COMMERCIAL FEDERAL CORP
Form 10-K/A
March 01, 2004
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE YEAR ENDED DECEMBER 31, 2002

Commission File Number: 1-11515

COMMERCIAL FEDERAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Nebraska	**47-0658852**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
13220 California Street, Omaha, Nebraska	**68154**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: **(402) 554-9200**

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 $.01 Per Share	**New York Stock Exchange**
Shareholder Rights Plan	**New York Stock Exchange**
7.95% Subordinated Notes due December 2006	**New York Stock Exchange**

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

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 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 registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Securities Exchange Act of 1934. Yes x No ¨

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the average high and low sales price of the registrant s common stock as quoted on the New York Stock Exchange on June 28, 2002, the last business day of the registrant s most recently completed second fiscal quarter, was $1,255,891,676. As of March 14, 2003, there were issued and outstanding 43,744,050 shares of the registrant s common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2003 Annual Meeting of Stockholders See Part III.

Table of Contents

COMMERCIAL FEDERAL CORPORATION

FORM 10-K/A

DECEMBER 31, 2002

INTRODUCTORY NOTE

The purpose of this Form 10-K/A (Amendment No. 2) is to restate the accompanying consolidated statements of financial condition of Commercial Federal Corporation (the Corporation) as of December 31, 2002, 2001 and 2000, and the related consolidated statements of operations, comprehensive income, stockholders equity, and cash flows for each of the two years in the period ended December 31, 2002, for the six months ended December 31, 2000, and for the year ended June 30, 2000. Subsequent to the issuance of the Corporation s consolidated financial statements and the filing of its 2002 Annual Report on Form 10-K with the Securities and Exchange Commission, management of the Corporation determined that the accounting for certain components of a bank owned life insurance policy (BOLI) was incorrect. The effects of the error (BOLI adjustment) were spread over a 12-quarter period beginning with the three months ended December 31, 2000, when the bank owned life insurance policy was first acquired, through the September 30, 2003 quarter. The accounting policy the Corporation previously used resulted in the overstatement of total assets, total stockholders equity, other non-interest income and net income by a like amount.

The aggregate effects of this BOLI adjustment were to reduce previously reported net income for 2002 by $1.5 million, to $107.0 million ($2.36 per basic share and $2.33 per diluted share), a decrease of $.03 per basic share and $.04 per diluted share as compared to amounts previously reported; to reduce previously reported net income for 2001 by $877,000, to $96.8 million ($1.94 per basic share and $1.92 per diluted share), a decrease of $.01 per basic and diluted share as compared to amounts previously reported; and for the six months ended December 31, 2000, to increase the previously reported net loss by $4.1 million, to $73.6 million ($1.35 loss per basic and diluted share), increasing the loss per basic and diluted share by $.08 per share as compared to amounts previously reported. Total assets and total stockholders equity decreased by $6.4 million, $5.0 million and $4.1 million, respectively, at December 31, 2002, 2001 and 2000, respectively. See Note 1 for additional information on the BOLI adjustment.

The Corporation also restated its consolidated statement of financial condition to (i) reflect mortgage loans eligible for repurchase at the Corporation s option and without prior authorization from the Government National Mortgage Association (GNMA) as loans held for sale and (ii) reclassify the principal amount of mortgage loans actually repurchased from GNMA from other assets to loans held for sale. These GNMA restatements properly reflect loans held for sale at fair value, GNMA loans actually repurchased, and other borrowings for the GNMA optional repurchase loans as of December 31, 2002 and 2001. See Note 1 for additional information on these GNMA loans.

In addition, this restatement reflects other reclassifications the Corporation has made to conform to its 2003 financial statement presentations in the accompanying consolidated statements of financial condition and operations. See Note 1 for additional information on these other reclassifications.

The Corporation issued a press release on January 29, 2004, which it filed as an exhibit to a Current Report Form 8-K on the same date, and stated management s intention to restate these financial statements. The Corporation is also restating its financial reports for the first three quarters of 2003 as reflected in the Form 10-Q/A s of the Corporation filed concurrently with this Form 10-K/A.

Table of Contents

This Amendment No. 2 on Form 10-K/A makes revisions to Item 1 (Business), Item 5 (Market for Commercial Federal Corporation s Common Equity and Related Stockholder Matters), Item 6 (Selected Financial Data), Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations), Item 8 (Financial Statements and Supplementary Data), Item 14 (Controls and Procedures) and Item 15 (Exhibits, Financial Statement Schedules, and Reports on Form 8-K).

