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FIRSTFED FINANCIAL CORP
Form 8-K
October 25, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported) October 25, 2002

FirstFed Financial Corp.
(Exact name of registrant as specified in its charter)

| | | |
|--------------------------|-----------------------|--------------------------------------|
| Delaware | 1-9566 | 95-4087449 |
| (State of Incorporation) | (Commission File No.) | (IRS Employer Identification No.) |

| | |
|---|------------|
| 401 Wilshire Boulevard, Santa Monica, California, | 90401-1490 |
| (Address of principal executive offices) | (Zip Code) |

| | |
|--|----------------|
| Registrant's telephone number, including area code | (310) 319-6000 |
|--|----------------|

ITEM 5. Other Events.

On October 24, 2002, the registrant, FirstFed Financial Corp., issued a press release. A copy of this press release is attached and incorporated herein as Exhibit 99.

Item 99. Press release dated October 24, 2002.

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.

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FIRSTFED FINANCIAL CORP.

Dated: October 25, 2002

By: /s/ Douglas J. Goddard
Douglas J. Goddard
Chief Financial Officer

Contact: Douglas Goddard, Executive Vice President
(310) 319-6014

FIRSTFED REPORTS RESULTS FOR THE THIRD QUARTER OF 2002

Santa Monica, California, October 24, 2002 -- FirstFed Financial Corp. (NYSE-FED), parent company of First Federal Bank of California, today announced net earnings of \$16.2 million or \$0.92 per diluted common share for the third quarter of 2002, compared to net earnings of \$12.3 million or \$0.70 per diluted common share for the second quarter of 2002 and \$12.4 million or \$0.70 per diluted common share for the third quarter of September 2001. Net earnings for the first nine months of 2002 were \$40.9 million or \$2.32 per diluted common share, compared to \$37.4 million or \$2.12 per diluted common share for the first nine months of 2001.

Net earnings for the third quarter and first nine months of 2002 include a \$5.9 million gain resulting from a revised estimate of the Bank's repurchase liability for loans sold with recourse. The Bank revised its estimate of repurchase liability because its portfolio of loans sold with recourse has been experiencing greater payoffs and better credit performance than previously estimated. After tax, quarterly and year-to-date earnings were increased by \$3.4 million or \$0.19 per diluted common share during 2002 due to this adjustment.

Net interest income increased by 3% and 2% during the third quarter and first nine months of 2002 compared to the prior year periods due to increased interest rate spreads. The interest rate spreads increased to 2.95% and 2.83% for the third quarter and first nine months of 2002 from 2.70% and 2.67% during the same periods last year as the cost of interest-bearing liabilities re-priced at reduced rates more quickly than the yield on interest-earning assets. The increased spreads compensated for declines in average earning assets. Due to continued high levels of loan payoffs, average interest-earning assets decreased to \$4.2 billion for the third quarter and \$4.3 billion for the first nine months of 2002 compared to \$4.4 billion for both the third quarter and first nine months of the prior year. Loan originations were \$283.5 million and \$871.1 million for the third quarter and first nine months of 2002 compared to \$415.9 million and \$1.2 billion for the same periods last year.

Allowances for loan losses (including general valuation allowances and valuation allowances for impaired loans) totaled \$75.7 million or 1.94% of the loan portfolio as of September 30, 2002. This compares with \$74.4 million or 1.82% as of December 31,

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2001 and \$72.4 million or 1.80% as of September 30, 2001. Non-performing assets were 0.11% of total assets as of September 30, 2002 compared with 0.17% as of December 31, 2001 and 0.23% as of September 30, 2001.

The Bank did not record a provision for loan losses during the first nine months of 2002 or for any period during 2001. Net loan charge-offs totaling \$271 thousand were recorded during the third quarter of 2002, however, net loan recoveries totaling \$900 thousand were recorded during the first nine months of 2002. For the comparable periods last year, the Bank recorded net loan recoveries of \$55 thousand and net loan charge-offs of \$170 thousand for the third quarter and first nine months of 2001, respectively.

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The Company had assets totaling \$4.3 billion as of September 30, 2002. First Federal Bank of California operates 29 full-service retail banking offices and 4 loan production offices in Southern California. At September 30, 2002, the consolidated stockholders' equity of the Company was \$358.8 million. The Company repurchased 233,400 shares during the third quarter of 2002 and an additional 119,600 shares through October 17, 2002. There remain 536,016 shares eligible for repurchase under the Company's stock repurchase program as of October 17, 2002.

