FIRSTFED AMERICA BANCORP INC
Form 10-Q
February 14, 2001

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

FORM 10-Q

[X]QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2000

[_]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 1-12305

FIRSTFED AMERICA BANCORP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	04-3331237
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

ONE FIRSTFED PARK, SWANSEA, MASSACHUSETTS 02777
(Address of principal executive offices)

Registrant's telephone number, including area code: (508) 679-8181

(Former name, former address and former fiscal year, if changed since last report)

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 [_]

As of February 9, 2001, there were 6,271,757 shares of the Registrant's Common Stock outstanding.

FIRSTFED AMERICA BANCORP, INC.

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FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31, 2000 (unaudited)	March 31, 2000
Assets		
Cash on hand and due from banks.....................	$ 23,683	$ 20,720
Short-term investments.............................	2,660	250
Total cash and cash equivalents...................	26,343	20,970
Mortgage loans held for sale........................	11,193	3,417
Investment in trading securities, at fair value......	815	587
Investment securities available for sale, at fair value (amortized cost of $6,405 and $6,260).........	7,139	5,643
Mortgage-backed securities available for sale, at fair value (amortized cost of $482,383 and $550,109)..	482,132	543,627
Mortgage-backed securities held to maturity (fair value of $2,643 and $2,853).......................	2,623	2,819
Stock in Federal Home Loan Bank of Boston, at cost...	36,959	30,928
Loans receivable, net (net of allowance for loan losses of $13,066 and $12,275).....................	1,002,523	888,760
Accrued interest receivable.........................	8,297	7,018
Mortgage servicing rights...........................	4,955	6,288
Office properties and equipment, net................	24,472	25,187
Real estate owned, net..............................	191	--
Bank-Owned Life Insurance...........................	33,351	32,127

Prepaid expenses and other assets	10,304	12,624
Total assets	$1,651,297	$1,579,995
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$ 668,923	$ 664,682
FHLB advances and other borrowings	843,893	779,662
Advance payments by borrowers for taxes and insurance	4,259	5,984
Accrued interest payable	5,327	4,620
Other liabilities	21,689	23,342
Total liabilities	1,544,091	1,478,290
Stockholders' equity:		
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued	--	--
Common stock, $0.01 par value; 25,000,000 shares authorized; 8,707,152 shares issued	87	87
Additional paid-in capital	85,471	85,449
Retained earnings	68,209	63,270
Accumulated other comprehensive income (loss)	196	(4,470)
Unallocated ESOP shares	(3,872)	(3,872)
Unearned 1997 stock-based incentive plan	(3,004)	(4,438)
Treasury stock	(39,881)	(34,321)
Total stockholders' equity	107,206	101,705
Total liabilities and stockholders' equity	$1,651,297	$1,579,995

See accompanying notes to consolidated financial statements.

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FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2000	1999	2000	1999
	(unaudited)			
Interest and dividend income:				
Loans	$ 19,857	$ 15,326	$ 57,416	$ 44,915
Investment securities	120	199	351	623
Mortgage-backed securities	8,347	8,091	25,435	21,393
Federal Home Loan Bank stock	720	500	2,018	1,451
Total interest and dividend income:	29,044	24,116	85,220	68,382
Interest expense:				

Deposits	6,755	6,187	19,460	18,761
Borrowed funds	13,915	9,796	39,869	25,987
Total interest expense	20,670	15,983	59,329	44,748
Net interest income before loan loss provision	8,374	8,133	25,891	23,634
Provision for loan losses	300	300	900	900
Net interest income after loan loss provision	8,074	7,833	24,991	22,734
Non-interest income:				
Loan servicing income	341	457	1,093	1,622
Gain (loss) on sale of mortgage loans, net	195	(80)	348	(1,011)
Service charges on deposit accounts	465	395	1,207	1,039
Earnings on Bank-Owned Life Insurance	414	383	1,224	1,158
Other income	749	472	2,670	1,740
Total non-interest income	2,164	1,627	6,542	4,548
Non-interest expense:				
Compensation and employee benefits	4,352	3,710	13,296	10,992
Office occupancy and equipment	1,103	961	3,266	3,018
Advertising and business promotion	280	202	885	763
Data processing	436	327	1,267	999
Federal deposit insurance premiums	35	99	104	297
Other expense	936	981	2,969	2,765
Total non-interest expense	7,142	6,280	21,787	18,834
Income before income tax expense	3,096	3,180	9,746	8,448
Income tax expense	966	979	3,047	2,623
Net income	$ 2,130	$ 2,201	$ 6,699	$ 5,825
Basic earnings per share	$ 0.37	$ 0.35	$ 1.14	$ 0.92
Diluted earnings per share	$ 0.37	$ 0.35	$ 1.14	$ 0.92
Weighted average shares outstanding -- basic	5,795,219	6,228,906	5,892,685	6,318,657
Weighted average shares outstanding -- diluted	5,814,741	6,228,906	5,893,750	6,318,657