The principal effects of these changes on the accompanying financial statements are presented in Note 1 to the Corporation s consolidated financial statements. For purposes of this Form 10-K/A, and in accordance with Rule 12b-15 under the Securities and Exchange Act of 1934, as amended, the Corporation has amended and restated in its entirety each item of the Corporation s Form 10-K for the year ended December 31, 2002, which has been affected by these restatements. This Form 10-K/A does not reflect events occurring after the filing of the original Form 10-K, or modify or update those disclosures in any way, except as required to reflect the effects of these restatements.

COMMERCIAL FEDERAL CORPORATION

FORM 10-K/A INDEX

Table of Contents

PART I

ITEM 1. BUSINESS

Forward Looking Statements

This document contains certain statements that are not historical fact but are forward-looking statements that involve inherent risks and uncertainties. Management cautions readers that a number of important factors could cause actual results to differ materially from those in the forward looking statements. Factors that might cause a difference include, but are not limited to: fluctuations in interest rates, inflation, the effect of regulatory or government legislative changes, expected cost savings and revenue growth not fully realized, the progress of strategic initiatives and whether realized within expected time frames, general economic conditions, adequacy of allowance for credit losses, costs or difficulties associated with restructuring initiatives, technology changes and competitive pressures in the geographic and business areas where Commercial Federal Corporation conducts its operations. These forward-looking statements are based on management s current expectations. Actual results in future periods may differ materially from those currently expected because of various risks and uncertainties.

General

Commercial Federal Corporation (the Corporation) was incorporated in the state of Nebraska on August 18, 1983, as a unitary non-diversified savings and loan holding company. The primary purpose of the Corporation was to acquire all of the capital stock of Commercial Federal Bank, a Federal Savings Bank (the Bank) in connection with the Bank s 1984 conversion from mutual to stock ownership. A secondary purpose was to provide the structure to expand and diversify the Corporation s financial services to activities allowed by regulation to a unitary savings and loan holding company. The general offices of the Corporation are located at 13220 California Street, Omaha, Nebraska 68154.

The primary subsidiary of the Corporation is the Bank. The Bank was originally chartered in 1887 and converted to a federally chartered mutual savings and loan association in 1972. On December 31, 1984, the Bank completed its conversion from mutual to stock ownership and became a wholly-owned subsidiary of the Corporation. On August 27, 1990, the Bank s federal charter was amended from a savings and loan to a federal savings bank.

The assets of the Corporation, on an unconsolidated basis, substantially consist of 100% of the Bank s common stock. The Corporation has no significant independent source of income, and therefore depends almost exclusively on cash distributions from the Bank to meet its funding requirements. During the calendar year ended December 31, 2002, the Corporation incurred interest expense on its subordinated extendible notes, cumulative trust preferred securities and unsecured term notes and revolving line of credit. Interest was payable monthly on the subordinated extendible notes, and quarterly on the cumulative trust preferred securities, the unsecured term note and the line of credit. On December 31, 2002, the Corporation redeemed the $45.0 million of cumulative trust preferred securities of the CFC Preferred Trust. These securities were callable after May 14, 2002. The redemption price totaling $46.1 million consisted of the $45.0 million plus accrued interest of $1.1 million. In addition, on December 30, 2002, the Corporation entered into a term and revolving credit agreement totaling $104.0 million. This credit facility is in the form of an unsecured, five-year term note due December 31, 2007, totaling $94.0 million and an unsecured revolving note totaling $10.0 million due December 31, 2003, renewable annually. On December 30, 2002, the $94.0 million term note was drawn down to repay the term note due June 30, 2004, for $49.4 million including accrued interest. The remaining proceeds of $44.6 million were used to redeem the 9.375% cumulative trust preferred securities that were paid off in full by the Corporation on December 31, 2002. This term note had an outstanding principal balance of $94.0 million at December 31, 2002. Terms of the note require quarterly principal payments of $2.4 million and quarterly interest payable at a monthly adjustable rate priced at 100 basis points below the lender s national base rate, or 3.25% at December

31, 2002. For additional information on the debt of the Corporation see Note 14 Other Borrowings to the Consolidated Financial Statements that are filed under Item 8 of this Form 10-K/A Annual Report for the year ended December 31, 2002 (the Report).

Table of Contents

The Corporation began repurchasing its common stock in April 1999. For the year ended December 31, 2002, the Corporation purchased and cancelled 1,057,700 shares of its common stock at a cost of $25.7 million. Since the first repurchase was announced in April 1999, the Corporation has purchased and canceled 16,759,200 shares of its common stock through December 31, 2002, at a cost of $355.7 million. The Corporation also pays operating expenses primarily for shareholder and stock related expenditures such as the annual report, proxy, corporate filing fees and assessments and certain costs directly attributable to the holding company. In addition, common stock cash dividends totaling $15.8 million, or $.35 per common share, were declared during the year ended December 31, 2002.

