company had net income of \$12,621,000 or \$1.60 per share. This compares to net income of \$8,285,000 or \$1.05 per share for the nine months ended June 30, 2008.

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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 nine months ended June 30, 2009 and 2008. Average yields reflect reductions due to non-accrual loans. Once a loan becomes 90 days delinquent, any interest that has accrued up to that time is reserved and no further interest income is

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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.

	Nine months ended 6/30/09		As of 6/30/09	
	Average Balance	Interest	Yield/Rate	Yield/Rate
Interest-earning assets				
Loans	\$1,360,780	64,110	6.28%	6.19%
Mortgage-backed securities	53,183	1,494	3.75%	4.25%
Securities	53,231	1,542	3.86%	4.97%
Bank deposits	23,450	94	0.53%	0.01%
Total earning assets	1,490,644	67,240	6.01%	6.02%
Non-earning assets				
	64,720			
Total	\$1,555,364			
Interest-costing liabilities				
Customer checking and savings deposit accounts	\$ 166,856	1,114	0.89%	0.80%
Customer and brokered certificates of deposit	685,973	18,429	3.58%	2.92%
FHLB Advances	508,432	13,212	3.46%	3.01%
Subordinated debentures	25,000	709	3.78%	2.69%
Total costing liabilities	1,386,261	33,464	3.22%	2.69%
Non-costing liabilities				
	12,817			
Stockholders' equity	156,286			
Total	\$1,555,364			
Net earning balance	\$ 104,383			
Earning yield less costing rate			2.79%	3.33%
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets				
	\$1,490,644	33,776	3.02%	

	Nine months ended 6/30/08		As of 6/30/08	
	Average Balance	Interest	Yield/Rate	Yield/Rate
Interest-earning assets				
Loans	\$1,367,604	69,818	6.81%	6.39%
Mortgage-backed securities	74,217	1,962	3.52%	4.14%
Securities	25,923	824	4.23%	4.00%

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Bank deposits	8,656	143	2.20%	1.63%

Total earning assets	1,476,400	72,747	6.57%	6.22%

Non-earning assets	60,775			

Total	\$1,537,175			
	=====			
Interest-costing liabilities				
Customer checking and savings deposit accounts	\$ 166,160	1,478	1.19%	1.00%
Customer and brokered certificates of deposit	643,638	22,502	4.66%	4.15%
FHLB Advances	535,499	18,697	4.66%	4.28%
Subordinated debentures	25,000	1,071	5.71%	4.55%

Total costing liabilities	1,370,297	43,748	4.26%	3.83%

Non-costing liabilities	16,060			
Stockholders' equity	150,818			

Total	\$1,537,175			
	=====			
Net earning balance	\$ 106,103			
	=====			
Earning yield less costing rate			2.31%	2.39%
			=====	
Average interest-earning assets, net interest, and net yield spread on average interest-earning assets	\$1,476,400	28,999	2.62%	
	=====			

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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.

Nine months ended June 30, 2009, compared to
nine months ended June 30, 2008

	Yield	Volume	Yield/ Volume	Total

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Components of interest income:				
Loans	\$ (5,436)	(349)	77	(5,708)
Mortgage-backed securities	128	(555)	(41)	(468)
Securities	(72)	866	(76)	718
Bank deposits	(108)	244	(185)	(49)
Net change in interest income	(5,488)	206	(225)	(5,507)
Components of interest expense:				
Customer and brokered deposit accounts	(5,405)	1,275	(307)	(4,437)
FHLB Advances	(4,819)	(946)	280	(5,485)
Subordinated debentures	(362)	--	--	(362)
Net change in interest expense	(10,586)	329	(27)	(10,284)
Increase in net interest margin	\$ 5,098	(123)	(198)	4,777

Net interest margin before loan loss provision for the three months ended June 30, 2009, increased \$2.3 million from the same period in the prior year. Specifically, interest income decreased \$661,000 due primarily to a decrease in the average rate earned on interest-earning assets. The decrease in interest income was offset by a \$3.0 million decrease in interest expense, which resulted primarily from a decrease in the average rate paid on interest-costing liabilities.

Net interest margin before loan loss provision for the nine months ended June 30, 2009, increased \$4.8 million from the same period in the prior year. Specifically, interest income decreased \$5.5 million, which was offset by a \$10.3 million decrease in interest expense for the period. Interest on loans decreased \$5.7 million as the result of a 53 basis point decrease in the average yield and a \$6.8 million decrease in the average balance of loans receivable outstanding during the period. Interest on mortgage-backed securities decreased \$468,000 due primarily to a \$21.0 million decrease in the average balance of such securities. These decreases in interest income were partially offset by a \$718,000 increase in interest on investment securities, due primarily to a \$27.3 million increase in the average balance of such securities. Interest expense on customer and brokered deposit accounts decreased \$4.4 million due primarily to an 89 basis point decrease in the average rate paid on such interest-costing liabilities. Interest expense on FHLB advances decreased \$5.5 million as the result of a 120 basis point decrease in the average rate paid on such liabilities and a \$27.1 million decrease in the average balance of FHLB advances outstanding during the period. Interest expense on subordinated debentures decreased \$362,000 due to a 193 basis point decrease in the average rate paid on such liabilities.

