

GREAT SOUTHERN BANCORP INC
Form 10-K
March 17, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES ACT OF 1934

For the fiscal year ended December 31, 2007

Commission File Number 0-18082

GREAT SOUTHERN BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State of Incorporation)

43-1524856
(IRS Employer Identification Number)

1451 E. Battlefield, Springfield, Missouri
(Address of Principal Executive Offices)

65804
(Zip Code)

(417) 887-4400
Registrant's telephone number, including area code

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [] No [X]

Indicated by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [] No [X]

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicated by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the common stock of the Registrant held by non-affiliates of the Registrant on June 30, 2007, computed by reference to the closing price of such shares on that date, was \$279,762,987. At March 13, 2008, 13,380,303 shares of the Registrant's common stock were outstanding.

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PART I

BUSINESS.

ITEM

1.

THE COMPANY

Great Southern Bancorp, Inc.

Great Southern Bancorp, Inc. ("Bancorp" or "Company") is a financial holding company and parent of Great Southern Bank ("Great Southern" or the "Bank"). Bancorp was incorporated under the laws of the State of Delaware in July 1989 as a unitary savings and loan holding company. After receiving the approval of the Federal Reserve Bank of St. Louis (the "Federal Reserve Board" or "FRB"), the Company became a one-bank holding company on June 30, 1998, upon the conversion of Great Southern to a Missouri-chartered trust company. In 2004, Bancorp was re-incorporated under the laws of the State of Maryland.

As a Maryland corporation, the Company is authorized to engage in any activity that is permitted by the Maryland General Corporation Law and is not prohibited by law or regulatory policy. The Company currently conducts its business as a financial holding company. Through the financial holding company structure, it is possible to expand the size and scope of the financial services offered by the Company beyond those offered by the Bank. The financial holding company structure provides the Company with greater flexibility than the Bank has to diversify its business activities, through existing or newly formed subsidiaries, or through acquisitions or mergers of other financial institutions as well as other companies. At December 31, 2007, Bancorp's consolidated assets were \$2.43 billion, consolidated net loans were \$1.81 billion, consolidated deposits were \$1.76 billion and consolidated stockholders' equity was \$190 million. The assets of the Company consist primarily of the stock of Great Southern, available-for-sale securities, minority interests in a local trust company and a merchant banking company and cash.

Through the Bank and subsidiaries of the Bank, the Company offers insurance, travel, investment and related services, which are discussed further below. The activities of the Company are funded by retained earnings and through dividends from Great Southern. Activities of the Company may also be funded through borrowings from third parties, sales of additional securities or through income generated by other activities of the Company. The Company expects to finance its future activities in a similar manner.

The executive offices of the Company are located at 1451 East Battlefield, Springfield, Missouri 65804, and its telephone number at that address is (417) 887-4400.

Great Southern Bank

Great Southern was formed as a Missouri-chartered mutual savings and loan association in 1923, and, in 1989, converted to a Missouri-chartered stock savings and loan association. In 1994, Great Southern changed to a federal savings bank charter and then, on June 30, 1998, changed to a Missouri-chartered trust company (the equivalent of a commercial bank charter). Headquartered in Springfield, Missouri, Great Southern offers a broad range of banking services through its 38 branches located in southwestern and central Missouri and the Kansas City, Missouri area. At December 31, 2007, the Bank had total assets of \$2.43 billion, net loans of \$1.81 billion, deposits of \$1.77 billion and stockholders' equity of \$215.6 million, or 8.9% of total assets. Its deposits are insured by the Deposit Insurance Fund ("DIF") to the maximum levels permitted by the Federal Deposit Insurance Corporation ("FDIC").

Great Southern is principally engaged in the business of originating residential and commercial real estate loans, construction loans, other commercial and consumer loans and funding these loans through attracting deposits from the general public, originating brokered deposits and borrowings from the Federal Home Loan Bank of Des Moines (the "FHLBank") and others.

For many years, Great Southern has followed a strategy of emphasizing quality loan origination through residential, commercial and consumer lending activities in its local market area. The goal of this strategy has been to maintain its position as one of the leading providers of financial services in its market area, while simultaneously diversifying assets and reducing interest rate risk by originating and holding adjustable-rate loans in its portfolio and selling fixed-rate single-family mortgage loans in the secondary market. The Bank continues to place primary emphasis on residential mortgage and other real estate lending while also expanding and increasing its originations of commercial business and consumer loans.

