LOCAL FINANCIAL CORP /NV
Form 10-Q
May 14, 2001

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

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

For the quarter ended March 31, 2001

OR

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

For the transition period from ________________ to ________________

Commission File Number:
001-13949

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

DELAWARE	65-0424192
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3601 N.W. 63RD, OKLAHOMA CITY, OK	73116
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports, and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Number of shares outstanding of the registrant's $0.01 par value common stock as of May 10, 2001 were as follows:

NUMBER OF SHARES
20,539,209

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2001 (unaudited)	Decem
ASSETS		
Cash and due from banks	$ 34,426	
Interest bearing deposits with other banks	38,600	
Securities available for sale	496,579	
Loans receivable, net of allowance for loan losses of $28,027 at March 31, 2001 and $28,345 at December 31, 2000	1,860,431	
Federal Home Loan Bank of Topeka and Federal Reserve Bank stock, at cost	28,785	
Premises and equipment, net	38,013	
Assets acquired through foreclosure and repossession, net	939	
Intangible assets, net	16,553	
Current and deferred taxes, net	6,035	
Other assets	53,310	
Total assets	$ 2,573,671	

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:	
Deposits:	
Demand	$ 607,757
Savings	65,496
Time	1,125,077
Total deposits	1,798,330
Advances from the Federal Home Loan Bank of Topeka	500,027
Securities sold under agreements to repurchase	48,126
Senior notes	41,060
Other liabilities	21,269
Total liabilities	2,408,812
Commitments and contingencies	
Stockholders' equity:	
Common stock, $0.01 par value, 25,000,000 shares authorized; 20,539,269 shares issued and 20,539,209 shares outstanding at March 31, 2001 and 20,537,269 shares issued and 20,537,209 shares outstanding at December 31, 2000	205
Preferred stock, $0.01 par value, 5,000,000 shares authorized; none outstanding	--
Additional paid-in capital	206,777
Retained earnings	102,775
Treasury stock, 60 shares, at cost	(151,274)
Accumulated other comprehensive income	6,376
Total stockholders' equity	164,859
Total liabilities and stockholders' equity	$ 2,573,671

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

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

	Three Months Ended March 31,	
	2001	2000

	(unaudited)	
Interest and dividend income:		
Loans	$ 39,311	36,239
Securities available for sale	8,165	8,848
Federal Home Loan Bank of Topeka and Federal Reserve Bank stock	417	423
Other investments	998	290
Total interest and dividend income	48,891	45,800
Interest expense:		
Deposit accounts	22,417	20,400
Advances from the Federal Home Loan Bank of Topeka	4,130	4,109
Securities sold under agreements to repurchase	486	--
Notes payable	1,213	2,253
Total interest expense	28,246	26,762
Net interest and dividend income	20,645	19,038
Provision for loan losses	(750)	(500)
Net interest and dividend income after provision for loan losses	19,895	18,538
Noninterest income:		
Deposit related income	3,117	3,209
Loan fees and loan service charges	505	458
Net gains on sale of assets	105	164
Other	874	434
Total noninterest income	4,601	4,265
Noninterest expense:		
Compensation and employee benefits	7,822	7,758
Deposit insurance premiums	90	92
Equipment and data processing	1,624	1,478
Occupancy	970	884
Advertising	103	156
Professional fees	411	351
Other	3,430	2,723
Total noninterest expense	14,450	13,442
Income before income taxes and extraordinary item	10,046	9,361
Provision for income taxes	3,271	3,381
Income before extraordinary item	6,775	5,980
Extraordinary item - purchase and retirement of senior notes, net of tax	(3)	(871)
Net income	$ 6,772	5,109
Earnings per share:		
Income before extraordinary item:		

Basic	$ 0.33	0.29
Diluted	$ 0.32	0.29
Net income:		
Basic	$ 0.33	0.25
Diluted	$ 0.32	0.25
Average shares outstanding:		
Basic	20,538,853	20,537,209
Diluted	21,131,920	20,537,209

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

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

	Three Months Ended March 31, 2001	2000
	(unaudited)	
CASH PROVIDED (ABSORBED) BY OPERATING ACTIVITIES:		
Net income	$ 6,772	5,109
Adjustments to reconcile net income to net cash provided by operating activities:		
Provisions for loan losses	750	500
Deferred income tax expense	81	714
Accretion of discount on loans and securities available for sale, net	(929)	(828)
Depreciation and amortization	1,186	966
Net change in loans held for sale	(1,848)	(548)
Net gains on sale of assets	(105)	(164)
Change in other assets	(5,266)	3,737
Change in other liabilities	710	(6,839)
Net cash provided by operating activities	1,351	2,647
CASH PROVIDED (ABSORBED) BY INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	--	150,480
Proceeds from principal collections on securities available for sale	38,170	14,496
Purchases of securities available for sale	(176,155)	(16,838)