This news release contains certain forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Act of 1995. These forward-looking statements are subject to various factors, many of which are beyond the Company's control, which could cause actual results to differ materially from such statements. Such factors include, but are not limited to, the general business environment, interest rate fluctuations that may affect operating margin, the California real estate market, branch openings, competitive conditions in the business and geographic areas in which the Company conducts its business and regulatory actions. In addition, these forward-looking statements are subject to assumptions as to future business strategies and decisions that are subject to change. The Company makes no guarantee or promises regarding future results and assumes no responsibility to update such forward-looking statements.

KEY FINANCIAL RESULTS FOLLOW

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Dollars in thousands, except share data) (Unaudited)

| | September 30, 2002 | December 31, 2001 | September 30, 2001 |
|---|-----------------------|----------------------|-----------------------|
| | ----- | ----- | ----- |
| ASSETS | | | |
| Cash and cash equivalents | \$ 43,122 | \$ 174,171 | \$ 69,050 |
| Investment securities, available-for-sale (at fair value) | 109,858 | 110,444 | 120,679 |
| Mortgage-backed securities, | | | |

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| | | | |
|--|--------------|--------------|--------------|
| available-for-sale (at fair value) | 218,424 | 284,079 | 311,342 |
| Loans receivable, held-for-sale (fair value of \$2,861, \$5,250 and \$3,939) | 2,848 | 5,246 | 3,920 |
| Loans receivable, net | 3,804,495 | 3,999,643 | 3,941,950 |
| Accrued interest and dividends receivable | 18,567 | 22,076 | 25,201 |
| Real estate | 506 | 1,515 | 819 |
| Office properties and equipment, net | 10,461 | 10,822 | 9,615 |
| Investment in Federal Home Loan Bank (FHLB) stock, at cost | 79,666 | 91,713 | 88,891 |
| Other assets | 29,335 | 26,580 | 22,993 |
| | ----- | ----- | ----- |
| \$ | \$ 4,317,282 | \$ 4,726,289 | \$ 4,594,460 |
| | ===== | ===== | ===== |

LIABILITIES

| | | | |
|--|--------------|--------------|--------------|
| Deposits | \$ 2,508,768 | \$ 2,546,647 | \$ 2,354,058 |
| FHLB advances | 1,247,000 | 1,597,000 | 1,639,000 |
| Securities sold under agreements to repurchase | 166,567 | 211,040 | 228,716 |
| Accrued expenses and other liabilities | 36,163 | 45,924 | 60,463 |
| | ----- | ----- | ----- |
| | 3,958,498 | 4,400,611 | 4,282,237 |
| | ----- | ----- | ----- |

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

| | | | |
|---|--------------|--------------|--------------|
| Common stock, par value \$.01 per share; Authorized 100,000,000 shares; issued 23,390,742, 23,362,196 and 23,359,272 shares, outstanding 17,046,446, 17,251,300 and 17,291,782 shares | 234 | 234 | 233 |
| Additional paid-in capital | 34,797 | 34,670 | 33,588 |
| Retained earnings - substantially restricted | 404,594 | 363,713 | 350,803 |
| Unreleased shares to employee stock ownership plan | (1,748) | -- | (210) |
| Treasury stock, at cost, 6,344,296, 6,110,896 and 6,067,490 shares | (81,684) | (75,930) | (75,743) |
| Accumulated other comprehensive gain, net of taxes | 2,591 | 2,991 | 3,552 |
| | ----- | ----- | ----- |
| | 358,784 | 325,678 | 312,223 |
| | ----- | ----- | ----- |
| \$ | \$ 4,317,282 | \$ 4,726,289 | \$ 4,594,460 |
| | ===== | ===== | ===== |

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS

(Dollars in thousands, except per share data)

(Unaudited)