The Bank pays cash distributions to the Corporation on a periodic basis primarily to cover the amount of the principal and interest payments on the Corporation s debt, to fund the Corporation s common stock repurchases and to repay the Corporation for the common stock cash dividends paid to the Corporation s shareholders. During the year ended December 31, 2002, the Corporation received cash distributions totaling $85.0 million from the Bank. See Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) Liquidity and Capital Resources under Item 7 of this Report for additional information.

The Bank operates as a federally chartered savings institution with deposits insured by the Savings Association Insurance Fund (SAIF) and the Bank Insurance Fund (BIF) both administered by the Federal Deposit Insurance Corporation (FDIC). The Bank is a community banking institution offering commercial and consumer banking services including mortgage loan origination and servicing, commercial and industrial lending, small business banking, construction lending, cash management, brokerage and insurance services, and Internet banking.

At December 31, 2002, the Corporation had assets of $13.1 billion and stockholders equity of $750.1 million, and operated 189 branches located in Colorado (44), Iowa (40), Nebraska (40), Kansas (26), Oklahoma (19), Missouri (14) and Arizona (6). The Bank is one of the largest retail financial institutions in the Midwest and, based upon total assets at December 31, 2002, the Corporation was the 8th largest publicly-held thrift institution holding company in the United States. In addition, the Corporation serviced a loan portfolio totaling $15.6 billion at December 31, 2002, with approximately $11.5 billion in loans serviced for third parties and $4.1 billion in loans serviced for the Bank. See MD&A General under Item 7 of this Report.

The operations of the Corporation are significantly influenced by general economic conditions, by inflation and changing prices, by the related monetary, fiscal and regulatory policies of the federal government and by the policies of financial institution regulatory authorities, including the Office of Thrift Supervision (OTS), the Board of Governors of the Federal Reserve System and the FDIC. Deposit flows and costs of funds are influenced by interest rates on competing investments and general market rates of interest. Lending activities are affected by the demand for mortgage and commercial financing, consumer loans and other types of loans, which, in turn, are affected by the interest rates at which such financings may be offered, the availability of funds, and other factors, such as the supply of housing for mortgage loans and regional economic situations.

The Bank is a member of the Federal Home Loan Bank (FHLB) of Topeka, which is one of the 12 regional banks comprising the FHLB System. The Bank is further subject to regulations of the Federal Reserve Board, which governs reserves required to be maintained against deposits and certain other matters. As a federally chartered savings bank, the Bank is subject to numerous restrictions on operations and investments imposed by applicable statutes and regulations. See Regulation section of this Report.

Corporate Highlights

The Corporation s business and earnings are sensitive to general business and economic conditions in the United States and, in particular, the Midwestern states where it has significant operations. These conditions include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, the strength of the national and local economies and consumer spending, borrowing and savings habits. A continued economic downturn, an increase in unemployment or higher interest rates could decrease the demand for loans and other products and services and result in a deterioration in credit quality and loan performance and collectibility. Higher interest rates also could increase the Corporation s cost to borrow funds and increase the rate the Corporation pays on deposits.

4

Table of Contents

The long-term economic and political effects of terrorism and international hostilities are uncertain which could result in a further economic slowdown that could negatively affect the Corporation s financial condition. These events could adversely affect the Corporation s business and operating results in other ways that presently cannot be predicted. In addition, a continued economic slowdown could negatively impact the purchasing and decision making activities of the Corporation s customers. If terrorist activity, international hostilities or other factors cause a further economic decline, the financial condition and operating results of the Corporation could be materially adversely affected.

The Corporation s earnings also are significantly affected by the fiscal and monetary policies of the federal government and its agencies. The policies of the Federal Reserve Board impact the Corporation significantly. The Federal Reserve Board regulates the supply of money and credit in the United States. Its policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest-bearing deposits and can also affect the value of financial instruments the Corporation holds. Those policies determine to a significant extent the Corporation s cost of funds for lending and investing. Changes in those policies are beyond the Corporation s control and are difficult to predict.

Accounting for Goodwill

Effective January 1, 2002, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (SFAS No. 142), which required that the amortization of goodwill cease, and that goodwill be evaluated for impairment at the reporting unit level. No impairment losses were recognized in 2002. For calendar year 2002, amortization of goodwill totaling $7.8 million that would have been recorded prior to the implementation of this statement, was not recorded against current operations. See Note 11 Intangible Assets to the Consolidated Financial Statements under Item 8 of this Report for additional information.