See accompanying notes to consolidated financial statements.

FIRSTFED AMERICA BANCORP, INC.AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Nine Months Ended December 31, 2000
(Dollars and shares in thousands)
(unaudited)

	Preferred stock	Shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Unallocated ESOP shares	Une 1 st b inc p (sh
Balance at March 31, 2000.................	--	8,707	$87	$85,449	$63,270	$(4,470)	$(3,872)	$(
Earned SIP stock awards.............	--	--	--	(154)	--	--	--	
Earned ESOP shares charged to ex- pense..............	--	--	--	176	--	--	--	
Cash dividends de- clared and paid (1st quarter at $0.07 per share; 2nd and 3rd quar- ters at $0.10 per share).............	--	--	--	--	(1,760)	--	--	
Common stock ac- quired under repur- chase program (391,471 shares at a price of $13.21 per share).........	--	--	--	--	--	--	--	
Common stock ac- quired for certain employee benefit plans (34,265 shares at an aver- age price of $12.62 per share).........	--	--	--	--	--	--	--	
Common stock sold from certain em- ployee benefit plans (4,246 shares at an average price of $14.37 per share).............	--	--	--	--	--	--	--	
Comprehensive income (loss):								
Net income........	--	--	--	--	6,699	--	--	
Other comprehen- sive income, net of tax								
Unrealized hold- ing gains on available for sale securi- ties...........	--	--	--	--	--	7,584	--	
Reclassification								

adjustment for losses (gains)included in net income...	--	--	--	--	--	--	--	
Net unrealized gains..........	--	--	--	--	--	7,584	--	
Tax effect......	--	--	--	--	--	(2,918)	--	
Net-of-tax effect...........	--	--	--	--	--	4,666	--	
Total comprehensive income (loss)......	--	--	--	--	--	--	--	
Balance at December 31, 2000............	--	8,707	$87	$85,471	$68,209	$ 196	$(3,872)	$(

See accompanying notes to consolidated financial statements.

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FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the Nine Months Ended December 31,	
	2000	1999
Cash flows from operating activities:		
Net income..	$ 6,699	$ 5,825
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization (accretion) of:		
Premium (discount) on investment and mortgage-backed securities..	(385)	461
Deferred loan origination costs.....................	(138)	(132)
Mortgage servicing rights...........................	1,837	1,462
Provision for loan losses............................	900	900
(Gains) losses on sales of:		
Real estate owned..................................	(8)	(52)
Land, building and equipment.......................	(2)	(30)
Mortgage loans.....................................	(348)	1,011
Net proceeds from sales of mortgage loans............	59,211	210,739
Origination of mortgage loans held for sale..........	(67,143)	(165,039)
Earnings on Bank-Owned Life Insurance................	(1,224)	(1,158)
Unrealized gain on trading securities................	(128)	(136)
Real estate owned valuation adjustments..............	--	(43)
Depreciation of office properties and equipment.......	2,038	1,890
Appreciation in fair value of ESOP shares............	176	178

