LOCAL FINANCIAL CORP /NV
Form 10-Q
May 08, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

/X/ QUARTERLY REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 2002

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:
001-13949

LOCAL FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	65-0424192
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3601 N.W. 63RD, OKLAHOMA CITY, OK	73116
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (405) 841-2298

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 / /

Number of shares outstanding of the registrant's $0.01 par value common stock as of May 1, 2002 were as follows:

NUMBER OF SHARES

19,157,425

LOCAL FINANCIAL CORPORATION
INDEX

PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

LOCAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share data)

	MARCH 31,
	(unaudit
ASSETS	
Cash and due from banks	$ 3
Interest bearing deposits with other banks	6
Securities:	
Available for sale	13
Held to maturity	41
Total securities	55
Loans receivable, net of allowance for loan losses of $27,657 at March 31, 2002 and $27,621 at December 31, 2001	1,96
Federal Home Loan Bank of Topeka and Federal Reserve Bank stock, at cost	3
Premises and equipment, net	4
Assets acquired through foreclosure and repossession, net	
Intangible assets, net	1
Current and deferred taxes, net	
Other assets	5
Total assets	$ 2,78

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:	
Demand	$ 68
Savings	7
Time	1,13
Total deposits	1,88
Advances from the Federal Home Loan Bank of Topeka	60
Securities sold under agreements to repurchase	4
Senior Notes	2
Other liabilities	2
Mandatorily redeemable trust preferred securities	4
Commitments and contingencies	
Stockholders' equity:	
Common stock, $0.01 par value, 25,000,000 shares authorized; 20,646,769 shares issued and 19,157,425 shares outstanding at March 31, 2002 and 20,539,269 shares issued and 19,199,925 shares outstanding at December 31, 2001	
Preferred stock, $0.01 par value, 5,000,000 shares authorized; none outstanding	
Additional paid-in capital	20
Retained earnings	12
Treasury stock, 1,489,344 shares at March 31, 2002 and 1,339,344 shares at December 31, 2001, at cost	(17
Accumulated other comprehensive income, net of tax	
Total stockholders' equity	16
Total liabilities and stockholders' equity	$ 2,78

The accompanying notes are an integral part of these consolidated financial statements.

1

LOCAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except share data)

	THREE M
	2002
	(u
Interest and dividend income:	

Loans	$ 34,471
Securities available for sale	3,621
Securities held to maturity	6,299
Federal Home Loan Bank of Topeka and Federal Reserve Bank stock	518
Other investments	107
Total interest and dividend income	45,016
Interest expense:	
Deposit accounts	13,652
Advances from the Federal Home Loan Bank of Topeka	6,482
Securities sold under agreements to repurchase and other borrowings	127
Senior Notes	636
Trust preferred securities	922
Total interest expense	21,819
Net interest and dividend income	23,197
Provision for loan losses	(1,800)
Net interest and dividend income after provision for loan losses	21,397
Noninterest income:	
Deposit related income	4,293
Loan fees and loan service charges	526
Net gains on sale of assets	70
Other	974
Total noninterest income	5,863
Noninterest expense:	
Compensation and employee benefits	9,786
Equipment and data processing	1,867
Occupancy	1,187
Advertising	139
Professional fees	264
Other	3,432
Total noninterest expense	16,675
Income before income taxes and extraordinary item	10,585
Provision for income taxes	3,506
Income before extraordinary item	7,079
Extraordinary item - purchase and retirement of Senior Notes, net of tax	-
Net income	$ 7,079
Earnings per share:	
Income before extraordinary item:	
Basic	$ 0.37
Diluted	$ 0.36

Net income:	
Basic	$ 0.37
Diluted	$ 0.36
Average shares outstanding:	
Basic	19,174,092
Diluted	19,887,590

The accompanying notes are an integral part of these consolidated financial statements.

LOCAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	THREE M
	2002
	(u
Cash provided (absorbed) by operating activities:	
Net income	$ 7,079
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	1,800
Deferred income tax expense	(344)
Accretion of discounts and amortization of deferred fees on loans acquired and securities, net	(1,458)
Depreciation and amortization	987
Net change in loans held for sale	(2,187)
Net gains on sale of assets	(70)
Change in other assets	(1,362)
Change in other liabilities	5,597
Net cash provided by operating activities	10,042
Cash provided (absorbed) by investing activities:	
Proceeds from principal collections on securities	102,572
Purchases of securities	(35,020)
Purchases of Federal Home Loan Bank stock	-
Proceeds from the sale of Federal Home Loan Bank stock	2,297
Change in loans receivable, net	7,430
Proceeds from disposal of assets acquired through foreclosure and repossession	586
Purchases of premises and equipment	(3,012)
Proceeds from sales of premises and equipment	39

Net cash provided (absorbed) by investing activities	74,892
Cash provided (absorbed) by financing activities:	
Change in transaction accounts	50,055
Change in time deposits	30,055
Change in securities sold under agreements to repurchase	7,322
Proceeds from advances from the Federal Home Loan Bank	802,053
Repayments of advances from the Federal Home Loan Bank	(930,234)
Proceeds from the issuance of common stock	1,075
Purchase of Senior Notes	-
Purchase of treasury stock	(2,309)
Net cash provided (absorbed) by financing activities	(41,983)
Net change in cash and cash equivalents	42,951
Cash and cash equivalents at beginning of period	60,491
Cash and cash equivalents at end of period	$ 103,442
Supplemental disclosures of cash flow information:	
Cash paid (received) during the period for:	
Interest	$ 20,972
Income taxes	$ -
Supplemental schedule of noncash investing and financing activities:	
Transfer of loans to assets acquired through foreclosure and repossession	$ 456

The accompanying notes are an integral part of these consolidated financial statements.

3

LOCAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2002 and December 31, 2001

(1) BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. All adjustments (consisting of only normal recurring adjustments) that are necessary, in the opinion of management, for a fair presentation of the interim financial statements have been included. The interim financial information should be read in conjunction with the audited Consolidated Financial Statements and Notes included in the Local Financial Corporation (the "Company") Form 10-K for the year ended December 31, 2001 as filed with the Securities and Exchange Commission.

(2) LOANS RECEIVABLE

Loans receivable are summarized below at amortized cost (dollars in thousands):

	MARCH 31, 2002 (unaudited)	DECEMBER 31, 2001
Residential real estate	$ 210,890	$ 215,408
Commercial	1,586,812	1,593,432
Held for sale	8,450	6,263
Consumer	186,458	184,663
Total loans	1,992,610	1,999,766
Less: Allowance for loan losses	(27,657)	(27,621)
Loans receivable, net	$ 1,964,953	$ 1,972,145

(3) ADVANCES FROM THE FEDERAL HOME LOAN BANK OF TOPEKA ("FHLB")

Advances from the FHLB are summarized as follows (dollars in thousands):

	MARCH 31, 2002		DECEMBER 31, 2001	
	BALANCE	WEIGHTED AVERAGE CONTRACTUAL RATE	BALANCE	WEIGHTED AVERAGE CONTRACTUAL RAT
Fixed rate	$ 600,024	4.14%	$ 728,205	3.75%

Additionally, the Company had outstanding letters of credit with the FHLB of approximately $90.0 million and $77.1 million at March 31, 2002 and December 31, 2001, respectively. The letters of credit have one-year terms and were pledged to secure certain deposits.

The FHLB requires the Company to hold eligible assets with a lending value, as defined, at least equal to FHLB advances and letters of credit issued. Eligible assets can include such items as first and second mortgage loans, multifamily mortgage loans, commercial and construction real estate loans, small business loans and investment securities which are not already pledged or otherwise encumbered. At March 31, 2002, the Company had approximately $765.4 million in eligible assets pledged against FHLB advances.

At March 31, 2002, the Company had additional borrowing capacity of approximately $388.8 million under the FHLB credit policy.

Scheduled principal repayments to the FHLB at March 31, 2002 are as follows (dollars in thousands):

	AMOUNT	WEIGHTED AVERAGE CONTRACTUAL RATE
Year ending December 31, 2006 and thereafter	$ 600,024	4.14%

(4) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Periodically, the Company provides securities sold under agreements to repurchase to customers as a part of the commercial banking operations. The securities underlying the agreements were under the Company's control at March 31, 2002 and December 31, 2001 and are summarized as follows (dollars in thousands):

	MARCH 31, 2002	DECEMBE 200
Average outstanding balance	$ 39,391	$ 4
Weighted average interest rate during the period	1.30%	
Maximum month-end balance	$ 46,016	$ 5
Outstanding balance at end of period	$ 46,016	$ 3
Weighted average interest rate at end of period	1.32%	
Mortgage-backed securities securing the agreements at period-end:		
Carrying value	$ 52,734	$ 5
Estimated market value	$ 53,641	$ 5
Accrued interest payable at the end of the period	$ -	$

(5) STOCKHOLDERS' EQUITY

In connection with the Company's private placement in 1997, warrants to buy 591,000 shares of common stock of the Company were issued to the placement agent. During the quarter ended March 31, 2002, 100,000 warrants were exercised for proceeds of $1,000,000. As of March 31, 2002, warrants totaling 153,333 remain outstanding. The warrants are exercisable for a five year period ending September 8, 2002 at an exercise price of $10 per share.

