FFLC BANCORP INC
Form 10-K
March 14, 2005

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

FORM 10-K

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

For the fiscal year ended December 31, 2004 — Commission File Number 0-22608

FFLC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**59-3204891**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
800 North Boulevard West, Post Office Box 490420, Leesburg, Florida	**34749-0420**
(Address of principal executive offices)	(Zip Code)
Registrant s telephone number, including area code:	**(352) 787-3311**

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

None

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

Common Stock, par value $.01 per share
(Title of Class)

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 other information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES |X| NO |_|

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates was $107,080,935 computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2004, the last business day of the Registrant s most recently completed second fiscal quarter.

The Registrant had 5,411,702 shares outstanding as of February 28, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders for the Fiscal Year Ended December 31, 2004. (Part II and IV)
2. Portions of Proxy Statement for the 2005 Annual Meeting of Stockholders. (Part III)

(CONFORMED COPY)

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

Business

FFLC Bancorp, Inc., (FFLC or the Company) was incorporated in Delaware on September 16, 1993, and acquired First Federal Savings Bank of Lake County (the Bank) in connection with the Bank s conversion to stock form on January 4, 1994. The Company is a savings and loan holding company subject to regulation by the Office of Thrift Supervision (OTS) which mainly transacts its business through its subsidiary, the Bank. At December 31, 2004, the Company had total assets of $1,065.3 million and stockholders equity of $84.5 million.

The Bank was established in 1934 as a federally-chartered mutual savings and loan association. The Bank is a member of the Federal Home Loan Bank (FHLB) System and its deposit accounts are insured to the maximum allowable amount by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2004, the Bank had total assets of $1,063.3 million and stockholders equity of $86.0 million.

During 2002, FFLC Statutory Trust I (the Trust) was formed for the sole purpose of issuing $5,000,000 of trust preferred securities as more fully described in the Borrowings section.

Acquisition

On January 14, 2005, the Company entered into a definitive agreement for the Company and the Bank to be acquired by Colonial BancGroup, Inc., a bank holding company incorporated in Delaware with a subsidiary bank, Colonial Bank, N.A., operating in Alabama, Florida, Georgia, Nevada and Texas. Under the terms of the agreement, shareholders of the Company will elect to receive either 2.0 shares of Colonial stock or $42.00 in cash for each share of the Company stock they own. The cash consideration will be capped at 35% of the transaction and an over-election of cash will result in a pro rata distribution of stock. Completion of the transaction is subject to approval by the shareholders of the Company and various regulatory agencies. See Exhibit 99.1.

Market Area and Competition

The Bank is a community-oriented savings institution offering a variety of financial services to meet the needs of the communities it serves. The Bank s deposit gathering and lending markets are primarily concentrated in the communities surrounding its full service offices located in Lake, Sumter, Citrus and Marion counties in central Florida. Management believes that its offices are located in communities that generally can be characterized as rural service and retirement communities with residential neighborhoods comprised predominately of one-to-four-family residences. The Bank is the largest (by asset size) locally-based financial institution in Lake County, and serves its market area with a wide selection of residential mortgage loans and other retail financial services. Management considers the Bank s reputation for financial strength and customer service as a major advantage in attracting and retaining customers in its market area and believes it benefits from its community orientation as well as its established deposit base and level of core deposits.

The Bank s competition for loans comes principally from commercial banks, savings institutions, and mortgage banking companies. The Bank s most direct competition for savings has historically come from commercial banks, savings institutions and credit unions. The Bank faces additional competition for savings from money-market mutual funds and other corporate and government securities funds. The Bank also faces increased competition for deposits from other financial intermediaries such as securities brokerage firms and insurance companies.

Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The Company s market risk arises primarily from interest-rate risk inherent in its lending and deposit taking activities. To that end, management actively monitors and manages its interest-rate risk exposure. The measurement of market risk associated with financial instruments is meaningful only when all related and offsetting on- and off-balance-sheet transactions are aggregated, and the resulting net positions are identified. Disclosures about the fair value of financial instruments, which reflect changes in market prices and rates, can be found in Note 9 of Notes to Consolidated Financial Statements.

The Company s primary objective in managing interest-rate risk is to minimize the adverse impact of changes in interest rates on the Bank s net interest income and capital, and to adjust the Company s asset-liability structure to obtain the maximum yield-cost spread on that structure. The Company relies primarily on its asset-liability management to control interest-rate risk. However, a sudden and substantial increase in interest rates may adversely impact the Company s earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. The Company does not engage in trading activities.

Lending Activities

Loan Portfolio. The Bank s loan portfolio consists primarily of conventional first mortgage loans secured by one-to-four-family residences, and to a lesser extent, commercial real estate, multi-family loans and consumer related loans. At December 31, 2004, the Bank s total gross loans outstanding were $936.8 million, of which $438.6 million or 46.8% of the Bank s total loan portfolio were one-to-four-family residential first mortgage loans. Of the one-to-four-family residential mortgage loans outstanding at that date, approximately 41% were fixed rate loans and 59% were adjustable-rate (ARM) loans. At the same date, commercial real estate loans and other loans on improved real estate totaled $183.8 million or 19.6% of the Bank s total loan portfolio; construction loans (excluding construction/permanent loans) and land loans totaled $82.0 million or 8.8% of the Bank s total loan portfolio; and multi-family mortgage loans totaled $11.0 million or 1.2% of the Bank s total loan portfolio. Consumer loans, which principally consist of home equity loans, deposit, consumer, and other loans held by the Bank, totaled $183.8 million or 19.6% of the Bank s total loan portfolio and commercial loans totaled $37.6 million or 4.0% of the Bank s total loan portfolio at December 31, 2004.

The following table sets forth the composition of the Bank s loan portfolio in dollar amounts and percentages at the dates indicated:

	At December 31,									
	2000		2001		2002		2003		2004	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	($ in thousands)									
Mortgage loans:										
One-to-four-family	$ 409,600	64.97%	$ 413,712	58.77%	$ 395,116	52.23%	$ 384,514	48.22%	$ 438,610	46.82%
Construction and land	13,006	2.06%	22,951	3.26%	30,792	4.07	43,575	5.47%	82,011	8.75%
Multi-family	17,602	2.79%	20,304	2.88%	22,796	3.01	12,453	1.56%	11,045	1.18%
Commercial real estate and other	79,729	12.65%	108,804	15.46%	140,770	18.61	167,381	20.99%	183,813	19.62%
Total mortgage loans	519,937	82.47%	565,771	80.37%	589,474	77.92	607,923	76.24%	715,479	76.37%
Consumer loans	95,824	15.20%	119,357	16.96%	138,202	18.26	155,438	19.50%	183,793	19.62%
Commercial loans	14,677	2.33%	18,814	2.67%	28,879	3.82	33,990	4.26%	37,550	4.01%
Total loans receivable (1)	630,438	100.00%	703,942	100.00%	756,555	100.00%	797,351	100.00%	936,822	100.00%
Less:										
Loans in process	(12,128)		(14,310)		(16,770)		(24,573)		(47,490)	
Net deferred loan costs	726		592		734		699		1,140	
Allowance for loan losses	(3,552)		(4,289)		(5,181)		(5,490)		(6,492)	
Loans receivable, net	$ 615,484		$ 685,935		$ 735,338		$ 767,987		$ 883,980	

(1) Total loans receivable outstanding by department consists of the following:

Residential	$ 404,494	64.16%	$ 403,897	57.37%	$ 385,711	50.98%	$ 372,551	46.72%	$ 433,116	46.23%
Commercial	130,120	20.64%	180,688	25.67%	229,930	30.39%	265,655	33.32%	315,507	33.68%
Consumer	95,824	15.20%	119,357	16.96%	140,914	18.63%	159,145	19.96%	188,199	20.09%
	$ 630,438	100.00%	$ 703,942	100.00%	$ 756,555	100.00%	$ 797,351	100.00%	$ 936,822	100.00%

Purchase of Mortgage Loans. At December 31, 2004, $1.6 million, or .17% of the Bank s total loan portfolio consisted of purchased mortgage loans or participations in mortgage loans. Purchased mortgage loans and participations in mortgage loans consist of one-to-four-family residential mortgage loans and commercial real estate loans.