Mortgage Banking Operations

Historically low interest rates in 2002 generated record volumes of mortgage loan demand contributing to pre-tax gains on the sales of mortgage loans totaling $36.2 million in 2002. These low interest rates also increased mortgage loan pay-downs which in turn caused an increase in amortization expense of mortgage servicing rights and the valuation allowances for impairment losses on mortgage servicing rights during 2002. The amortization expense of mortgage servicing rights increased $13.9 million over 2001 to $31.0 million for 2002. In addition, valuation adjustments for impairment losses totaling $60.4 million were recorded during the year ended December 31, 2002, compared to $19.1 million during 2001. During the year ended December 31, 2002, the Corporation sold available-for-sale investment and mortgage-backed securities totaling approximately $1.1 billion resulting in pre-tax gains of $35.9 million. These net gains were recognized to partially offset the valuation adjustment losses recognized on the mortgage servicing rights portfolio during 2002.

Redemption of Cumulative Trust Preferred Securities

On December 31, 2002, the Corporation redeemed the $45.0 million fixed-rate 9.375% cumulative trust preferred securities of the CFC Preferred Trust. The redemption price totaling $46.1 million consisted of 1,800,000 shares (liquidation amount of $25.00 per security) totaling $45.0 million plus accrued interest totaling approximately $1.1 million. These cumulative trust preferred securities were originally issued on May 14, 1997, and were due May 15, 2027. The redemption of the cumulative trust preferred securities resulted in the Corporation recognizing $1.8 million in expense on the write-off on the related deferred debt issuance costs. These costs are classified in other operating expenses in the Consolidated Statement of Operations for 2002.

Segment Reporting

Effective January 1, 2002, the Corporation s operations were realigned into four lines of business operations for management reporting purposes: Commercial Banking, Mortgage Banking, Retail Banking and Treasury. Before this realignment, the Corporation identified and utilized two lines of business: Community Banking and Mortgage Banking. This realignment was made to allow management to make more well-informed operating decisions, to focus resources to benefit both the Corporation and its customers, and to assess performance and

Table of Contents

products on a continuous basis. See MD&A Operating Results by Segment under Item 7 of this Report and Note 25 Segment Information to the Consolidated Financial Statements under Item 8 of this Report for additional information.

Dissolution of Mortgage Banking Subsidiary

Effective October 1, 2002, Commercial Federal Mortgage Corporation (CFMC), the Bank s wholly-owned full-service mortgage banking subsidiary, was dissolved. All real estate lending, secondary marketing, mortgage servicing and foreclosure activities are now conducted through the Bank. This dissolution had no effect on the Corporation s financial position, liquidity or results of operations.

Common Stock Repurchases

During the year ended December 31, 2002, the Corporation continued to repurchase its outstanding common stock. On February 28, 2002, and on November 25, 2002, the Board of Directors authorized repurchases for 500,000 shares and 5,000,000 shares, respectively, of the Corporation s outstanding common stock. During 2002, the Corporation purchased 1,057,700 shares of its common stock at a cost of $25.7 million.

Regulatory Capital Compliance

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation s financial position and results of operations. The regulations require the Bank to meet specific capital adequacy guidelines. Prompt corrective action provisions contained in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) require specific capital ratios to be considered well-capitalized. At December 31, 2002, the Bank exceeded the minimum requirements for the well-capitalized category. As of December 31, 2002, the most recent notification from the OTS categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action provisions under FDICIA. There are no conditions or events since such notification that management believes have changed the Bank s classification. See Regulation Regulatory Capital Requirements and Note 18 Regulatory Capital to the Consolidated Financial Statements under Item 8 of this Report.

Supervisory Goodwill Lawsuit

On September 12, 1994, the Bank and the Corporation commenced litigation relating to supervisory goodwill against the United States in the United States Court of Federal Claims seeking to recover monetary relief for the government s refusal to honor certain contracts that it had entered into with the Bank. The suit alleges that such governmental action constitutes a breach of contract and an unlawful taking of property by the United States without just compensation or due process in violation of the Constitution of the United States. The Corporation and the Bank are pursuing alternative damage claims of up to approximately $230 million. The Bank also assumed a lawsuit in the merger with Mid Continent Bancshares, Inc. (Mid Continent), a fiscal year 1998 acquisition, against the United States also relating to a supervisory goodwill claim filed by the former company. The litigation status and process of these legal actions, as well as that of numerous actions brought by others alleging similar claims with respect to supervisory goodwill and regulatory capital credits, make the value of the claims asserted by the Bank (including the Mid Continent claim) uncertain as to their ultimate outcome, and contingent on a number of factors and future events which are beyond the control of the Bank, both as to substance, timing and the dollar amount of damages that may be awarded to the Bank and the Corporation if they finally prevail in this litigation.