Earned SIP shares	1,280	1,277
Increase or decrease in:		
Accrued interest receivable	(1,279)	(168)
Prepaid expenses and other assets	(598)	(859)
Accrued interest payable	707	1,579
Accrued income taxes and other liabilities	(1,653)	(1,750)
Net cash provided by (used in) operating activities	(58)	55,955
Cash flows from investing activities:		
Purchase of trading securities	(100)	(100)
Purchase of investment securities available for sale	(142)	--
Purchase of mortgage-backed securities available for sale	--	(218,473)
Payments received on mortgage-backed securities available for sale	68,110	89,174
Maturities of investment securities held to maturity	--	10,000
Payments received on mortgage-backed securities held to maturity	196	2,369
Purchase of Federal Home Loan Bank stock	(6,031)	(1,118)
Net increase in loans	(114,829)	(48,607)
Proceeds from sales of real estate owned	121	609
Purchases of office properties and equipment	(1,323)	(1,843)
Proceeds from sales of office properties and equipment	2	103
Net cash used in investing activities	(53,996)	(167,886)
Cash flows from financing activities:		
Net increase (decrease) in deposits	4,241	(24,780)
Proceeds from FHLB advances and other borrowings	3,456,227	1,981,836
Repayments on FHLB advances and other borrowings	(3,391,996)	(1,837,048)
Net change in advance payments by borrowers for taxes and insurance	(1,725)	(1,344)
Cash dividends paid	(1,760)	(1,336)
Common stock repurchased, net	(5,560)	(4,631)
Net cash provided by financing activities	59,427	112,697
Net increase in cash and cash equivalents	5,373	766
Cash and cash equivalents at beginning of period	20,970	39,020
Cash and cash equivalents at end of period	$ 26,343	$ 39,786
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 58,622	$ 43,169
Income taxes	$ 4,175	$ 1,835
Supplemental disclosures of noncash investing activities:		
Property acquired in settlement of loans	$ 304	$ 231

See accompanying notes to consolidated financial statements.

FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of FIRSTFED AMERICA BANCORP, INC. (the "Company"), its wholly-owned subsidiaries, First Federal Savings Bank of America (the "Bank"), FAB FUNDING CORPORATION ("FAB FUNDING") and FIRSTFED INSURANCE AGENCY, LLC (the "Agency"), and its 65% interest in FIRSTFED TRUST COMPANY, N.A. (the "Trust Company"). The remaining 35% interest of the Trust Company is held by M/D Trust, LLC, a minority owner. First Federal Savings Bank of America includes its wholly-owned subsidiaries, FIRSTFED MORTGAGE CORPORATION, FIRSTFED INVESTMENT CORPORATION, and CELMAC INVESTMENT CORPORATION.

The interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three months and nine months ended December 31, 2000 are not necessarily indicative of the results of operations that may be expected for all of fiscal year 2001.

Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report to Stockholders on Form 10-K for the fiscal year ended March 31, 2000.

Note 2. Impact of Recent Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," was issued in June 2000 and amends the accounting and reporting standards of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," for certain derivative instruments and hedging activities. These amendments include the application of the normal purchases and sales exception in SFAS No. 133, and redefinition of hedged risk. SFAS No. 138 also amends SFAS No. 133 for decisions made by the Financial Accounting Standards Board relating to the Derivatives Implementation Group process. SFAS No. 138 will be adopted concurrently with SFAS No. 133 on April 1, 2001. The adoption of these statements by the Company is not expected to materially affect the results of operations or financial condition of the Company.

SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," was issued in September 2000 and replaces SFAS No. 125 of the same title. This statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but carries over most of SFAS No. 125's provisions without reconsideration. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001 and is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The adoption of this statement by the Company is not expected to materially affect the results of operations or financial condition of the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

General

Total assets at December 31, 2000 were $1.651 billion, an increase of $71.3 million, or 4.5%, compared to $1.580 billion at March 31, 2000. Asset growth was primarily attributable to growth in loans receivable, net, which increased $113.8 million, or 12.8%, to $1,002.5 million at December 31, 2000 from $888.8 million at March 31, 2000. Partially offsetting this growth was a $61.5 million decrease in mortgage-backed securities available for sale. Balance sheet growth was primarily funded by increases of $64.2 million in Federal Home Loan Bank advances and other borrowings and $4.2 million in deposit balances during the first nine months of fiscal year 2001.