The corporate office of the Bank is located at 1451 East Battlefield, Springfield, Missouri 65804 and its telephone number at that address is (417) 887-4400.

Forward-Looking Statements

When used in this Form 10-K and in future filings by the Company with the Securities and Exchange Commission (the "SEC"), in the Company's press releases or other public or shareholder communications, and in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result" "are expected to," "will continue," "is anticipated," "estimate," "project," "intends" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including, among other things, changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, the risks of lending and investing activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses, the Company's ability to access cost-effective funding, fluctuations in real estate values and both residential and commercial real estate market conditions, demand for loans and deposits in the Company's market area and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake-and specifically declines any obligation- to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Internet Website

Bancorp maintains a website at www.greatsouthernbank.com. The information contained on that website is not included as part of, or incorporated by reference into, this Annual Report on Form 10-K. Bancorp currently makes available on or through its website Bancorp's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K or amendments to these reports. These materials are also available free of charge (other than a user's regular internet access charges) on the Securities and Exchange Commission's website at www.sec.gov.

Primary Market Area

Great Southern's primary market area encompasses 16 counties in southwestern, western and central Missouri. The Bank's branches and ATMs support deposit and lending activities throughout the region, serving such diversified markets as Springfield, Joplin, the Kansas City metropolitan area, the resort areas of Branson and Lake of the Ozarks, and various smaller communities in the Bank's market area. Management believes that the Bank's share of the deposit and lending markets in its market area is approximately 10% and that the Bank's affiliates have an even smaller percent, with the exception of the travel agency which has a larger percent of its respective business in its market area.

Great Southern's largest concentration of loans and deposits is in the Greater Springfield area. With a population of approximately 407,000, the Greater Springfield area is the third largest metropolitan area in Missouri. Employment in this area is diversified, including small and medium-sized manufacturing concerns, service industries, especially in the resort and leisure activities sectors, agriculture, the federal government, and a major state university along with other smaller universities and colleges. Springfield is also a regional health care center with two major hospitals that employ a total of more than 14,000 people. The unemployment rate in this area is, and has consistently been, below the national average.

Beyond the significant concentration of loans in the Greater Springfield market, the Bank's loan portfolio is geographically diversified with various loan concentrations in several regional markets in Missouri, Kansas and Northwest Arkansas. The portfolio diversification is due in part to the Company's initiative during the last five years to open loan production offices (LPOs) in high growth markets. In 2003, offices were opened in Overland Park, Kan., and Rogers, Ark, which serves the Kansas City metropolitan area and Northwest Arkansas region, respectively. In 2005, a LPO in Creve Coeur, Mo., was opened serving the St. Louis metropolitan area; and in 2006, the Company opened an office in Columbia, Mo., which serves the Central Missouri region, including Jefferson City

and the Lake of the Ozarks region. Before opening the LPOs, Great Southern historically served commercial lending needs in the St. Louis, Kansas City, Lake of the Ozarks and Northwest Arkansas regions from its Springfield office. The Bank's familiarity with these four growth markets, coupled with potential strong loan demand, led to physical expansion in these regions that allows Great Southern to more conveniently serve and expand client relationships and attract new business. Managed by seasoned commercial lenders who have personal experience and knowledge in their respective markets, the offices offer all Great Southern commercial lending services. Underwriting of all loan production in these regions is performed in Springfield, so credit decisions are consistent across all markets.

As of December 31, 2007, the Company's total loan portfolio balance was \$1.84 billion. Geographically, the total loan portfolio consists of loans collateralized in the following regions (including loan balance and percentage of total loans): Springfield (\$565 million, 30%); St. Louis (\$255 million, 13%); Branson (\$214 million, 12%); Northwest Arkansas (\$203 million, 11%); Kansas City (\$113 million, 6%); Central Missouri (\$67 million, 4%); other Missouri regions (\$158 million, 9%), other Kansas regions (\$49 million, 3%), and other out-of-state regions (\$216 million, 12%).