On March 25, 1998, the Corporation filed a motion for summary judgment and the United States filed a cross motion for summary judgment on the question of liability for breach of contract. On March 24, 2003, the Corporation received an order from the United States Court of Federal Claims denying its motion for summary

Table of Contents

judgment seeking to establish liability for breach of contract and granting the United States government s cross motion seeking to establish no liability for breach of contract with respect to the Corporation s acquisition of Empire Savings Building and Loan (Empire). In the litigation, the Corporation alleged that with respect to its 1987 acquisition of Empire, the Federal Home Loan Bank Board promised that $190 million of goodwill (the amount by which Empire s liabilities exceeded its assets) would be included in the Bank s regulatory capital as well as the $60 million of preferred stock issued by the Bank to fund the acquisition of Empire. The United States Court of Federal Claims granted the Corporation s motion for summary judgment and denied the United States government s cross-motion for summary judgment on the question of liability for breach of contract with respect to the Corporation s acquisition of the savings deposits of Territory Savings and Loan Association (Territory) whereby the Bank accepted a five year $20 million promissory note from the Federal Savings and Loan Insurance Corporation (FSLIC) as part of the FSLIC s payment for the Bank s assumption of Territory s savings deposits. In the litigation, the Corporation alleged that the FSLIC promised that the Bank could include the promissory note in its regulatory capital. The Corporation is currently considering its options in light of the order recently issued by the United States Court of Federal Claims.

Other Information

Additional information concerning the general business of the Corporation during the year ended December 31, 2002, is included in the following sections of this Report and under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and under Item 8 Notes to the Consolidated Financial Statements of this Report. Additional information concerning the Bank s regulatory capital requirements and other regulations which affect the Corporation is included in the Regulation section of this Report.

Additional Information

The Corporation makes its annual, current and quarterly reports available, free of charge, on its corporate web site, *www.comfedbank.com*, as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission. Other information on the Corporation and the Bank are also available on this web site. All information and reports on the Corporation s web site is not incorporated by reference to this annual report Form 10-K/A.

Lending Activities

General

The Corporation s lending activities focus on the origination of first mortgage loans for the purpose of financing or refinancing single-family residential properties, single-family residential construction loans, commercial real estate loans, commercial operating loans, consumer and home improvement loans. Commercial real estate loans, commercial operating and consumer loans have been emphasized during the year ended December 31, 2002. The origination activity of these loans has increased significantly over 2001. Management plans to continue to expand the Corporation s commercial lending activity in 2003 and beyond. Residential loan origination activity, including activity through correspondents, increased significantly in calendar year 2002 due to the low interest rate environment generating new residential loan volumes as well as a large volume of loan refinancing activity compared to prior years. See Loan Activity section of this Report.

The functions of processing and servicing real estate loans, including responsibility for servicing the Corporation s loan portfolio, had been conducted by CFMC, the Bank s wholly-owned mortgage banking subsidiary. Effective October 1, 2002, CFMC was dissolved. All real estate lending, secondary marketing, mortgage servicing and foreclosure activities are now conducted through the Bank. The Corporation conducts loan origination activities primarily through its branch office network to increase the volume of single-family residential loan originations and take advantage of its extensive branch network. The Corporation will continue to originate real estate loans through its branches, loan offices and through its nationwide correspondent network.

Table of Contents

At December 31, 2002, the Corporation s total loan and mortgage-backed securities portfolio was $10.3 billion, representing 78.3% of its $13.1 billion of total assets. Mortgage-backed securities totaled $1.6 billion at December 31, 2002, representing 15.9% of the Corporation s total loan and mortgage-backed securities portfolio. The Corporation s total loan and mortgage-backed securities portfolio was secured primarily by real estate at December 31, 2002.

Commercial real estate and land loans are secured by various types of commercial properties including office buildings, shopping centers, warehouses and other income producing properties. Commercial lending increased during 2002 and is expected to significantly expand for the Corporation in the future. The Corporation s single-family residential construction lending activity is primarily attributable to operations in Las Vegas, Nevada and in its primary market areas. Multi-family residential loans consist of loans secured by various types of properties, including townhomes, condominiums and apartment projects with more than four dwelling units.

The Corporation s primary area of loan production is the origination of loans secured by existing single-family residences. Adjustable-rate single-family residential loans are originated for retention in the Corporation s loan portfolio to match more closely the repricing of the Corporation s interest-bearing liabilities as a result of changes in interest rates and for sale in the secondary market. Fixed-rate single-family residential loans are originated using underwriting guidelines, appraisals and documentation which are acceptable to the Federal Home Loan Mortgage Corporation (FHLMC), the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA) to facilitate the sale of such loans to such agencies in the secondary market. The Corporation also originates fixed-rate single-family residential loans using internal lending policies in accordance with what management believes are prudent underwriting standards but which may not strictly adhere to FHLMC, GNMA and FNMA guidelines. Fixed-rate single-family residential loans are originated or purchased for the Corporation s loan portfolio if such loans have characteristics which are consistent with the Corporation s asset and liability goals and long-term interest rate yield requirements. At December 31, 2002, fixed-rate single-family residential loans remained consistent at $2.5 billion compared to December 31, 2001. The adjustable-rate portfolio decreased to $2.1 billion at December 31, 2002, compared to $2.2 billion at December 31, 2001. The net decrease in adjustable-rate residential loans is due to the low mortgage rate environment in 2002 where many adjustable-rate loans were refinanced into low interest fixed-rate loans.