During the quarter ended March 31, 2002, the Company repurchased 150,000 shares of the Company's common stock from an officer of the Company at market price amounting to $2.3 million.

(6) COMMITMENTS AND CONTINGENCIES

As of March 31, 2002, Local Oklahoma Bank (the "Bank") had entered into a commitment to purchase $20.0 million in new government agency securities to be issued in April. These securities were issued on April 30, 2002, and, accordingly, are not included in the accompanying March 31, 2002 consolidated statement of financial condition.

(7) COMPREHENSIVE INCOME

Comprehensive income for the periods ended March 31, 2002 and 2001 consists of (dollars in thousands):

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Net income	$ 7,079	$
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities, net of reclassification adjustment	(1,949)	
Comprehensive income	$ 5,130	$

(8) NET INCOME PER SHARE

Stock options and warrants to purchase 2,228,238 and 2,670,005 shares of common stock were outstanding as of March 31, 2002 and 2001, respectively. The stock options and warrants were included in the computation of diluted net income per share for 2002 and 2001 to the extent they were not anti-dilutive.

(9) SEGMENTS

The Company operates as one segment. The operating information used by the Company's chief operating decision-maker for purposes of assessing performance and making operating decisions about the Company is the consolidated financial statements presented herein. The Company has one active operating subsidiary, namely, Local Oklahoma Bank, National Association, a national banking association. The Bank, in turn, has one active operating subsidiary, Local Securities Corporation ("Local Securities"), which is a registered broker-dealer under the Securities Exchange Act of 1934 and provides retail investment products to customers of the Bank. While Local Securities qualifies as a separate operating segment, it is not considered material to the consolidated financial statements for the purposes of making operating decisions and does not meet the 10% threshold for disclosure under Statement of Financial Accounting Standards ("SFAS") No. 131, DISCLOSURE ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION.

In September 2001, the Company formed Local Financial Capital Trust I (the "Trust"), a wholly-owned finance subsidiary. The Trust does not qualify as an operating segment under SFAS No. 131 and has no independent operations and no other function other than the issuance of its securities and the related purchase of 9% junior subordinated debentures (the "Debentures") from the Company and to distribute payments referred thereon to the holders of its securities.

(10) NEW ACCOUNTING PRONOUNCEMENTS

The Company adopted Statement No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, as of January 1, 2002 and no longer amortizes goodwill. As of the date of adoption, the Company had unamortized goodwill in the amount of approximately $15.5 million, which was subject to the transition provisions of Statement No. 142. The Company has determined there was no transitional impairment loss at January 1, 2002. There was no amortization expense for the three months ended March 31, 2002, whereas this expense amounted to $335,000 for the quarter ended March 31, 2001. The Company's reported net income for the three months ended March 31, 2001 adjusted for excluding the effects of goodwill amortization would have been $7.107 million compared to $7.079 million at March 31, 2002. Likewise, the Company's basic and diluted earnings per share for the three months ended March 31, 2001 adjusted for excluding the effects of goodwill amortization would have been $.35 and $.34, respectively, compared to $.37 and $.36 at March 31, 2002, respectively.

In August 2001, the FASB issued SFAS No. 144, "ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS", which supersedes SFAS No. 142 and portions of APB Opinion No. 30. This statement addresses the recognition of an impairment loss for long-lived assets to be held and used, or disposed of by sale or otherwise. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. Management has determined the impact of adopting this statement will not have a material affect on the Company's consolidated financial position or results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

In this Form 10-Q, the Company, when discussing the future, may use words like "anticipate", "believe", "estimate", "expect", "intend", "should" and similar expressions, or the negative thereof. These words represent forward-looking statements. In addition, any analysis of the adequacy of the allowance for loan losses or the interest rate sensitivity of the Bank's assets and liabilities represent attempts to predict future events and circumstances and also represent forward-looking statements.