Three months ended

Nine months ended

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| | September 30, | | September 30, | |
|---|---------------|-----------|---------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| Interest income: | | | | |
| Interest on loans | \$ 59,941 | \$ 73,457 | \$ 185,605 | \$ 229,328 |
| Interest on mortgage-backed securities | 2,026 | 4,585 | 7,263 | 16,086 |
| Interest and dividends on investments | 2,774 | 3,795 | 8,573 | 11,883 |
| Total interest income | 64,741 | 81,837 | 201,441 | 257,297 |
| Interest expense: | | | | |
| Interest on deposits | 14,645 | 22,889 | 47,642 | 74,690 |
| Interest on borrowings | 16,667 | 26,508 | 53,401 | 84,453 |
| Total interest expense | 31,312 | 49,397 | 101,043 | 159,143 |
| Net interest income | 33,429 | 32,440 | 100,398 | 98,154 |
| Provision for loan losses | -- | -- | -- | -- |
| Net interest income after provision for loan losses | 33,429 | 32,440 | 100,398 | 98,154 |
| Other income: | | | | |
| Loan servicing and other fees | 1,172 | 1,003 | 3,062 | 2,478 |
| Retail office fees | 1,173 | 952 | 3,348 | 2,640 |
| Gain on sale of loans | 6,195 | 291 | 6,564 | 501 |
| Real estate operations, net | (60) | 609 | 133 | 383 |
| Other operating income | 231 | 164 | 797 | 665 |
| Total other income | 8,711 | 3,019 | 13,904 | 6,667 |
| Non-interest expense: | | | | |
| Compensation | 8,008 | 7,595 | 24,475 | 22,325 |
| Occupancy | 2,249 | 2,201 | 6,399 | 6,180 |
| Amortization of core deposit intangible | 499 | 372 | 1,464 | 1,116 |
| Other expenses | 3,351 | 3,570 | 11,313 | 9,845 |
| Total non-interest expense | 14,107 | 13,738 | 43,651 | 39,466 |
| Earnings before income taxes | 28,033 | 21,721 | 70,651 | 65,355 |
| Income tax provision | 11,807 | 9,294 | 29,770 | 27,963 |
| Net earnings | \$ 16,226 | \$ 12,427 | \$ 40,881 | \$ 37,392 |
| Other comprehensive earnings (loss), net of taxes | (145) | 2,826 | (400) | 5,710 |
| Comprehensive earnings | \$ 16,081 | \$ 15,253 | \$ 40,481 | \$ 43,102 |
| Earnings per share: | | | | |
| Basic | \$ 0.94 | \$ 0.72 | \$ 2.37 | \$ 2.17 |

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| | | | | | | | | |
|-------------------------|----|------------|----|------------|----|------------|----|------------|
| Diluted | \$ | 0.92 | \$ | 0.70 | \$ | 2.32 | \$ | 2.12 |
| | | ===== | | ===== | | ===== | | ===== |
| Weighted average shares | | | | | | | | |
| outstanding: | | | | | | | | |
| Basic | | 17,257,643 | | 17,253,063 | | 17,258,970 | | 17,218,177 |
| | | ===== | | ===== | | ===== | | ===== |
| Diluted | | 17,555,150 | | 17,677,749 | | 17,602,324 | | 17,651,674 |
| | | ===== | | ===== | | ===== | | ===== |

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY KEY FINANCIAL HIGHLIGHTS

Quarter ended September 30,
2002 2001

(Dollars in thousands,
except per share data)

End of period:

| | | | | |
|--------------------------------|----|-----------|----|-----------|
| Total assets | \$ | 4,317,282 | \$ | 4,594,460 |
| Cash and securities | \$ | 152,980 | \$ | 189,729 |
| Mortgage-backed securities | \$ | 218,424 | \$ | 311,342 |
| Loans | \$ | 3,807,343 | \$ | 3,945,870 |
| Core deposit intangible asset | \$ | 9,813 | \$ | 8,187 |
| Deposits | \$ | 2,508,768 | \$ | 2,354,058 |
| Borrowings | \$ | 1,413,567 | \$ | 1,867,716 |
| Stockholders' equity | \$ | 358,784 | \$ | 312,223 |
| Book value per share | \$ | 21.05 | \$ | 18.06 |
| Tangible book value per share | \$ | 20.47 | \$ | 17.58 |
| Stock price (period-end) | \$ | 25.75 | \$ | 26.00 |
| Total loan servicing portfolio | \$ | 4,189,654 | \$ | 4,449,599 |
| Loans serviced for others | \$ | 213,701 | \$ | 269,726 |
| % of Adjustable mortgages | | 70.57% | | 74.69% |