Total stockholders' equity increased $5.5 million, or 5.4%, to $107.2 million at December 31, 2000, from $101.7 million at March 31, 2000. The increase was due to $6.7 million in net income, a $4.7 million increase in the fair market value of available for sale securities, net of tax, and $1.4 million in earned Stock-based Incentive Plan awards, partially offset by $5.6 million in treasury stock purchases and $1.8 million in dividends paid to stockholders. Stockholders' equity to assets was 6.49% at December 31, 2000, up from 6.44% at March 31, 2000. Book value per share increased 10.8% to $18.71 at December 31, 2000 from $16.88 at March 31, 2000, due to the $5.5 million increase in stockholders' equity and a decrease in shares outstanding. As of December 31, 2000, the Company has repurchased 128,800 shares of its stock, or 40% of the 320,028 shares authorized for repurchase under the Company's seventh stock repurchase program announced on September 29, 2000. The Company has repurchased 2,435,395 shares since May 15, 1998 through seven stock repurchase programs, reducing the legal number of shares outstanding to 6,271,757.

Liquidity and Capital

The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans, FHLB advances, and other borrowings. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and mortgage prepayments are influenced by general interest rates, economic conditions and competition. The Bank is required to maintain minimum levels of liquid assets as defined by Office of Thrift Supervision ("OTS") regulations. This requirement, which may be varied at the direction of the OTS depending upon economic conditions and deposit flows, is based upon a percentage of the Bank's deposits and short-term borrowings ("liquidity ratio"). At December 31, 2000 and March 31, 2000, the Bank's liquidity ratio was 27.99% and 28.35%, respectively. The OTS required liquidity ratio is 4.0%.

The Company's most liquid assets are cash, short-term investments, mortgage loans held for sale, investments in trading securities, investment securities available for sale, and mortgage-backed securities available for sale. The levels of these assets are dependent on the Company's operating, financing, lending and investing activities during any given period. At December 31, 2000, cash and cash equivalents, mortgage loans held for sale, investments in trading securities, investment securities available for sale, and mortgage-backed securities available for sale totaled $527.6 million, or 32.0% of total assets.

The Company has other sources of liquidity if a need for additional funds arises, including a $25.0 million FHLB secured line of credit, FHLB advances, and other borrowings from securities dealers. At December 31, 2000, the Company had $843.9 million in advances outstanding from the FHLB and other borrowings, and an additional borrowing capacity from the FHLB of $127.0 million including the $25.0 million line of credit. The Company uses FHLB advances and other borrowings to fund asset growth and other cash flow needs, and may continue to do so in the future, depending on market conditions, the pricing of deposit products, and the pricing of FHLB advances and other borrowings.

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At December 31, 2000, the Company had commitments to originate loans and unused outstanding lines of credit and undistributed balances of construction loans totaling $131.6 million. The Company anticipates that it will have sufficient funds available to meet its current loan origination commitments. Certificate of deposit accounts scheduled to mature in less than one year from December 31, 2000 totaled $331.9 million. The Company expects that it will retain a majority of maturing certificate accounts.

At December 31, 2000, the Bank exceeded all of its regulatory capital requirements. The Bank's tangible capital of $102.2 million, or 6.22%, of total adjusted assets, was above the required level of $32.9 million or 2.0%; core capital of $102.2 million, or 6.22% of total adjusted assets, was above the required level of $65.7 million, or 4.0%; risk-based capital of $112.3 million, or 13.84% of risk-weighted assets, was above the required level of $64.9 million or 8.0%, and Tier 1 risk-based capital of $102.2 million, or 12.59% of risk-weighted assets, was above the required level of $32.5 million or 4.0%. The Bank is considered a "well capitalized" institution under the OTS prompt corrective action regulations.

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Asset Quality

At December 31, 2000, non-accrual loans totaled $954,000 and real estate owned ("REO") totaled $191,000. The Company ceases to accrue interest on loans 90 days or more past due and charges off all accrued interest. Foregone interest on non-accrual loans for the three months ended December 31, 2000 was $15,000 and was $27,000 for the nine months ended December 31, 2000. The following table sets forth information regarding non-accrual loans and REO.

	At December 31, 2000	At March 31, 2000
	(Dollars in thousands)	
Non-accrual loans:		
Mortgage loans:		
One- to four-family..........................	$ 776	$ 941
Multi-family..................................	--	--
Commercial real estate........................	--	--
Construction and land.........................	--	--
Total mortgage loans........................	776	941

Commercial loans	90	345
Consumer loans:		
Home equity lines	--	--
Second mortgages	66	12
Other consumer loans	22	12
Total consumer loans	88	24
Total nonaccrual loans	954	1,310
Real estate owned, net(1)	191	--
Total non-performing assets	$1,145	$1,310
Allowance for loan losses as a percent of loans(2)	1.29%	1.36%
Allowance for loan losses as a percent of non-performing loans(3)	1,370%	937%
Non-performing loans as a percent of loans(2)(3)	0.09%	0.15%
Non-performing assets as a percent of total assets(4)	0.07%	0.08%

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(1) REO balances are shown net of related valuation allowances.