Purchases of Federal Home Loan Bank and Federal Reserve Bank stock	(9,368)	--
Change in loans receivable, net	(10,707)	(23,903)
Proceeds from disposal of assets acquired through foreclosure and repossession	528	490
Purchases of premises and equipment	(1,131)	(6,003)
Proceeds from sales of premises and equipment	--	11
Net cash provided (absorbed) by investing activities	(158,663)	118,733
CASH PROVIDED (ABSORBED) BY FINANCING ACTIVITIES:		
Change in transaction accounts	3,594	27,562
Change in time deposits	(137,057)	(15,651)
Change in securities sold under agreements to repurchase	9,912	--
Proceeds from advances from the Federal Home Loan Bank	813,113	535,186
Repayments of advances from the Federal Home Loan Bank	(503,114)	(602,191)
Proceeds from the issuance of common stock	19	--
Purchase of senior notes	(100)	--
Net cash provided (absorbed) by financing activities	186,367	(55,094)
Net change in cash and cash equivalents	29,055	66,286
Cash and cash equivalents at beginning of period	43,971	55,822
Cash and cash equivalents at end of period	$ 73,026	122,108
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 28,510	29,754
Income taxes	$ (503)	100
Supplemental schedule of noncash investing and financing activities:		
Transfers of loans to assets acquired through foreclosure and repossession	$ 586	331
Payable on senior notes purchased	$ --	32,090

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

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LOCAL FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

March 31, 2001 and December 31, 2000

(1) BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. All adjustments (consisting of only normal recurring adjustments) that are necessary, in the opinion of management, for a fair presentation of the interim financial statements have been included. The interim financial information should be read in conjunction with the audited Consolidated Financial Statements and Notes included in Local Financial Corporation (the "Company") Form 10-K for the year ended December 31, 2000 as filed with the Securities and Exchange Commission.

(2) LOANS RECEIVABLE

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

	March 31, 2001	December 31, 2000
Residential real estate loans	$ 241,836	250,487
Commercial	1,450,245	1,425,382
Held for sale	7,770	5,922
Consumer loans	188,607	195,430
Total loans	1,888,458	1,877,221
Less:		
Allowance for loan losses	(28,027)	(28,345)
Loans receivable, net	$ 1,860,431	1,848,876

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

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

	March 31, 2001		December 31, 2000	
	Balance	Weighted Average Contractual Rate	Balance	Weighte Average Contractual
Fixed rate	$ 500,027	4.30%	$ 190,028	6.

Although no specific assets are pledged, the FHLB requires the Company to hold eligible assets with a lending value, as defined, at least equal to FHLB advances, which can include such items

as first and second residential and commercial mortgage loans and investment securities which are not already pledged or encumbered.

Scheduled principal repayments to the FHLB at March 31, 2001 are as follows (dollars in thousands):

	Amount	Weighted Average Contractual Rate
Year Ending December 31, 2005 and thereafter	$ 500,027	4.30%

(4) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase at March 31, 2001 and December 31, 2000 are summarized as follows (dollars in thousands):

	2001	2000
Average outstanding balance	$38,333	18,352
Weighted average interest rate during the period	5.14%	5.85
Maximum month-end balance	$49,518	38,214
Outstanding balance at end of the period	48,126	38,214
Mortgage-backed securities securing the agreements at period-end:		
Carrying value	$55,690	42,053
Estimated market value	55,690	42,053
Accrued interest payable at the end of the period	6	--

Periodically, the Company provides securities sold under agreements to repurchase to customers as a part of the commercial banking operations.

(5) COMPREHENSIVE INCOME

Comprehensive income for the periods ended March 31, 2001 and 2000 consists of (dollars in thousands):

Three Months Ended
March 31,

	2001	2000
Net income	$6,772	5,109
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities, net of reclassification adjustment	1,797	(2,173)
Comprehensive income	$8,569	2,936

(6) NET INCOME PER SHARE

Stock options and warrants to purchase 2,670,005 and 2,287,005 shares of common stock were outstanding as of March 31, 2001 and 2000, respectively. The stock options and warrants were included in the computation of diluted net income per share for 2001, but were not included in 2000 because they were antidilutive.