As noted above, Great Southern has historically served commercial real estate and construction needs in both the St. Louis and Kansas City markets. Concentrations of loans have increased in both of these major metropolitan markets with the establishment of LPOs. Both markets have diverse and relatively stable economies and are currently experiencing some slow-down in home sales and residential construction. The Kansas City market has experienced some weakness in the commercial real estate market while the St. Louis market remained relatively positive in this sector, according to the March 5, 2008, Beige Book released by the Federal Reserve.

The Company has a long history of lending in the Branson market. The region is a vacation and entertainment center, attracting tourists to its theme parks, resorts, music and novelty shows, and other recreational facilities. In the mid-1990's, the region experienced overbuilding in commercial and residential properties which created downward pressure on property values. In recent years, commercial real estate values have stabilized and residential real estate demand and values have shown improvement. Branson is currently experiencing significant growth again due in part to a large retail and hotel/convention center development that opened in Branson's historic downtown. This project has created hundreds of new jobs in the area. In addition, several large national retailers have opened or will soon open stores in Branson.

The Northwest Arkansas region continues to be a burgeoning center of economic activity and growth. Home to the world's largest retailer, Wal-Mart, Inc., the country's largest poultry producer, Tyson Foods, Inc., and JB Hunt, one of the country's largest trucking firms, the region was recently ranked 21st in the Milken Institute's "2007 Best Performing Cities Index." The Index ranks U.S. metropolitan areas based on their ability to create and sustain jobs and includes both long-term and short-term measurements of employee and salary growth. While the area continues to experience significant growth, the region is currently experiencing some effects of overbuilding in the commercial and residential sectors.

Recent Acquisitions

In early 2007, Great Southern purchased The Travel Company, a travel agency with two locations in the greater St. Louis, Missouri area. The agency serves both leisure and corporate travel needs in the St. Louis market.

Lending Activities

General

From its beginnings in 1923 through the early 1980s, Great Southern primarily made long-term, fixed-rate residential real estate loans that it retained in its loan portfolio. Beginning in the early 1980s, Great Southern increased its efforts to originate short-term and adjustable-rate loans. Beginning in the mid-1980s, Great Southern increased its efforts to originate commercial real estate and other residential loans, primarily with adjustable rates or shorter-term fixed rates. In addition, some competitor banking organizations have merged with larger institutions and changed their business practices or moved operations away from the local area, and others have consolidated operations from the local area to larger cities. This has provided Great Southern expanded opportunity in the residential and commercial real estate lending areas as well as in the origination of commercial business and consumer loans, primarily in the indirect automobile area. In addition to origination of these loans, the Bank has expanded and enlarged its relationships with smaller banks to purchase participations (at par, generally with no servicing costs) in loans the smaller banks originate but are unable to retain in their portfolios due to capital limitations. The Bank uses the same underwriting guidelines in evaluating

these participations as it does in its direct loan originations. At December 31, 2007, the balance of participation loans purchased was \$49.5 million, or 2.4% of the total loan portfolio. None of these participation loans were non-performing at December 31, 2007.

One of the principal historical lending activities of Great Southern is the origination of fixed and adjustable-rate conventional residential real estate loans to enable borrowers to purchase or refinance owner-occupied homes. Great Southern originates a variety of conventional, residential real estate mortgage loans, principally in compliance with Freddie Mac and Fannie Mae standards for resale in the secondary market. Great Southern promptly sells most of the fixed-rate residential mortgage loans that it originates. Depending on market conditions, the ongoing servicing of these loans is at times retained by Great Southern and at other times released to the purchaser of the loan. Great Southern retains substantially all of the adjustable-rate mortgage loans that it originates in its portfolio. To date, Great Southern has not experienced problems selling these loans in the secondary market.

Another principal lending activity of Great Southern is the origination of commercial real estate and commercial construction loans. Since the early 1990s, this area of lending has been an increasing percentage of the loan portfolio and accounted for approximately 48% of the portfolio at December 31, 2007.

In addition, Great Southern in recent years has increased its emphasis on the origination of other commercial loans, home equity loans, consumer loans and student loans, and is also an issuer of letters of credit. Letters of credit are contingent obligations and are not included in the Bank's loan portfolio. See "-- Other Commercial Lending," "- Classified Assets," and "Loan Delinquencies and Defaults" below.