Many factors could cause future results to differ from what is anticipated in the forward-looking statements. For example, future financial results could be affected by (i) deterioration in local, regional, national or global economic conditions which could cause an increase in loan delinquencies or a decrease in collateral values; (ii) changes in market interest rates or changes in the speed at which market interest rates change; (iii) changes in laws and regulations affecting the financial service industry; (iv) changes in competition and (v) changes in consumer preferences.

A reader should not place unjustified or excessive reliance on any forward-looking statements. They speak only as of the date made and are not guarantees, promises or assurances of what will happen in the future. Various factors, including those described above and those described in the Company's Form 10-K for the year ended December 31, 2001, could affect the Company's financial performance and could cause the Company's actual results or circumstances for future periods to be materially different from what has been anticipated or projected.

CHANGES IN FINANCIAL CONDITION FROM DECEMBER 31, 2001 TO MARCH 31, 2002

During the three months ended March 31, 2002, total assets remained relatively stable, declining $33.3 million or 1.2%. Interest-bearing deposits with other banks rose $58.6 million during the period as a result of a net decrease of $69.2 million in the Company's investment portfolio primarily due to principal paydowns and maturities. The Company's loans receivable, net of allowance, remained relatively stable at $1.96 billion at March 31, 2002 compared with $1.97 billion at December 31, 2001.

Advances from the FHLB of Topeka declined $128.2 million or 17.6% from December 31, 2001 as the Company utilized an $80.1 million increase in deposits as well as the paydowns and maturities in its investment portfolio to meet its funding needs during the period.

Total stockholders' equity increased $3.9 million during the quarter ended March 31, 2002. The increase in stockholders' equity came primarily as a result of earnings during the period offset by an increase in treasury shares. During the quarter ended March 31, 2002, the Company repurchased 150,000 shares at market value for $2.3 million as part of a stock repurchase program which began last year. The increases in additional paid-in capital during the period of $1.1 million were the result of an exercise of 100,000 warrants, which were part of the original 591,000 warrants issued in conjunction with the Company's 1997 private placement, as well as the exercise of 7,500 incentive stock options issued under the Company's 1998 Stock Option Plan. See Note 5 of the Notes to Consolidated Financial Statements. Accumulated other comprehensive income declined $1.9 million during the period. At March 31, 2002, the Company and the Bank exceeded all regulatory requirements to be considered well capitalized. See "--Liquidity and Capital Resources".

8

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND MARCH 31, 2001

NET INCOME. The Company reported income before extraordinary item of $7.1 million or $.37 basic earnings per share, up 12.1% from $.33 per share for the first quarter of 2001. Earnings per share data gives effect to the Company's repurchase of 1.5 million of its outstanding shares. The Company adopted Statement No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, as of January 1, 2002 and, as a result, no longer amortizes goodwill. There was no amortization expense for the three months ended March 31, 2002, whereas this expense amounted to $335,000 for the quarter ended March 31, 2001. The Company's reported net income for the three months ended March 31, 2001 adjusted for excluding the effects of goodwill amortization would have been $7.107 million compared to $7.079 million at March 31, 2002.

NET INTEREST AND DIVIDEND INCOME. Net interest and dividend income for the quarter was $23.2 million, an increase of 12.4% as compared to $20.6 million for the same quarter in the prior year. The average balance of interest-earning assets for the quarter increased over the first quarter of 2001 by $251.7 million or 10.5%, partially offsetting a 138 basis point decline in rates earned on those assets. Rates paid on interest-bearing liabilities declined 160 basis points between the comparative periods, offsetting an increase of $240.9 million or 11.0% in the average balance of those liabilities. Net interest margin in the quarter was 3.50% compared with 3.44% in the same quarter of the prior year. The improvement in net interest margin reflects the increasing spreads arising from funding benefits in the declining rate environment during the year.

INTEREST INCOME. Total interest and dividend income totaled $45.0 million during the three months ended March 31, 2002, down 7.9% from the same period in the prior year, primarily due to the effect of market-driven rate declines on the average yield of the Company's loan portfolio. The 155 basis point decline in average yield on loans was partially offset by a $133.8 million increase in the average balance of loans between the comparative periods which occurred primarily in the commercial loan portfolio. Effective December 31, 2001, the Company reclassified a portion of its investment portfolio from available for sale to held to maturity. The Company's interest income received on its investment portfolio rose by 21.5% from $8.2 million during the quarter ended March 31, 2001 to $9.9 million during the quarter ended March 31, 2002. The increase in interest income on investments was attributable to an increase in the average balance of those investments which outpaced rate declines between the comparative periods.