(2) Loans includes loans receivable, net, excluding allowance for loan losses.

(3) Non-performing loans consist of all loans 90 days or more past due and other loans which have been identified by the Company as presenting uncertainty with respect to the collectability of interest or principal.

(4) Non-performing assets consist of non-performing loans and REO.

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Cautionary Statement

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and the subsidiaries include, but are not limited to, changes in: interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information about the Company and its business, including additional factors that could materially affect the Company's financial results, is included in the Company's other filings with the Securities and Exchange Commission.

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

RESULTS OF OPERATIONS

General

Net income decreased $71,000, or 3.2%, to $2.1 million for the three months ended December 31, 2000 from $2.2 million for the three months ended December 31, 1999. Basic and diluted earnings per share ("EPS") increased 5.7% to $0.37 for the third quarter of fiscal year 2001 from $0.35 per share for the third quarter of fiscal year 2000. Pre-tax income decreased $84,000, or 2.6%, to $3.1 million, the net result of increases in net interest income of $241,000, non-interest income of $537,000 and non-interest expense of $862,000. The growth in EPS for the third quarter of fiscal year 2001, compared to the third quarter of fiscal year 2000, was caused by a reduction in shares outstanding as a result of the Company's stock repurchases.

Year to date net income increased $874,000, or 15.0%, to $6.7 million for the nine months ended December 31, 2000 from $5.8 million for the nine months ended December 31, 1999. Basic and diluted EPS increased 23.9% to $1.14 for the first nine months of fiscal year 2001 from $0.92 per share for the first nine months of fiscal year 2000. Pre-tax income increased $1.3 million, or 15.4%, to $9.7 million, the net result of increases in net interest income of $2.3 million, non-interest income of $2.0 million and non-interest expense of $3.0 million. The growth in EPS for the first nine months of fiscal year 2001, compared to the same period of fiscal year 2000, was caused by the growth in net income and a reduction in shares outstanding as a result of the Company's stock repurchases.

Net Interest Income

Net interest income before provision for loan losses increased $241,000, or 3.0%, to $8.4 million for the third quarter of fiscal year 2001 from $8.1 million for the third quarter of fiscal year 2000. The net interest rate spread decreased 20 basis points to 1.88% for the third quarter of fiscal year 2001 from 2.08% for the third quarter of fiscal year 2000.

Year to date net interest income before provision for loan losses increased $2.3 million, or 9.5%, to $25.9 million for the first nine months of fiscal year 2001 from $23.6 million for the first nine months of fiscal year 2000. The net interest rate spread decreased 10 basis points to 1.96% for the first nine months of fiscal year 2001 from 2.06% for the first nine months of fiscal year 2000.

The increases in net interest income for the third quarter and year to date periods of fiscal year 2001, compared to the same periods of fiscal year 2000, were primarily due to growth in loans receivable funded by increases in FHLB advances and other borrowings. Rising interest rates during most of the past year, however, contributed to a narrowing of the net interest rate spreads during the fiscal year 2001 periods. The growth in the average balances of loans receivable during the third quarter and year to date periods of fiscal year 2001, compared to the same periods of fiscal year 2000, was due to several key factors. Rising market interest rates resulted in the Company's shift to origination of adjustable-rate mortgages that are generally retained for portfolio, from origination of fixed-rate mortgages that are generally sold in the secondary market, and decreased prepayment speeds on loans. In addition, favorable economic conditions, combined with the Company's promotional efforts, resulted in growth in commercial and consumer loans.

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income is a function of both the relative amounts of interest earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.

The following tables set forth certain information relating to the Company for the periods indicated. The average yields and costs are derived by dividing income or expense by the average balance of interest earning assets or interest bearing liabilities, respectively, for the periods shown. Average balances are derived from the best available daily or monthly data, which management believes approximates the average balances computed on a daily basis. The yields and the costs include fees, premiums and discounts which are considered adjustments to yields.