The Corporation s commercial and multi-family real estate loans are primarily secured by properties located within the Corporation s primary market areas. The Corporation continues to build on its commercial relationships. In the fourth quarter of 2001, the Corporation started a new internet-based full-service cash management program. This service allows businesses access to electronic banking features such as funds transfers, debit consumer accounts, payment of vendors, direct payroll deposit, wire transfers and other services. These loans, which are subject to prudent credit review and other underwriting standards and collection procedures, are expected to constitute a greater portion of the Corporation s lending business in the future.

In addition to real estate loans, the Corporation originates consumer, automobile, home improvement, agricultural, commercial business and savings account loans as well as consumer credit cards through the Corporation s branch and loan office network and direct mail solicitation. Management intends to continue to increase its consumer loan origination activity with strict adherence to prudent underwriting and credit review procedures.

Regulatory guidelines generally limit loans and extensions of credit to one borrower. At December 31, 2002, all loans were within the regulatory limitation of $209.2 million to one borrower.

Table of Contents

Composition of Loan Portfolio

The following table sets forth the composition of the Corporation s loan and mortgage-backed securities portfolios (including loans held for sale and mortgage-backed securities available for sale) as of the dates indicated below. The following table excludes mortgage loans held for sale related to the GNMA optional repurchase program totaling $45.9 million and $44.3 million at December 31, 2002 and 2001, respectively. There were no mortgage loans held for sale related to the GNMA optional repurchase program in periods prior to December 31, 2001. Other than as disclosed below, there were no concentrations of loans which exceeded 10% of total loans at December 31, 2002.

	December 31,						June 30,					
	2002		2001		2000		2000		1999		1998	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)											
Loan Portfolio												
Conventional real estate mortgage loans:												
Loans on existing properties												
Single-family residential	$ 4,334,628	41.4%	$ 4,437,766	42.1%	$ 5,015,369	47.0%	$ 6,684,993	56.4%	$ 6,268,958	57.8%	$ 5,476,608	60.2%
Multi-family residential	273,071	2.6	324,602	3.1	232,203	2.2	193,711	1.6	182,510	1.7	169,860	1.9
Land	53,920	.5	38,797	.4	32,558	.3	30,138	.3	105,504	.9	22,582	.2
Commercial real estate	1,455,864	13.9	1,324,748	12.6	1,138,038	10.7	985,008	8.3	756,412	7.0	494,325	5.4
Total	6,117,483	58.4	6,125,913	58.2	6,418,168	60.2	7,893,850	66.6	7,313,384	67.4	6,163,375	67.7
Construction loans												
Single-family residential	294,962	2.9	304,638	2.9	258,972	2.4	245,302	2.1	241,548	2.2	279,437	3.1
Multi-family residential	133,248	1.3	120,826	1.1	99,041	.9	51,845	.4	25,893	.2	2,979	-
Land	182,261	1.7	178,675	1.7	143,602	1.4	121,396	1.0	-	-	2,803	-
Commercial real estate	159,627	1.5	179,312	1.7	215,979	2.0	152,260	1.3	78,908	.8	40,479	.5
Total	770,098	7.4	783,451	7.4	717,594	6.7	570,803	4.8	346,349	3.2	325,698	3.6
FHA and VA loans	270,825	2.6	270,193	2.6	351,376	3.3	579,021	4.9	463,437	4.3	468,503	5.1
Total real estate loans	7,158,406	68.4	7,179,557	68.2	7,487,138	70.2	9,043,674	76.3	8,123,170	74.9	6,957,576	76.4
Mortgage-backed securities	1,632,622	15.6	1,829,728	17.4	1,514,510	14.2	1,221,831	10.3	1,277,575	11.8	1,083,789	11.9
Total real estate loans and mortgage-backed securities	8,791,028	84.0	9,009,285	85.6	9,001,648	84.4	10,265,505	86.6	9,400,745	86.7	8,041,365	88.3
Consumer, commercial and other loans												
Home improvement and other consumer loans	1,480,486	14.1	1,330,877	12.6	1,361,354	12.8	1,292,806	10.9	1,114,583	10.3	809,671	8.9
Commercial loans	187,647	1.8	170,280	1.6	228,426	2.1	179,703	1.5	186,242	1.7	155,617	1.8
Savings account loans	10,450	.1	18,598	.2	22,589	.2	21,297	.2	19,125	.2	21,948	.2
Leases	117		160		53,836	.5	94,694	.8	122,704	1.1	73,395	.8
Total consumer and other loans	1,678,700	16.0	1,519,915	14.4	1,666,205	15.6	1,588,500	13.4	1,442,654	13.3	1,060,631	11.7
Total loans	$ 10,469,728	100.0%	$ 10,529,200	100.0%	$ 10,667,853	100.0%	$ 11,854,005	100.0%	$ 10,843,399	100.0%	$ 9,101,996	100.0%