INTEREST EXPENSE. Total interest expense for the three months ended March 31, 2002 totaled $21.8 million, down $6.4 million or 22.8% from the same quarter in the prior year, primarily due to a 192 basis point decline in the rates paid on deposits coupled with a $67.7 million or 3.9% decline in the average balance of those deposits. Interest expense on advances from the FHLB increased $2.4 million or 57.0% for the three months ended March 31, 2002 as compared to the same period in the prior year as the Company relied upon lower cost advances as a funding source. During the quarter, the Company paid $922,000 in interest expense on its 9% cumulative trust preferred securities (the "Trust Preferred Securities") which were issued on September 20, 2001.

PROVISION FOR LOAN LOSSES. The Company increased its provision for loan losses to $1.8 million for the quarter ended March 31, 2002, up from $750,000 for the same period last year, to cover net charge-offs and to recognize the increased probability that the recent economic slowdown will have an impact on its middle-market commercial borrowers. Charge-offs (net of recoveries) during the quarter were $1.8 million compared with $1.1 million during the same period in the prior year. The Company's basis for the provision for loan losses taken was a function of management's credit risk monitoring process that considers several factors, including among other things, current economic conditions affecting the Company's customers, the payment performance of individual large loans and pools of homogeneous

small loans, portfolio seasoning, change in collateral values, and detailed review of specific large loan relationships.

NONINTEREST INCOME. Noninterest income was $5.9 million for the quarter compared to $4.6 million during the same period in 2001. The components of noninterest income consist of deposit-related income, loan fees and loan service charges, net gains on sale of assets and other income. The Company's continued focus on fee income resulted in a 27.4% increase in noninterest income during the first quarter of 2002 as compared with the same period in the prior year, primarily as a result of increased deposit-related service charges.

NONINTEREST EXPENSE. Noninterest expense for the quarter was $16.7 million, up 15.4% from $14.5 million during the same period in the prior year, primarily as a result of increases in compensation and data processing costs incurred to support new business and long-term growth strategies. The Company's January 1, 2002 adoption of Statement No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, had the effect of reducing noninterest expense for the quarter ended March 31, 2002 by $335,000 through the elimination of goodwill amortization.

ASSET AND LIABILITY MANAGEMENT

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. It is the objective of the Company to attempt to control risks associated with interest rate movements. In general, management's strategy is to evaluate asset and liability balances within maturity categories to control the Company's exposure to earnings variations and variations in the value of assets and liabilities as interest rates change over time.

Management's methods for evaluating interest rate risk include an analysis of the Company's interest rate sensitivity "gap", which is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category.

The following table summarizes the anticipated maturities or repricing of the Company's interest-earning assets and interest-bearing liabilities as of March 31, 2002, based on the information and assumptions set forth in the notes below (dollars in thousands):

	WITHIN THREE MONTHS	THREE TO TWELVE MONTHS	MORE THAN ONE YEAR TO THREE YEARS	MORE THAN THREE YEARS TO FIVE YEARS
Interest-earning assets(1):				
Loans receivable(2)	$ 796,879	$ 308,292	$ 507,575	$ 213,628
Securities:				
Available for sale(3)	30,792	12,838	63,818	13,249
Held to maturity	18,370	39,626	131,450	118,260
Other interest-earning assets(4)	139,575	3,783	-	-
Total	$ 985,616	$ 364,539	$ 702,843	$ 345,137
Interest-bearing liabilities:				
Deposits(5):				

Money market and NOW accounts	$ 217,420	$ 26,625	$ 56,873	$ 43,079
Passbook accounts	3,087	9,260	18,938	13,223
Certificates of deposit	334,313	622,561	129,391	42,473
FHLB advances	-	-	-	100,000
Securities sold under agreements to repurchase	46,016	-	-	-
Senior Notes	-	-	21,545	-
Mandatorily redeemable trust preferred securities	-	-	-	-
Total	$ 600,836	$ 658,446	$ 226,747	$ 198,775
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 384,780	$ (293,907)	$ 476,096	$ 146,362
Cumulative excess of interest-earning assets over interest-bearing liabilities	$ 384,780	$ 90,873	$ 566,969	$ 713,331
Cumulative excess of interest-earning assets over interest-bearing liabilities as a percent of total assets	13.81%	3.26%	20.35%	25.60

(1) Adjustable-rate loans and securities are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they mature and fixed-rate loans and securities are included in the periods in which they are scheduled to be repaid, based on scheduled amortization, in each case as adjusted to take into account estimated prepayments based on, among other things, historical performance.