(7) SENIOR NOTES

During the first quarter of 2001 and 2000, the Company purchased and retired approximately $100,000 and $32.1 million, respectively, of senior notes which had been issued in connection with the Company's recapitalization in 1997. As a result, there is an extraordinary item charge to income amounting to $3,000 and $871,000, respectively, net of tax.

(8) SEGMENTS

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

(9) NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that a company recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. This statement was adopted by the Company in 2001 as set forth in SFAS 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133". Management has determined this statement did not have an impact on the consolidated financial position or the results of operations of the Company upon implementation on January 1, 2001.

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

GENERAL

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

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

Please do not place unjustified or excessive reliance on any forward-looking statements. They speak only as of the date made and are not guarantees, promises or assurances of what will happen in the future. Various factors, including those described above and those described in the Company's Form 10-K for the year ended December 31, 2000, could affect the Company's financial performance and could cause the Company's actual results or circumstances for future periods to be materially different from what has been anticipated or projected.

CHANGES IN FINANCIAL CONDITION FROM DECEMBER 31, 2000 TO MARCH 31, 2001

During the three months ended March 31, 2001, total assets increased $196.7 million or 8.27%. The $196.7 million increase was due primarily to a combination of commercial loan growth as well as increases in the Bank's investment portfolio where the Bank used proactive measures to lock in higher yields in a declining rate environment. Commercial loan balances during the three months ended March 31, 2001 rose $24.9 million or 1.74%. Securities available for sale and Federal Home Loan Bank and Federal Reserve Bank stock rose by $142.5 million or 40.26% and $9.4 million or 48.25%, respectively.

Total liabilities increased $188.1 million or 8.47% for the three months ended March 31, 2001 primarily due to an increase in FHLB advances offset by a decrease in time deposits. During the period, the Bank took advantage of market-driven opportunities for lower cost borrowings at the FHLB resulting in an increase of $310.0 million or 163.13%. This offset a $137.1 million or 10.86% decrease in time deposits as some public and brokered deposits matured. Securities sold under agreements to repurchase increased by $9.9 million or 25.94% and consisted solely of commercial customer sweep accounts. This new product was introduced in March 2000 to enhance the Bank's initiative to provide competitive commercial services.

Total stockholders' equity increased $8.6 million during the three months ended March 31, 2001 which represented net income during the period of $6.8 million and a $1.8 million increase in unrealized holding gains on securities net of tax.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND MARCH 31, 2000

Net Income. The Company reported income before extraordinary item of $6.8 million or $0.33 basic earnings per share for the three months ended March 31, 2001 (based on 20.5 million average shares

outstanding), compared to income before extraordinary item of $6.0 million or $0.29 basic earnings per share (based on 20.5 million average shares outstanding) for the three months ended March 31, 2000. The extraordinary item charge to income amounting to $3,000 and $871,000, net of tax, occurred in the first quarter of 2001 and 2000, respectively, as a result of the Company's purchase and retirement of $100,000 and $32.1 million, respectively, of senior notes.

Net Interest and Dividend Income. Net interest and dividend income totaled $20.6 million in the three months ended March 31, 2001 as compared to $19.0 million during the same period in the prior year. The net interest income increase in the three-month comparative period was principally due to volume increases in commercial loan originations which drove interest income up and was partially offset by net increases in interest expense on interest-bearing liabilities.

Interest Income. Total interest and dividend income increased by $3.1 million or 6.75% during the three months ended March 31, 2001 as compared to the same period in the prior year. The increase in interest income during the three-month comparative period was due primarily to growth in the Bank's commercial loan portfolio where balances rose from $1.215 billion at March 31, 2000 to $1.450 billion at March 31, 2001.

Interest Expense. Total interest expense increased $1.5 million or 5.55% in the three months ended March 31, 2001 as compared to the same period in the prior year. The increase was driven primarily by rate increases in term certificates of deposits and interest-bearing transaction accounts offset by a decline in interest expense on senior notes as a result of the Company's purchase and retirement of a portion of those notes. During the quarter, the Bank took advantage of market-driven opportunities by investing in lower cost borrowings from the FHLB. The effect of this rate decrease was offset during the period by a corresponding increase in average balance of borrowings.