(Continued on next page)

Table of Contents

Composition of Loan Portfolio (continued)

	December 31,						June 30,					
	2002		2001		2000		2000		1999		1998	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)											
Balance forward of total loans	$ 10,469,728	100.0%	$ 10,529,200	100.0%	$ 10,667,853	100.0%	$ 11,854,005	100.0%	$ 10,843,399	100.0%	$ 9,101,996	100.0%
Add (subtract):												
Unamortized premiums, net of discounts	16,055		8,984		160		(670)		10,138		14,161	
Unearned income							(16,730)		(22,543)		(13,253)	
Deferred loan costs, net	8,617		5,819		20,250		26,374		11,809		24,178	
Fair market valuation	17,867		1,175									
Loans in process	(201,769)		(209,574)		(196,940)		(164,313)		(153,124)		(112,781)	
Allowance for loan losses	(106,291)		(102,451)		(83,439)		(70,556)		(80,419)		(64,757)	
Allowance for losses on mortgage-backed securities							(280)		(322)		(419)	
Loan portfolio	$ 10,204,207		$ 10,233,153		$ 10,407,884		$ 11,627,830		$ 10,608,938		$ 8,949,125	

For additional information regarding the Corporation s loan portfolio and mortgage-backed securities, see Note 4 Mortgage-Backed Securities, Note 5 Loans Held for Sale and Note 6 Loans Receivable to the Consolidated Financial Statements under Item 8 of this Report.

Table of Contents

The table below sets forth the geographic distribution of the Corporation s total real estate loan portfolio (excluding mortgage-backed securities, consumer and other loans, and before any reduction for unamortized premiums (net of discounts), undisbursed loan proceeds, deferred loan costs, unearned income and allowance for loan losses) as of the dates indicated. The following table excludes mortgage loans held for sale related to the GNMA optional repurchase program totaling $45.9 million and $44.3 million at December 31, 2002 and 2001, respectively. There were no mortgage loans held for sale related to the GNMA optional repurchase program in periods prior to December 31, 2001.

	December 31,						June 30,					
	2002		2001		2000		2000		1999		1998	
State	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)											
Colorado	$ 1,165,297	16.3%	$ 1,302,407	18.1%	$ 1,436,156	19.2%	$ 1,647,963	18.2%	$ 1,686,667	20.8%	$ 1,710,256	24.6%
Iowa	829,101	11.6	776,131	10.8	716,499	9.6	818,293	9.0	737,677	9.1	676,099	9.7
Nebraska	718,466	10.0	735,495	10.2	723,068	9.7	1,073,664	11.9	1,014,198	12.5	985,906	14.2
Kansas	625,109	8.7	668,161	9.3	658,366	8.8	954,020	10.5	860,740	10.6	678,734	9.8
Arizona	464,294	6.5	437,640	6.1	381,628	5.1	351,001	3.9	253,480	3.1	180,740	2.6
Massachusetts	424,513	5.9	156,477	2.2	203,742	2.7	188,500	2.1	62,233	.8	55,902	.8
Missouri	391,314	5.5	395,378	5.5	345,931	4.6	380,653	4.2	329,985	4.1	185,282	2.7
Oklahoma	353,780	4.9	363,114	5.1	378,789	5.1	459,315	5.1	382,474	4.7	318,198	4.6
Nevada	226,695	3.2	232,017	3.2	253,057	3.4	207,364	2.3	160,643	2.0	130,159	1.9
Georgia	180,924	2.5	198,719	2.8	254,097	3.4	302,929	3.3	232,128	2.9	227,971	3.3
Virginia	179,119	2.5	159,396	2.2	153,731	2.0	240,818	2.7	206,814	2.5	161,793	2.3
California	151,489	2.1	196,487	2.7	180,254	2.4	192,598	2.1	247,835	3.0	148,401	2.1
Minnesota	144,629	2.0	120,501	1.7	120,579	1.6	125,979	1.4	92,964	1.1	62,765	.9
Texas	132,126	1.9	185,555	2.6	188,700	2.5	205,783	2.3	184,313	2.3	158,614	2.3
Maryland	129,417	1.8	121,036	1.7	123,827	1.7	208,833	2.3	183,460	2.2	157,180	2.3
Florida	123,334	1.7	170,526	2.4	191,265	2.6	268,492	3.0	242,972	3.0	123,528	1.8
Ohio	90,880	1.3	100,478	1.4	110,181	1.5	143,992	1.6	122,146	1.5	93,325	1.3
Washington	88,694	1.2	89,053	1.2	99,303	1.3	113,932	1.3	93,956	1.2	91,670	1.3
Illinois	80,768	1.1	72,156	1.0	102,066	1.3	137,217	1.5	131,098	1.6	111,142	1.6
North Carolina	79,401	1.1	115,151	1.6	148,086	2.0	135,085	1.5	118,207	1.4	60,634	.9
Michigan	68,453	1.0	41,601	.6	66,295	.9	55,349	.6	29,505	.4	38,495	.5
Alabama	63,028	.9	74,949	1.0	86,709	1.1	125,767	1.4	90,675	1.1	50,285	.7
Connecticut	61,480	.9	57,582	.8	66,068	.9	83,567	.9	71,696	.9	64,975	.9
Utah	35,396	.5	37,459	.5	36,510	.5	53,060	.6	39,336	.5	25,444	.4
New Jersey	28,439	.4	38,876	.5	54,139	.7	71,352	.8	82,068	1.0	98,061	1.4
Pennsylvania	27,313	.4	31,376	.5	40,319	.5	51,811	.6	55,130	.7	59,083	.8
Indiana	21,066	.3	28,293	.4	38,986	.5	63,255	.7	66,727	.8	40,357	.6
New York	16,318	.2	21,296	.3	27,439	.4	31,548	.3	39,146	.5	38,382	.5
Other states	257,563	3.6	252,247	3.6	301,348	4.0	351,534	3.9	304,897	3.7	224,195	3.2
Total	$ 7,158,406	100.0%	$ 7,179,557	100.0%	$ 7,487,138	100.0%	$ 9,043,674	100.0%	$ 8,123,170	100.0%	$ 6,957,576	100.0%