PROVISION FOR LOAN LOSSES

The Company recorded a provision for loan losses of \$4.0 million during the quarter ended June 30, 2009, in response to an increase in loans classified as substandard or loss and an increase in loan charge offs related to the residential construction and development and commercial real estate loan portfolios. Management determined that the

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increased provision was appropriate due to the continued deterioration in the real estate market. The Company recorded a provision for loan losses of \$1.0 million during the quarter ended March 31, 2009, due primarily to increases in loan charge offs related to the residential construction and development and commercial real estate loan portfolios. The Company recorded a provision for loan losses of \$250,000 during the quarter ended December 31, 2008, due primarily to increases in commercial real estate and residential construction and development loans classified as special mention. Management performs an ongoing analysis of individual loans and of homogenous pools of loans to assess for any impairment. On a consolidated basis, the allowance for losses on loans and real estate owned was 31.6% of total classified assets at June 30, 2009, 40.5% at September 30, 2008, and 36.0% at June 30, 2008.

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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 amounts based on information available at the time of their examination.

OTHER INCOME

Other income for the three months ended June 30, 2009, increased \$6.0 million from the same period in the prior year. Specifically, gain on sale of loans held for sale increased \$4.9 million due to increased mortgage banking volume during the period. Provision for loss on real estate owned decreased \$400,000 due to a decrease in charge-offs of foreclosed assets held for sale during the period. Customer service fees and charges increased \$679,000 due to an increase in miscellaneous loan origination fees resulting from the increase in mortgage banking volume. Gain on sale of securities available for sale increased \$548,000 due to the sale of corporate debt securities during the quarter. These increases were partially offset by a \$541,000 decrease in other income due to a decrease in loan prepayment penalties and to the effect of recording the net fair value of certain loan-related commitments in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities."

Other income for the nine months ended June 30, 2009, increased \$12.7 million from the same period in the prior year. Specifically, gain on sale of loans held for sale increased \$9.5 million due to increased mortgage banking volume during the period. Provision for loss on real estate owned decreased \$1.0 million due to a decrease in charge-offs of foreclosed assets held for sale during the period. Customer service fees and charges increased \$1.1 million due primarily to an increase in miscellaneous loan origination fees resulting from the increase in mortgage banking volume. Gain on sale of securities available for sale increased \$426,000 due to the sale of corporate debt securities during the quarter. In addition, other income increased \$902,000 due to a \$1.4 million increase related to recording the net fair value of certain loan-related commitments in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was partially offset by decreases in loan prepayment penalties and income from foreclosed assets held for sale. These

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increases in other income were offset by a \$171,000 decrease in loan servicing fees decreased due primarily to an increase in capitalized servicing amortization, which resulted from an increase in actual prepayments and estimated future repayments of the underlying mortgage loans during the period.

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the three months ended June 30, 2009, increased \$4.1 million from the same period in the prior year. Specifically, compensation and fringe benefits increased \$958,000 due primarily to the addition of personnel in the Company's information technology, mortgage banking, training, and loan servicing departments. Commission-based mortgage banking compensation increased \$2.5 million due primarily to an increase in mortgage banking volume for the period. Federal deposit insurance premium expense increased \$820,000 related primarily to the FDIC special assessment, which was imposed on all insured institutions' assets minus Tier I capital as of June 30, 2009. The special assessment will be paid on September 30, 2009.

Total general and administrative expenses for the nine months ended June 30, 2009, increased \$7.5 million from the same period in the prior year. Specifically, compensation and fringe benefits increased \$1.5 million due primarily to the addition of personnel in the Company's information technology, mortgage banking, training, and loan servicing departments. Commission-based mortgage banking compensation increased \$4.6 million due primarily to an increase in mortgage banking volume for the period. Advertising and business promotion expense increased \$367,000 resulting from an increase in mortgage banking volume for the period. Federal deposit insurance premium expense increased \$844,000 related primarily to the FDIC special assessment. Additionally, other expense increased \$345,000 due primarily to increases in legal fees related to the Company's lending operations.

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REGULATION

The Bank is a member of the FHLB System and its customers' deposits are insured by the Deposit Insurance Fund ("DIF") of the FDIC. The Bank is subject to regulation by the OTS as its chartering authority. Since passage of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA" or the "Act"), the FDIC also has regulatory control over the Bank. The transactions of DIF-insured institutions are limited by statute and regulations that may require prior supervisory approval in certain instances. Institutions also must file reports with regulatory agencies regarding their activities and their financial condition. The OTS and FDIC make periodic examinations of the Bank to test compliance with the various regulatory requirements. The OTS can require an institution to re-value its assets based on appraisals and to establish specific valuation allowances. This supervision and regulation is intended primarily for the protection of depositors. Also, savings institutions are subject to certain reserve requirements under Federal Reserve Board regulations.