Secondary Market Activities. The Bank participates in the secondary market directly and through correspondent relationships, originating loans (primarily 30-year fixed-rate loans) which are primarily funded by the Bank and then reimbursed by the investor correspondents. Funding by the correspondent occurs on some loans. These loans are closed on the Bank s documents with funds provided by the investor correspondent at closing with all credit conditions established by the investor correspondent being satisfied prior to the issuance of a loan commitment. The Bank receives a fee for originating, processing and closing the loans and reports the loans to the OTS as loans originated and sold. In the year ended December 31, 2004, total loans originated by the Bank and through the correspondents amounted to $14.4 million or 6.1% of total mortgage loans originated.

Loan Originations, Sales and Principal Repayments. The following table sets forth the Bank s loan originations, sales and principal repayments for the periods indicated.

	Year Ended December 31,		
	2002	2003	2004
	(In thousands)		
Mortgage loans (gross):			
At beginning of year	$ 565,771	589,474	607,923
Mortgage loans originated:			
One-to-four-family	114,238	183,241	175,082
Construction and land	19,875	24,652	32,804
Multi-family	1,875	2,191	4,367
Commercial real estate	50,362	31,349	23,352
Total mortgage loans originated	186,350	241,433	235,605
Mortgage loans purchased or participated			
Total mortgage loans originated and purchased or participated	186,350	241,433	235,605
Transfer of loans to foreclosed assets	(1,679)	(1,951)	(1,835)
Principal repayments	(103,541)	(132,808)	(89,578)
Sales of loans (1)	(57,427)	(88,225)	(36,636)
At end of year	$ 589,474	607,923	715,479
Consumer loans (gross):			
At beginning of year	119,357	138,202	155,438
Loans originated	69,884	72,188	71,110
Principal repayments	(51,039)	(54,952)	(42,755)
At end of year	$ 138,202	155,438	183,793
Commercial loans (gross):			
At beginning of year	18,814	28,879	33,990
Loans originated	17,560	15,968	9,290
Principal repayments	(7,495)	(10,857)	(5,730)

At end of year	$ 28,879	33,990	37,550

(1) Represents loans originated for and funded by correspondents and loans originated and sold by the Bank.

Maturities of Loans. The following table shows the contractual maturities of the Bank s loan portfolio at December 31, 2004. Loans that have adjustable rates are shown as amortizing to final maturity rather than when the interest rates are next subject to change. The table does not include prepayments or scheduled principal repayments. Prepayments and scheduled principal repayments on the Bank s loans totaled $162.1 million, $198.6 million and $138.1 million for the years ended December 31, 2002, 2003 and 2004, respectively.

	Mortgage Loans				
	One-to-Four-Family	**Other**	**Commercial Loans**	**Consumer Loans**	**Total Loans Receivable**
			(In thousands)		
Amounts due:					
Within 1 year	$ 9,477	35,904	5,480	13,178	64,039
1 to 3 years	5,555	49,147	10,777	38,948	104,427
3 to 5 years	3,742	9,830	11,801	43,995	69,368
5 to 10 years	8,900	37,927	6,260	15,854	68,941
10 to 20 years	94,392	116,551	3,232	71,531	285,706
Over 20 years	316,543	27,511		287	344,341
Total due after 1 year	429,132	240,966	32,070	170,615	872,783
Total amounts due	438,609	276,870	37,550	183,793	936,822
Loans in process	(47,490)				(47,490)
Net deferred loan fees and costs	1,285	(254)	109		1,140
Allowance for loan losses	(1,096)	(3,408)	(702)	(1,286)	(6,492)
Loans receivable, net	$ 391,308	273,208	36,957	182,507	883,980

Loans Due After December 31, 2005. The following table sets forth at December 31, 2004, the dollar amount of all loans due or scheduled to reprice after December 31, 2005, classified according to whether such loans have fixed or adjustable interest rates.