Other data:

| | | |
|----------------------------------|-----|-----|
| Employees (full-time equivalent) | 515 | 462 |
| Branches | 29 | 25 |
| Loan production offices | 4 | 3 |

Asset quality:

| | | | | |
|--|----|---------|----|---------|
| Real estate (foreclosed) | \$ | 477 | \$ | 790 |
| Non-accrual loans | \$ | 4,470 | \$ | 9,997 |
| Non-performing assets | \$ | 4,947 | \$ | 10,787 |
| Non-performing assets to total assets | | 0.11% | | 0.23% |
| General valuation allowance (GVA) | \$ | 73,515 | \$ | 70,581 |
| Allowance for impaired loans | \$ | 2,154 | \$ | 1,850 |
| | | ----- | | ----- |
| Allowances for loan losses | \$ | 75,669 | \$ | 72,431 |
| Allowances for loan losses to gross loans receivable | | 1.94% | | 1.80% |
| Loans sold with recourse | \$ | 115,115 | \$ | 132,424 |
| GVA for loans sold with recourse | \$ | 6,900 | \$ | 12,824 |
| GVA to loans sold with recourse | | 5.99% | | 9.68% |
| Modified loans (not impaired) | \$ | 2,479 | \$ | 934 |
| Impaired loans, net | \$ | 3,043 | \$ | 10,081 |

Capital ratios:

| | | |
|------------------------|-------|-------|
| Tangible capital ratio | 8.00% | 6.41% |
| Core capital ratio | 8.00 | 6.41 |

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| | | |
|---------------------------|-------|-------|
| Risk-based capital ratio | 14.63 | 12.71 |
| Net worth to assets ratio | 8.31 | 6.80 |

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY KEY FINANCIAL HIGHLIGHTS (continued)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|-------------|------------------------------------|-------------|
| | 2002 | 2001 | 2002 | 2001 |
| (Dollars in thousands) | | | | |
| Selected ratios: | | | | |
| Expense ratios: | | | | |
| Efficiency ratio | 39.05% | 39.06% | 40.38% | 37.83% |
| Expense-to-average-assets ratio | 1.26 | 1.20 | 1.27 | 1.17 |
| Return on average assets | 1.45 | 1.08 | 1.19 | 1.10 |
| Return on average equity | 18.88 | 16.34 | 16.14 | 17.20 |
| Yields earned and rates paid: | | | | |
| Average yield on loans and mortgage-backed securities | 6.09% | 7.38% | 6.22% | 7.85% |
| Average yield on investment portfolio (1) | 4.36 | 5.85 | 3.60 | 5.64 |
| Average yield on all interest-earning assets (1) | 6.03 | 7.32 | 6.11 | 7.75 |
| Average rate paid on deposits | 2.30 | 3.89 | 2.53 | 4.38 |
| Average rate paid on borrowings | 4.42 | 5.54 | 4.50 | 5.92 |
| Average rate paid on all interest-bearing liabilities | 3.08 | 4.63 | 3.28 | 5.08 |
| Interest rate spread | 2.95 | 2.70 | 2.83 | 2.67 |
| Effective net spread | 3.12 | 2.89 | 3.00 | 2.88 |
| Average balances: | | | | |
| Average loans and mortgage-backed securities | \$4,067,612 | \$4,237,617 | \$4,135,266 | \$4,166,834 |
| Average investments (2) | 152,573 | 174,266 | 180,418 | 191,132 |
| Average interest-earning assets (2) | 4,220,185 | 4,411,883 | 4,315,684 | 4,357,966 |
| Average deposits | 2,521,587 | 2,335,125 | 2,520,321 | 2,279,646 |
| Average borrowings (3) | 1,461,129 | 1,895,224 | 1,574,076 | 1,903,414 |
| Average interest-bearing liabilities | 3,982,716 | 4,230,349 | 4,094,397 | 4,183,060 |
| Excess of interest-earning assets over interest-bearing liabilities | \$ 237,469 | \$ 181,534 | \$ 221,287 | \$ 174,906 |
| Loan originations and purchases | \$ 283,495 | \$ 415,862 | \$ 871,059 | \$1,230,597 |

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- (1) Excludes FHLB stock dividends and other miscellaneous items.
- (2) Excludes FHLB stock.
- (3) Excludes accrued interest on tax assessment.