	For the Three Months Ended December 31,					
	2000			1999		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans receivable, net and mortgage loans held for sale........	$1,006,240	$19,857	7.89%	$ 811,354	$15,326	7.56%
Investment securities...........	46,747	840	7.13	46,865	699	5.93
Mortgage-backed securities...........	492,806	8,347	6.78	532,156	8,091	6.08
Total interest-earning assets.....	1,545,793	29,044	7.52	1,390,375	24,116	6.94
Noninterest-earning assets.................	99,146			98,608		
Total assets........	$1,644,939			$1,488,983		
Liabilities and Stockholders' Equity:						

Interest-bearing liabilities:						
Deposits..............	$ 609,129	6,755	4.40	$ 608,884	6,187	4.04
FHLB advances and other borrowings.....	845,875	13,915	6.53	699,625	9,796	5.57
Total interest-bearing liabilities........	1,455,004	20,670	5.64	1,308,509	15,983	4.86
Noninterest-bearing liabilities..........	84,846			76,708		
Total liabilities...	1,539,850			1,385,217		
Stockholders' equity..	105,089			103,766		
Total liabilities and stockholders' equity.............	$1,644,939			$1,488,983		
Net interest rate spread.................		$ 8,374	1.88%		$ 8,133	2.08%
Net interest margin.....			2.15%			2.33%
Ratio of interest-earning assets to interest-bearing liabilities............	106.24%			106.26%		

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For the Nine Months Ended December 31,

	2000			1999		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans receivable, net and mortgage loans held for sale........	$ 976,591	$57,416	7.84%	$ 799,079	$44,915	7.49%
Investment securities...........	44,570	2,369	7.05	47,763	2,074	5.78
Mortgage-backed securities...........	514,733	25,435	6.59	487,341	21,393	5.85
Total interest-earning assets.....	1,535,894	85,220	7.40	1,334,183	68,382	6.83

Noninterest-earning assets	99,903			98,397		
Total assets	$1,635,797			$1,432,580		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Deposits	$ 608,449	19,460	4.25	$ 611,588	18,761	4.08
FHLB advances and other borrowings	839,102	39,869	6.31	636,939	25,987	5.43
Total interest-bearing liabilities	1,447,551	59,329	5.44	1,248,527	44,748	4.77
Noninterest-bearing liabilities	84,380			78,391		
Total liabilities	1,531,931			1,326,918		
Stockholders' equity	103,866			105,662		
Total liabilities and stockholders' equity	$1,635,797			$1,432,580		
Net interest rate spread		$25,891	1.96%		$23,634	2.06%
Net interest margin			2.24%			2.33%
Ratio of interest-earning assets to interest-bearing liabilities	106.10%			106.86%		

Provision for Loan Losses

The Company's provision for loan losses remained unchanged at $300,000 for the third quarters of fiscal years 2001 and 2000, and $900,000 for the first nine months of fiscal years 2001 and 2000. The allowance for loan losses was $13.1 million, or 1.29% of loans receivable, at December 31, 2000, compared to $12.3 million, or 1.36% of loans receivable, at March 31, 2000.

Non-performing loans decreased to $954,000, or 0.09% of loans receivable, at December 31, 2000, from $1.3 million, or 0.15% of loans receivable, at March 31, 2000. At December 31, 2000, the Company's non-performing assets, which include non-performing loans and REO, decreased $165,000 to $1.1 million compared to $1.3 million at March 31, 2000. The current levels of non-performing loans and assets are primarily a result of the strength of the local economy and conservative loan underwriting.

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The Company establishes provisions for loan losses, which are charged to operations, based on management's assessment of the loan loss reserve level, the existing loan portfolio, current market conditions, and the volume and mix of new originations. To the extent the Company experiences further increases in the overall balance of its loan portfolio or increases its concentrations of loans which bear a higher degree of risk than one- to four-family loans, the Company anticipates further increases in its allowance for loan losses through continued provisions for loan losses. While management of the Company believes that the current level of its allowance for loan losses is sufficient based on information currently available at this time, no assurances can be made that future events, conditions or regulatory directives will not result in increased provisions for loan losses or additions to the Company's allowance for loan losses which may adversely affect net income.