INSURANCE OF ACCOUNTS

The DIF insures the Bank's customer deposit accounts to a maximum

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of \$100,000 for each insured owner, with the exception of self-directed retirement accounts, which are insured to a maximum of \$250,000. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 temporarily raised the basic limit of federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. This legislation provides that the basic deposit insurance limit will return to \$100,000 after December 31, 2013. Deposit insurance premiums are determined using a Risk-Related Premium Schedule ("RRPS"), a matrix which places each insured institution into one of three capital groups and one of three supervisory groups. Currently, deposit insurance premiums range from 5 to 43 basis points of the institution's total deposit accounts, depending on the institution's risk classification. The Bank is currently considered "well capitalized," which is the most favorable capital group and supervisory subgroup. DIF-insured institutions are also assessed a premium to service the interest on Financing Corporation ("FICO") debt.

On May 22, 2009, the Federal Deposit Insurance Corporation (FDIC) adopted a final rule imposing a five basis point special assessment on all insured financial institutions' assets minus its Tier I capital as of June 30, 2009, to be collected on September 30, 2009. The rule also states that an additional special assessment of up to five basis points later in 2009 is probable, but the exact amount is uncertain.

REGULATORY CAPITAL REQUIREMENTS

At June 30, 2009, the Bank exceeds all capital requirements prescribed by the OTS. 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 June 30, 2009, the Bank did not have any investments in or loans to subsidiaries engaged in activities not permissible for national banks.

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

At June 30, 2009	Amount
GAAP capital (Bank only)	\$ 162,810
Adjustment for regulatory capital:	
Intangible assets	(2,696)
Disallowed portion of servicing assets and deferred tax assets	(33)
Reverse the effect of SFAS No. 115	(1,746)
Tangible capital	158,335
Qualifying intangible assets	--
Tier 1 capital (core capital)	158,335
Qualifying general valuation allowance	13,329
Risk-based capital	\$ 171,664

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	As of June 30, 2009				
	Actual		Minimum required for Capital Adequacy		Minimum "Well
	Amount	Ratio	Amount	Ratio	Amount
Total capital to risk-weighted assets	\$ 171,664	11.9%	115,498	>=8%	144,37
Core capital to adjusted tangible assets	158,335	10.0%	63,478	>=4%	79,34
Tangible capital to tangible assets	158,335	10.0%	23,804	>=1.5%	-
Tier 1 capital to risk-weighted assets	158,335	11.0%	--	--	86,62

LOANS TO ONE BORROWER

Institutions are prohibited from lending to any one borrower in excess of 15% of the Bank's unimpaired capital plus unimpaired surplus, or 25% of unimpaired capital plus unimpaired surplus if the loan is secured by certain readily marketable collateral. Renewals that exceed the loans-to-one-borrower limit are permitted if the original borrower remains liable and no additional funds are disbursed. The Bank has received regulatory approval from the OTS under 12 CFR 560.93 to increase its loans-to-one-borrower limit to \$30 million for loans secured by certain residential housing units. Such loans must not, in the aggregate, exceed 150% of the Bank's unimpaired capital and surplus.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures the ability to meet deposit withdrawals and lending commitments. The Bank generates liquidity primarily from the sale and repayment of loans, retention or newly acquired retail deposits, and advances from FHLB of Des Moines' credit facility. Management continues to use FHLB advances as a primary source of short-term funding. At June 30, 2009, the Bank had \$100.5 million available in the form of additional FHLB advances. The Bank has established relationships with various brokers, and, as a secondary source of liquidity, the Bank purchases brokered deposit accounts. At June 30, 2009, the Bank has \$246.7 million in brokered deposits, and it could purchase up to \$214.3 million in additional brokered deposits and remain "well capitalized" as defined by the OTS.

Fluctuations in the level of interest rates typically impact prepayments on mortgage loans and MBS. During periods of falling interest rates, these prepayments increase and a greater demand exists for new loans. The Bank's customer deposits are partially impacted by area competition. 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 additional FHLB advances and/or brokered deposits. Management is not aware of any other current market or economic conditions that could materially impact the Bank's future ability to meet obligations as they come due.

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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, 2008.

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, 2008.

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.

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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 2. Changes in Securities

None.

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Item 3. Defaults Upon Senior Securities
None.

Item 4. Submission of Matters to a Vote of Security Holders
None.

Item 5. Other Information
None.

Item 6. Exhibits

(a) 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

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S I G N A T U R E S

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)

August 7, 2009

By: /s/David H. Hancock
David H. Hancock
Chairman and
Chief Executive Officer

August 7, 2009

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

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