(2) Balances have been reduced for nonaccrual loans.

(3) Does not include unrealized gain on securities classified as available for sale.

(4) Comprised of cash and due from banks, deposits with other banks, Federal Home Loan Bank stock and Federal Reserve Bank stock.

(5) Adjusted to take into account assumed annual decay rates, which were applied against money market, NOW and passbook accounts.

11

AVERAGE BALANCES, NET INTEREST INCOME, YIELDS EARNED AND RATES PAID

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest income of the Company from interest-earning assets and the resultant average yields, (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates, (iii) net interest income, (iv) interest rate spread, and (v) net interest margin. Information is based on average daily balances during the indicated periods (dollars in thousands):

THREE MONTHS ENDE

	2002		
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST
ASSETS			
Loans receivable(1)	$ 2,006,484	$ 34,471	6.96%
Securities:			
Available for sale(2)	163,660	3,621	8.85
Held to maturity	411,029	6,299	6.13
Total securities	574,689	9,920	6.90
Other earning assets(3)	71,026	625	3.52
Total interest-earning	2,652,199	45,016	6.85%
Noninterest-earning assets	126,591		
Total assets	$ 2,778,790		
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Transaction accounts(4)	$ 560,768	2,572	1.86%
Term certificates of deposit	1,106,136	11,080	4.06
Total deposits	1,666,904	13,652	3.32
FHLB advances	659,747	6,482	3.93
Securities sold under agreements to repurchase and other borrowings	39,516	127	1.30
Senior Notes	21,545	636	11.81
Mandatorily redeemable trust preferred securities	40,250	922	9.16
Total interest-bearing	2,427,962	21,819	3.64%
Noninterest-bearing liabilities	185,856		
Stockholders' equity	164,972		
Total liabilities and stockholders' equity	$ 2,778,790		
Net interest-earning assets	$ 224,237		
Net interest income/interest rate spread		$ 23,197	3.21%
Net interest margin			3.50%
Ratio of average interest-earning to average interest-bearing			109.24%

----

(1) The average balance of loans receivable includes nonperforming loans, interest on which is recognized on a cash basis, and excludes the allowance for loan losses which is included in noninterest-earning assets.
(2) Includes the market valuation accounts.
(3) Includes interest-bearing deposits, Federal Home Loan Bank of Topeka stock and Federal Reserve Bank stock.
(4) Includes passbook, NOW and money market accounts.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY. Liquidity refers to the Company's ability to generate sufficient cash to meet the funding needs of current loan demand, savings deposit withdrawals, principal and interest payments with respect to outstanding borrowings and to pay operating expenses. It is management's policy to maintain greater liquidity than required in order to be in a position to fund loan originations, to meet withdrawals from deposit accounts, to make principal and interest payments with respect to outstanding borrowings and to make investments that take advantage of interest rate spreads. The Company monitors its liquidity in accordance with guidelines established by the Company and applicable regulatory requirements. The Company's need for liquidity is affected by loan demand, net changes in deposit levels and the scheduled

maturities of its borrowings. The Company can minimize the cash required during the times of heavy loan demand by modifying its credit policies or reducing its marketing effort. Liquidity demand caused by net reductions in deposits is usually caused by factors over which the Company has limited control. The Company derives its liquidity from both its assets and liabilities. Liquidity is derived from assets by receipt of interest and principal payments and prepayments, by the ability to sell assets at market prices and by utilizing unpledged assets as collateral for borrowings. Liquidity is derived from liabilities by maintaining a variety of funding sources, including deposits, advances from the FHLB, securities sold under agreements to repurchase and other short and long-term borrowings.

The Company's liquidity management is both a daily and long-term function of funds management. Liquid assets are generally placed in short-term investments such as overnight money funds and short-term government agency securities. If the Company requires funds beyond its ability to generate them internally, various forms of both short and long-term borrowings provide an additional source of funds. At March 31, 2002, the Company had $388.8 million in available borrowing capacity with the FHLB.