Non-interest Income

Non-interest income increased $537,000, or 33.0%, to $2.2 million for the third quarter of fiscal year 2001 from $1.6 million for the third quarter of fiscal year 2000. This increase was primarily attributable to an improvement of $275,000 in gain (loss) on sale of mortgage loans, net, and a $277,000 increase in other non-interest income, partially offset by a $116,000 decrease in loan servicing income.

Year to date non-interest income increased $2.0 million, or 43.8%, to $6.5 million for the first nine months of fiscal year 2001 from $4.5 million for the first nine months of fiscal year 2000. This increase was primarily attributable to an improvement of $1.4 million in gain (loss) on sale of mortgage loans, net, and a $930,000 increase in other non-interest income, partially offset by a $529,000 decrease in loan servicing income.

The change in gain (loss) on sale of mortgage loans reflected a decrease in the origination of saleable fixed rate mortgages during the first nine months of fiscal year 2001 as compared to the first nine months of fiscal year 2000, and unfavorable secondary market conditions that existed during the first nine months of fiscal year 2000. The increases in other non-interest income were primarily attributable to higher insurance commissions and trust fees during the first nine months of fiscal year 2001 as compared to the first nine months of fiscal year 2000. The decreases in loan servicing income were primarily attributable to a $13.9 million decline in the average portfolio of loans serviced for others during the first nine months of fiscal year 2001 compared to the same period of fiscal year 2000, reflecting a shift during most of the past year to production of adjustable rate mortgages that are generally retained for portfolio, and a $237,000 reduction in the valuation reserve for mortgage servicing rights during the first nine months of fiscal year 2000. The average loan servicing fee on the portfolio of loans serviced for others was approximately 25 basis points during the first nine months of fiscal years 2001 and 2000.

Non-interest Expense

Non-interest expense increased $862,000, or 13.7%, to $7.1 million for the third quarter of fiscal year 2001 from $6.3 million for the third quarter of fiscal year 2000, due primarily to a $642,000 increase in compensation and benefits. Year to date non-interest expense increased $3.0 million, or 15.7%, to $21.8 million for the first nine months of fiscal year 2001 from $18.8 million for the first nine months of fiscal year 2000, due primarily to a $2.3 million increase in compensation and benefits.

The higher level of expenses for the third quarter and year to date periods of fiscal year 2001, compared to the same periods of fiscal year 2000, included costs associated with the Company's new retail banking and business banking offices in downtown Providence, Rhode Island, both of which opened earlier this year, two insurance agencies acquired in March 2000, FIRSTFED TRUST COMPANY, N.A., which opened in February 2000, and the accounting impact of an increase in the market price of the Company's stock held by certain employee benefit plans.

Income Taxes

Income tax expense decreased $13,000, or 1.3%, to $966,000 for the third quarter of fiscal year 2001 from $979,000 for the third quarter of fiscal year 2000. Year to date income tax expense increased $424,000, or 16.2%, to $3.0 million for the first nine months of fiscal year 2001 from $2.6 million for the first nine months of fiscal years 2000. These changes were due primarily to the changes in income before income tax expense. The Company's effective tax rate increased slightly to 31.3% during the first nine months of fiscal year 2001 from 31.0% for the first nine months of fiscal year 2000.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal market risk affecting the Company is interest-rate risk. The principal objective of the Company's interest rate risk management function is to evaluate the interest rate risk included in certain balance sheet accounts, determine the level of risk appropriate given the Company's business strategy, operating environment, capital and liquidity requirements and performance objectives, and manage the risk consistent with Board of Directors' approved guidelines. Through such management, the Company seeks to reduce the vulnerability of its operations to changes in interest rates. The Company monitors its interest rate risk as such risk relates to its operating strategies. The Company's Board of Directors has established an Asset/Liability Committee, responsible for reviewing its asset/liability policies and interest rate risk position, which meets on a monthly basis and reports trends and interest rate risk position to the Board of Directors on a quarterly basis. The extent of the movement of interest rates is an uncertainty that could have a negative impact on the earnings of the Company.