Provision for Loan Losses. The Bank established provisions for loan losses of $750,000 and $500,000 during the three months ended March 31, 2001 and 2000, respectively. Charge-offs (net of recoveries) during the same periods were $1.1 million and $70,000, respectively. The Company's basis for provisions was a function of management's credit risk monitoring process that considers several factors, including among other things, current economic conditions affecting the Company's customers, the payment performance of individual large loans and pools of homogeneous small loans, portfolio seasoning, change in collateral values, and detailed review of specific large loan relationships.

Noninterest Income. The components of noninterest income consist of deposit-related income, loan fees and loan service charges, net gains on sale of assets and other miscellaneous income. Total noninterest income increased $336,000 or 7.88% during the three months ended March 31, 2001 as compared to the same period in the prior year.

Noninterest Expense. Total noninterest expense increased $1.0 million or 7.50% during the three months ended March 31, 2001 as compared to the same period in the prior year. The increase in noninterest expense resulted primarily from the hardware and software costs associated with the implementation of branch platform automation as well as start-up costs related to a new marketing program implemented in the first quarter designed to increase the Bank's core deposit base.

ASSET AND LIABILITY MANAGEMENT

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

Management's methods for evaluating interest rate risk include an analysis of the Company's interest rate sensitivity "gap", which is defined as the difference between interest-earning assets and

interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category.

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

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

	Three Months Ende			
	2001			
	Average Balance	Interest	Average Yield/ Cost	Ave Bal

Interest-earning assets:				
Loans receivable(1)	$1,872,716	$ 39,311	8.51%	$1,7
Securities(2)	430,967	8,165	7.58	5
Other earning assets(3)	96,828	1,415	5.85	
Total interest-earning assets	2,400,511	48,891	8.23%	2,2
Noninterest-earning assets	117,302			
Total assets	$2,517,813			$2,3
Interest-bearing liabilities:				
Deposits:				
Transaction accounts(4)	$ 513,071	4,450	3.52%	$ 4
Term certificates of deposit	1,221,566	17,967	5.96	1,3
Total deposits	1,734,637	22,417	5.24	1,7
Borrowings:				
FHLB advances	373,078	4,130	4.43	2
Securities sold under agreements to repurchase	38,333	486	5.14	
Senior notes	41,062	1,213	11.81	
Total interest-bearing liabilities	2,187,110	28,246	5.24%	2,0
Noninterest-bearing liabilities	171,514			1
Total liabilities	2,358,624			2,2
Stockholders' equity	159,189			1
Total liabilities and stockholders' equity	$2,517,813			$2,3
Net interest-earning assets	$ 213,401			$ 1
Net interest income/interest rate spread		$ 20,645	2.99%	
Net interest margin			3.44%	
Ratio of average interest-earning assets to average interest-bearing liabilities			109.76%	

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(1) The average balance of loans receivable includes nonperforming loans, interest on which is recognized on a cash basis, and excludes the allowance for loan losses which is included in noninterest-earning assets.

(2) Includes all securities, including the market valuation accounts.

(3) Includes cash and due from banks, interest-bearing deposits, and Federal Home Loan Bank of Topeka and Federal Reserve Bank stock.

(4) Includes passbook, NOW and money market accounts.

The following table summarizes the anticipated maturities or repricing of the Company's interest-earning assets and interest-bearing liabilities as of March 31, 2001, based on the information and assumptions set forth in the notes below (dollars in thousands):

	Within Three Months	Three to Twelve Months	More Than One Year to Three Years	More Than Three Years to Five Years	Over Five Years
Interest-earning assets(1):					
Loans receivable(2)	$ 755,926	293,534	448,691	257,437	124,644
Securities(3)	69,941	101,959	140,142	127,172	47,613
Other interest-earning assets(4)	98,028	3,783	--	--	--
Total	$ 923,895	399,276	588,833	384,609	172,257
Interest-bearing liabilities:					
Deposits(5):					
Money market and NOW accounts	$ 219,369	41,100	75,184	45,254	70,658
Passbook accounts	3,607	10,822	20,022	12,172	18,873
Certificates of deposit	340,952	569,691	184,260	29,220	954
Borrowings:					
FHLB advances(6)	--	--	--	--	500,027
Securities sold under agreements to repurchase	48,126	--	--	--	--
Senior notes	--	--	--	41,060	--
Total	$ 612,054	621,613	279,466	127,706	590,512
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 311,841	$(222,337)	309,367	256,903	(418,255)
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 311,841	$ 89,504	398,871	655,774	237,519
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities as a percent of total assets	12.12%	3.48	15.50	25.48	9.23

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

(2) Balances have been reduced for nonaccrual loans.