At March 31, 2002, the Company had approximately $317.1 million of outstanding loan commitments (including unused lines of credit) for home equity, commercial real estate and commercial business loans and an additional $8.4 million in performance standby letters of credit. Certificates of deposit which are scheduled to mature or reprice within one year totaled $956.9 million at March 31, 2002, and borrowings which are scheduled to mature or reprice within the same period amounted to $46.0 million. The Company anticipates that sufficient funds will be available to meet its current loan commitments and that, based upon past experience and current pricing policies, it can adjust the rates of certificates of deposit to retain a substantial portion of its maturing certificates and also, to the extent deemed necessary, refinance the maturing borrowings.

On September 8, 1997 and in connection with the Company's recapitalization, the Company issued $80.0 million of Senior Notes. As of March 31, 2002, the Company has purchased and retired $58.5 million of those outstanding Senior Notes. These transactions reduced future interest costs associated with those notes. The remaining $21.5 million of Senior Notes have an annual debt service requirement of $2.4 million (or $1.2 million for each semi-annual period).

CAPITAL RESOURCES. The Company issued $35 million in Trust Preferred Securities in September 2001 with an additional issuance of $5.3 million on October 3, 2001. The Trust Preferred Securities increased the Company's regulatory capital, which allows for the continued growth of its banking franchise. The ability to treat these Trust Preferred Securities as regulatory capital under Federal Reserve guidelines, coupled with the Federal income tax deductibility of the related expense, provides the Company with a cost-effective form of capital.

Bank holding companies are required to maintain capital ratios in accordance with guidelines adopted by the Federal Reserve Bank. The guidelines are commonly known as Risk-Based Capital Guidelines. On March 31, 2002, the Company exceeded all applicable capital requirements to be well capitalized by having a total risk-based capital ratio of 10.86%, a tier I risk-based capital ratio of 9.60% and a leverage ratio of 6.89%.

INFLATION AND CHANGING PRICES

The Consolidated Financial Statements and related data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars (except with respect to available for sale securities which are carried at market value), without considering changes in

the relative purchasing power of money over time due to inflation. Unlike most industrial companies, substantially all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following tables present contractual cash obligations and commercial commitments of the Company as of March 31, 2002. See Note 3 of the Notes to the Consolidated Financial Statements and "--Liquidity and Capital Resources" (dollars in thousands):

	Payments due by Period			
Contractual Cash Obligations	Total	Less than One Year	One to Three Years	Mor Thre to Fi
FHLB advances	$ 600,024	$ -	$ -	$
Senior Notes	21,545	-	21,545	
Mandatorily redeemable trust preferred securities	40,250	-	-	
Operating leases	7,686	1,064	1,481	
Data processing maintenance obligation	1,060	-	530	
Total contractual cash obligations	$ 670,565	$ 1,064	$ 23,556	$

In order to support strategic objectives, during 2001 management initiated a project to return its mainframe operations to an internally supported function. The Company's mainframe processing has been operated in a data center operated by a third-party servicer. During the first quarter of 2002, the Company brought its mainframe processing in-house. The Company does not anticipate this action will have a material impact on its consolidated financial condition and the contractual obligations are reflected above.

		Amount of Commitment Expiration		
Commercial Commitments	Unfunded Commitments	Less than One Year	One to Three Years	Mor Thr to F
Lines of credit	$ 236,827	$ 142,440	$ 86,001	$
Standby letters of credit	8,427	7,722	705	
Other commercial commitments	78,367	12,768	4,627	
Total commercial commitments	$ 323,621	$ 162,930	$ 91,333	$

14

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management" included in the Company's Form 10-K for the year ended December 31, 2001 for Quantitative and Qualitative Disclosures about Market Risk.

PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

None

b. Reports on Form 8-K

The Company filed the following Form 8-K during the quarter ended March 31, 2002:

1. A Form 8-K dated February 4, 2002 was filed pursuant to the release of earnings for 2001.

15

SIGNATURES

Pursuant to the requirement 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.

LOCAL FINANCIAL CORPORATION

Date: May 8, 2002

By /s/ Edward A. Townsend

Edward A. Townsend

Chairman of the Board
Chief Executive Officer

LOCAL FINANCIAL CORPORATION

Date: May 8, 2002

By /s/ Richard L. Park

Richard L. Park
Chief Financial Officer