In recent years, the Company has primarily utilized the following strategies to manage interest rate risk: (1) emphasizing the origination and retention of adjustable-rate and shorter-term (generally twelve years or less) fixed-rate, one- to four-family mortgage loans; (2) selling in the secondary market longer-term, fixed-rate mortgage loans originated while generally retaining the servicing rights on such loans; (3) investing primarily in adjustable rate mortgage-backed securities and short-term fixed-rate collateralized mortgage obligations ("CMOs"); and (4) reducing the overall interest rate sensitivity of liabilities by emphasizing longer-term deposits and longer-term FHLB advances to replace rate sensitive deposits and fund asset growth. In addition, the Company engaged in two interest rate swap agreements with a total notional principal amount of $50 million to synthetically lengthen its liability maturities.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring a bank's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that same time period.

At December 31, 2000, the Company's cumulative one year interest rate gap (which is the difference between the amount of interest-earning assets and the amount of interest-bearing liabilities maturing or repricing within one year) as a percentage of total assets was approximately zero. Accordingly, during changing interest rate environments, the Company's interest-earning assets would tend to reprice at approximately the same rate as its interest-bearing liabilities, which, consequently, would have a minimal affect on the Company's net interest income.

Certain shortcomings are inherent in gap analysis. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate loans, have features which restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the cumulative one year interest rate gap. Finally, the ability of some borrowers to service their adjustable-rate loans may decrease in the event of an interest rate increase.

The Company's interest rate sensitivity is also monitored by management through the use of a model which generates estimates of the change in the Company's net interest income ("NII") and net portfolio value ("NPV") over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the estimated market value of assets in the same scenario. The OTS produces a similar analysis for the Bank using its own model, based upon data submitted on the Bank's quarterly Thrift Financial Report, the results of which may vary from the Company's internal model primarily due to differences in assumptions utilized between the Company's internal model and the OTS model, including estimated loan prepayment rates, reinvestment rates and deposit renewal rates.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV require certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the Company's NPV model incorporates an assumption that the composition of the Company's interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured, and that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV measurements and net interest income models provide an indication of the Company's interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on the Company's net interest income and will differ from actual results.

The Company follows a practice of selling certain fixed-rate and adjustable-rate mortgage loans while generally retaining the servicing rights. In conjunction with this mortgage banking activity, the Company uses forward contracts in order to reduce exposure to interest-rate risk. The amount of forward coverage of the "pipeline" of mortgages is managed on a day-to-day basis by an operating officer, within Board approved policy guidelines, based on the Company's assessment of the general direction of interest rates and levels of mortgage origination activity.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not engaged in any legal proceedings of a material nature at the present time. From time to time, the Company is a party to routine legal proceedings within the normal course of business. Such routine legal proceedings in the aggregate are believed by management to be immaterial to the Company's financial condition or results of operations.

Item 2. Changes in Securities and Use of Proceeds

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to Vote of Security Holders

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits:

3.1 Certificate of Incorporation of FIRSTFED AMERICA BANCORP, INC. (/1/)

3.2 Bylaws of FIRSTFED AMERICA BANCORP, INC. (/1/)

4.0 Stock Certificate of FIRSTFED AMERICA BANCORP, INC. (/1/)

10.1 FIRSTFED AMERICA, BANCORP INC. 1997 Stock-based Incentive Plan, as amended (/2/)(/3/)

10.2 FIRSTFED AMERICA BANCORP, INC. 1998 Stock Option Plan (/3/)

b) Reports on Form 8-K:

None

(/1/) Incorporated into this document by reference from the Exhibits to Form S-1, Registration Statement, filed on September 27, 1996, as amended, Registration No. 333-12855.

(/2/) Incorporated into this document by reference from the proxy statement dated June 20, 1997 and filed with the SEC on June 20, 1997 (SEC No. 1-12305).

(/3/) Incorporated into this document by reference from Appendices A

(Amendments to the FIRSTFED AMERICA BANCORP, INC. 1997 Stock-Based Incentive Plan) and B (FIRSTFED AMERICA BANCORP, INC. 1998 Stock Option Plan), respectively, of the proxy statement dated June 15, 1998 and filed with the SEC on June 15, 1998 (SEC No. 1-12305).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

FIRSTFED AMERICA BANCORP, INC.

Registrant

Date: February 13, 2001

/s/ Robert F. Stoico

President and Chief Executive Officer and Chairman of the Board (Principal Executive Officer)

Date: February 13, 2001

/s/ Edward A. Hjerpe III

By

Executive Vice President and Chief Operating Officer and Chief Financial Officer (Principal Accounting and Financial Officer)