The percentage of collateral value Great Southern will loan on real estate and other property varies based on factors including, but not limited to, the type of property and its location and the borrower's credit history. As a general rule, Great Southern will loan up to 95% of the appraised value on single-family properties and up to 90% on two- to four-family residential property. Typically, private mortgage insurance is required for the loan amount above the 80% level. For commercial real estate and other residential real property loans, Great Southern may loan up to a maximum of 85% of the appraised value. The origination of loans secured by other property is considered and determined on an individual basis by management with the assistance of any industry guides and other information which may be available.

Loan applications are approved at various levels of authority, depending on the type, amount and loan-to-value ratio of the loan. Loan commitments of more than \$750,000 (or loans exceeding the Freddie Mac loan limit in the case of fixed-rate, one- to four-family residential loans for resale) must be approved by Great Southern's loan committee. The loan committee is comprised of the Chairman of the Bank, as chairman of the committee, and other senior officers of the Bank involved in lending activities.

Although Great Southern is permitted under applicable regulations to originate or purchase loans and loan participations secured by real estate located in any part of the United States, the Bank has concentrated its lending efforts in Missouri and Northern Arkansas, with the largest concentration of its lending activity being in southwestern and central Missouri. In addition, the Bank has made loans, secured primarily by commercial real estate, in other states, primarily Oklahoma, Texas, Kansas and other Midwestern states.

Loan Portfolio Composition

The following table sets forth information concerning the composition of the Bank's loan portfolio in dollar amounts and in percentages (before deductions for loans in process, deferred fees and discounts and allowance for loan losses) as of the dates indicated. The table is based on information prepared in accordance with generally accepted accounting principles and is qualified by reference to the Company's consolidated financial statements and the notes thereto contained in Item 8 of this report.

	2007		2006		December 31, 2005		2004		2003	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(Dollars in thousands)										
Real Estate Loans:										
Residential										
One- to four- family	\$ 191,970	9.1%	\$ 176,630	9.1%	\$ 173,135	9.7%	\$ 171,197	11.6%	\$ 158,990	12.4%
Other residential (multi-family)	87,177	4.1	73,366	3.8	105,845	6.0	117,755	8.0	107,090	8.4
Commercial and industrial revenue bonds	532,797	25.3	529,046	27.4	553,195	31.2	526,776	35.6	494,158	38.7
Construction:										
One- to four-family	318,131	15.1	347,287	18.0	246,912	13.9	160,161	10.8	92,126	7.2
Other residential	83,720	4.0	69,077	3.6	72,262	4.1	40,587	2.7	29,211	2.3
Commercial construction	517,208	24.6	443,286	22.9	382,651	21.6	230,103	15.5	180,211	14.1
Total real estate loans	1,731,003	82.2	1,638,692	84.8	1,534,000	86.5	1,246,579	84.2	1,061,786	83.1
Other Loans:										
Consumer loans:										
Guaranteed student loans	3,342	.2	3,592	.2	3,345	.2	2,976	.2	3,090	.3
Automobile, boat, etc.	112,984	5.4	96,242	5.0	84,092	4.7	80,517	5.4	78,828	6.2
Home equity and improvement	44,287	2.1	42,824	2.2	48,992	2.8	45,703	3.1	40,028	3.1
Other	4,161	.2	2,152	.1	1,371	.1	1,318	.1	1,482	.1
	164,774	7.9	144,810	7.5	137,800	7.8	130,514	8.8	123,428	9.7

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Total consumer loans										
Other commercial loans	207,059	9.9	149,593	7.7	102,034	5.7	103,635	7.0	92,039	7.2
Total other loans	371,833	17.8	294,403	15.2	239,834	13.5	234,149	15.8	215,467	16.9
Total loans	2,102,836	100.0%	1,933,095	100.0%	1,773,834	100.0%	1,480,728	100.0%	1,277,253	100.0%
Less:										
Loans in process	254,562		229,794		233,213		121,677		109,004	
Deferred fees and discounts	2,704		2,425		1,902		1,054		834	
Allowance for loan losses	25,459		26,258		24,549		23,489		20,844	
Total loans receivable, net	\$ 1,820,111		\$ 1,674,618		\$ 1,514,170		\$ 1,334,508		\$ 1,146,571	

The following table shows the fixed- and adjustable-rate composition of the Bank's loan portfolio at the dates indicated. The table is based on information prepared in accordance with generally accepted accounting principles.

December 31,

2007

2006