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

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

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

(6) Maturity based on projected call date and/or actual maturity date.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity. Liquidity refers to the Company's ability to generate sufficient cash to meet the funding needs of current loan demand, savings deposit withdrawals, principal and interest payments with respect to outstanding borrowings and to pay operating expenses. It is management's policy to maintain greater liquidity than required in order to be in a position to fund loan originations, to meet withdrawals

from deposit accounts, to make principal and interest payments with respect to outstanding borrowings and to make investments that take advantage of interest rate spreads. The Company monitors its liquidity in accordance with guidelines established by the Company and applicable regulatory requirements. The Company's need for liquidity is affected by loan demand, net changes in deposit levels and the scheduled maturities of its borrowings. The Company can minimize the cash required during the times of heavy loan demand by modifying its credit policies or reducing its marketing effort. Liquidity demand caused by net reductions in deposits are usually caused by factors over which the Company has limited control. The Company derives its liquidity from both its assets and liabilities. Liquidity is derived from assets by receipt of interest and principal payments and prepayments, by the ability to sell assets at market prices and by utilizing unpledged assets as collateral for borrowings. Liquidity is derived from liabilities by maintaining a variety of funding sources, including deposits, advances from the FHLB, securities sold under agreements to repurchase and other short and long-term borrowings.

The Company's liquidity management is both a daily and long-term function of funds management. Liquid assets are generally placed in short-term investments such as overnight money funds and short-term government agency securities. If the Company requires funds beyond its ability to generate them internally, various forms of both short and long-term borrowings provide an additional source of funds. At March 31, 2001, the Company had unutilized borrowing capacity with the FHLB, with a credit limit subject to the maximum amount of credit available under the Federal Home Loan Bank System Credit Policy.

At March 31, 2001, the Bank had approximately $236.3 million of outstanding loan commitments (including unused lines of credit) for commercial business loans. Certificates of deposit which are scheduled to mature within one year totaled $910.6 million at March 31, 2001, and borrowings which are scheduled to mature or reprice within the same period amounted to $48.1 million. The Bank anticipates that sufficient funds will be available to meet its current loan commitments and that, based upon past experience and current pricing policies, it can adjust the rates of certificates of deposit to retain a substantial portion of its maturing certificates and also, to the extent deemed necessary, refinance the maturing borrowings.

On September 8, 1997 and in connection with the Company's recapitalization, the Company issued $80.0 million of senior notes. Since that time, the Company has purchased and retired $38.9 million of those outstanding senior notes. This move will reduce future interest costs associated with those notes. The remaining $41.1 million of senior notes have an annual debt service requirement of $4.5 million (or $2.25 million for each semi-annual period).

Capital Resources. Bank holding companies are required to maintain capital ratios in accordance with guidelines adopted by the FRB. The guidelines are commonly known as Risk-Based Capital Guidelines.

On March 31, 2001, the Company exceeded all applicable capital requirements by having a total risk-based capital ratio of 8.98%, a tier I risk-based capital ratio of 7.72% and a leverage ratio of 5.69%.

INFLATION AND CHANGING PRICES

The Consolidated Financial Statements and related data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars (except with respect to available for sale securities which are carried at market value), without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, substantially all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the effects of general levels of

inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management" for Quantitative and Qualitative Disclosures about Market Risk.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In its Annual Report on Form 10-K for the year ended December 31, 2000, the Company disclosed legal proceedings between the Bank and the Federal Deposit Insurance Corporation. No material developments have occurred since the Annual Report. Management, after consultation with legal counsel, and based on available facts and proceedings to date, believes the ultimate liability, if any, arising from such legal actions or complaints, will not have a material adverse effect on the Company's consolidated financial position or future results of operations. In the ordinary course of business, the Company is subject to other legal actions and complaints, none of which is expected to impact the Company's business, financial condition or results of operations materially.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

None

b. Reports on Form 8-K

The Company filed the following Form 8-K's during the quarter ended March 31, 2001:

1. A Form 8-K dated February 5, 2001 was filed pursuant to the release of 2000 earnings.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LOCAL FINANCIAL CORPORATION

Date: May 14, 2001

By /s/ Edward A. Townsend

Edward A. Townsend
Chairman of the Board
Chief Executive Officer

LOCAL FINANCIAL CORPORATION

Date: May 14, 2001

By /s/ Richard L. Park

Richard L. Park
Chief Financial Officer