	Due after December 31, 2005		
	Fixed	**Adjustable**	**Total**
		(In thousands)	
Mortgage loans:			
One-to-four-family	$ 179,939	249,194	429,132
Construction and land	10,954	43,002	53,956
Multi-family	1,093	8,145	9,238
Commercial real estate	6,398	171,374	177,772
Consumer loans	116,870	53,745	170,615
Commercial loans	16,437	15,633	32,070
Total	$ 331,690	541,093	872,783

One-to-Four-Family Mortgage Lending. The Bank s primary residential lending emphasis is on the origination of first mortgage loans secured by one-to-four-family residences within its primary lending area. Such residences are primarily single family homes, including condominium and townhouses, that serve as the primary residence of the owner. To a lesser degree, the Bank makes loans on residences used as second homes or as investments. The Bank also offers second mortgage loans which are underwritten applying the same standards as for first mortgage loans.

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In the years ended December 31, 2002, 2003 and 2004, the Bank s total mortgage loan originations, including loans purchased or participated, amounted to $186.4 million, $241.4 million and $235.6 million, respectively, of which $114.2 million, $183.2 million and $175.1 million, respectively, were secured by one -to-four-family properties.

At December 31, 2004, 46.8% of total loans consisted of one -to-four-family residential loans, of which approximately 59% were ARM loans. The Bank s ARM loans may carry an initial interest rate which is less than the fully indexed rate for the loan. The initial discounted rate is determined by the Bank in accordance with market and competitive factors. The Bank offers one-, three-, and five-year ARM loans which adjust by a maximum of 2% per adjustment period, with lifetime caps on increases of 5% to 6%, depending upon the program chosen.

The Bank s policy on one-to-four-family residential mortgage loans generally is to lend up to 80% of the appraised value of property securing the loan, or up to 95% if private mortgage insurance is obtained on the amount of the loan which exceeds 80%.

Commercial and Multi-Family Real Estate Lending. As of December 31, 2004, $183.8 million, or 19.6% of the Bank s total loan portfolio consisted of commercial real estate loans and $11.0 million, or 1.2% of the Bank s total loan portfolio, consisted of multi-family mortgage loans.

The commercial real estate loans in the Bank s portfolio consist of fixed-rate and ARM loans which were originated at prevailing market rates. The Bank s policy has been to originate commercial or multi-family loans only in its primary market area. Commercial and multi-family mortgage loans are generally made in amounts up to 80% of the appraised value of the property. In making such loans, the Bank primarily considers the net operating income generated by the real estate to support the debt service, the financial resources and income level and managerial expertise of the borrower, the marketability of the property and the Bank s lending experience with the borrower.

Commercial Loans. As of December 31, 2004, $37.8 million or 4.0% of the Bank s total loan portfolio, consisted of commercial loans.

Construction and Land Loans. The Bank originates loans to finance the construction of one-to-four-family homes and, to a lesser extent, originates loans for the acquisition and development of land (either unimproved land or improved lots) on which the purchaser can then build. At December 31, 2004, construction (excluding construction/permanent loans) and land loans totaled $82.0 million or 8.8% of the Bank s total loan portfolio.

At December 31, 2004, the Bank had loans in process (undisbursed loan proceeds of construction loans) of $47.5 million which were mainly secured by residential mortgages. The Bank makes residential construction loans to homeo