11

Table of Contents

The following table presents the composition of the Corporation s total real estate portfolio (excluding mortgage-backed securities, consumer and other loans, and before any reduction for unamortized premiums (net of discounts), undisbursed loan proceeds, deferred loan costs, unearned income and allowance for loan losses) by state and property type at December 31, 2002:

State	Conventional Residential 1-4 Units	FHA/VA Residential Loans	Multi-Family	Land Loans	Sub Total	Commercial Real Estate Loans	Total	% of Total
	(Dollars in Thousands)							
Colorado	$ 611,720	$ 17,972	$ 85,165	$ 36,154	$ 751,011	$ 414,286	$ 1,165,297	16.3%
Iowa	433,705	11,485	68,235	60,403	573,828	255,273	829,101	11.6
Nebraska	501,175	41,394	36,652	16,131	595,352	123,114	718,466	10.0
Kansas	401,572	52,021	31,616	7,902	493,111	131,998	625,109	8.7
Arizona	242,331	14,829	18,919	34,487	310,566	153,728	464,294	6.5
Massachusetts	422,960		474		423,434	1,079	424,513	5.9
Missouri	202,431	21,017	46,100	6,038	275,586	115,728	391,314	5.5
Oklahoma	184,753	12,656	55,633	7,321	260,363	93,417	353,780	4.9
Nevada	65,676	2,592	26,675	65,465	160,408	66,287	226,695	3.2
Georgia	154,687	9,795			164,482	16,442	180,924	2.5
Virginia	172,478	6,641			179,119		179,119	2.5
California	74,058	2,769	7,174	52	84,053	67,436	151,489	2.1
Minnesota	121,501	4,380	6,675	184	132,740	11,889	144,629	2.0
Texas	60,744	7,531	3,746		72,021	60,105	132,126	1.9
Maryland	117,257	11,945			129,202	215	129,417	1.8
Florida	90,508	3,198	6,931		100,637	22,697	123,334	1.7
Ohio	86,399	2,814	1,198		90,411	469	90,880	1.3
Washington	75,167	9,044	793		85,004	3,690	88,694	1.2
Illinois	76,033	4,433		24	80,490	278	80,768	1.1
North Carolina	66,029	861			66,890	12,511	79,401	1.1
Michigan	64,423	3,490			67,913	540	68,453	1.0
Alabama	55,838	7,190			63,028		63,028	.9
Connecticut	56,701	107	2,417	2,006	61,231	249	61,480	.9
Utah	20,992	7,514	935		29,441	5,955	35,396	.5
New Jersey	27,923	516			28,439		28,439	.4
Pennsylvania	25,123	1,970	206	14	27,313		27,313	.4
Indiana	16,265	4,801			21,066		21,066	.3
New York	11,967	54			12,021	4,297	16,318	.2
Other states	189,174	7,806	6,775		203,755	53,808	257,563	3.6
Total	$ 4,629,590							