LOCAL FINANCIAL CORP /NV
Form 10-Q
November 13, 2001

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 September 30, 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 November 1, 2001 were as follows:

NUMBER OF SHARES
20,539,209

LOCAL FINANCIAL CORPORATION
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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2001 (unaudited)
ASSETS	
Cash and due from banks	$ 45,181
Interest bearing deposits with other banks	79,400
Securities available for sale	542,211
Loans receivable, net of allowance for loan losses of $27,664 at September 30, 2001 and $28,345 at December 31, 2000	1,925,179
Federal Home Loan Bank of Topeka and Federal Reserve Bank Stock, at cost	33,784
Premises and equipment, net	38,379
Assets acquired through foreclosure and repossession, net	1,737
Intangible assets, net	15,883
Current and deferred taxes, net	5,216
Other assets	53,698
Total assets	$ 2,740,668

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:	
Demand	$ 618,614
Savings	69,147
Time	1,130,436
Total deposits	1,818,197
Advances from the Federal Home Loan Bank of Topeka	600,025
Securities sold under agreements to repurchase	45,082
Senior notes	41,010
Other liabilities	18,421
Mandatory redeemable trust preferred securities	35,000
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 September 30, 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	117,020
Treasury stock, 60 shares, at cost	(151,274)
Accumulated other comprehensive income	10,205
Total stockholders' equity	182,933
Total liabilities and stockholders' equity	$ 2,740,668

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

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

	Three Months Ended September 30,		Nine Mont[h]s Ended Septemb[er 30,]
	2001	2000	2001
		(unaudited)	
Interest and dividend income:			
Loans	$ 37,725	40,712	115,039
Securities available for sale	8,956	6,642	26,192

Federal Home Loan Bank of Topeka and Federal Reserve Bank stock	524	373	1,440
Other investments	687	160	2,061
Total interest and dividend income	47,892	47,887	144,732
Interest expense:			
Deposit accounts	18,152	22,394	60,030
Advances from the Federal Home Loan Bank of Topeka	5,620	4,382	15,185
Securities sold under agreements to repurchase and other borrowings	419	365	1,435
Notes payable	1,212	1,274	3,637
Trust preferred securities	97	-	97
Total interest expense	25,500	28,415	80,384
Net interest and dividend income	22,392	19,472	64,348
Provision for loan losses	(1,775)	(500)	(3,675)
Net interest and dividend income after provision for loan losses	20,617	18,972	60,673
Noninterest income:			
Deposit related income	3,802	3,275	10,724
Loan fees and loan service charges	458	434	1,637
Net gains on sale of assets	222	223	528
Other	815	504	2,530
Total noninterest income	5,297	4,436	15,419
Noninterest expense:			
Compensation and employee benefits	8,357	7,871	24,809
Equipment and data processing	1,633	1,628	4,872
Occupancy	999	1,039	2,890
Advertising	125	153	314
Professional fees	329	217	993
Other	3,638	2,843	10,811
Total noninterest expense	15,081	13,751	44,689
Income before income taxes and extraordinary item	10,833	9,657	31,403
Provision for income taxes	3,639	3,496	10,382
Income before extraordinary item	7,194	6,161	21,021
Extraordinary item - purchase and retirement of senior notes, net of tax	--	--	(4)
Net income	$ 7,194	6,161	21,017
Earnings per share:			
Income before extraordinary item:			

Basic	$ 0.35	0.30	1.02
Diluted	$ 0.34	0.30	0.99
Net income:			
Basic	$ 0.35	0.30	1.02
Diluted	$ 0.34	0.30	0.99
Average shares outstanding:			
Basic	20,539,209	20,537,209	20,539,091
Diluted	21,349,796	20,537,209	21,238,203

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

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

CASH PROVIDED (ABSORBED) BY OPERATING ACTIVITIES:

Net income
Adjustments to reconcile net income to net cash provided by operating activities:
Provision for loan losses
Deferred income tax expense
Accretion of discount on loans acquired and securities available for sale
Depreciation and amortization
Net change in loans held for sale
Net gains on sale of assets
Change in other assets
Change in other liabilities

Net cash provided by operating activities

CASH PROVIDED (ABSORBED) BY INVESTING ACTIVITIES:

Proceeds from sales of securities available for sale
Proceeds from principal collections on securities available for sale
Purchases of securities available for sale
Purchases of Federal Home Loan Bank and Federal Reserve Bank stock
Proceeds from the sale of Federal Home Loan Bank stock

Change in loans receivable, net
Proceeds from disposal of assets acquired through foreclosure and repossession
Purchases of premises and equipment
Proceeds from sales of premises and equipment

Net cash (absorbed) by investing activities

CASH PROVIDED (ABSORBED) BY FINANCING ACTIVITIES:

Change in transaction accounts
Change in time deposits
Change in securities sold under agreements to repurchase
Proceeds from advances from the Federal Home Loan Bank
Repayments of advances from the Federal Home Loan Bank
Proceeds from the issuance of common stock
Proceeds from the issuance of trust preferred securities
Payment of trust preferred securities issuance costs
Purchase of senior notes

Net cash provided by financing activities

Net change in cash and cash equivalents

Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

Supplemental disclosures of cash flow information:
Cash paid during the period for:
Interest

Income taxes

Supplemental schedule of noncash investing and financing activities:
Transfer of loans to assets acquired through foreclosure and repossession

Transfer of loans securitized to investments available for sale

Transfer of loans securitized to other assets

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

LOCAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 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):

	September 30, 2001	December 31, 2000
Residential real estate loans	$ 214,919	250,487
Commercial	1,549,389	1,425,382
Held for sale	4,829	5,922
Consumer loans	183,706	195,430
Total loans	1,952,843	1,877,221
Less: Allowance for loan losses	(27,664)	(28,345)
Loans receivable, net	$ 1,925,179	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):

	September 30, 2001		December 31, 2000	
	Balance	Weighted Average Contractual Rate	Balance	Weighted Average Contractual Ra

Fixed rate	$ 600,025	4.14%	$ 190,028	6.44%
	==========	==========	==========	==========

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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 September 30, 2001 are as follows (dollars in thousands):

	Amount	Weigh Avera Contractu
Year ending December 31, 2005 and thereafter	$ 600,025	4
	===========	=======

(4) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are summarized as follows (dollars in thousands):

	September 30, 2001	De
Average outstanding balance	$ 41,781	
Weighted average interest rate during the period	4.01%	
Maximum month-end balance	$ 53,622	
Outstanding balance at end of period	45,082	
Mortgage-backed securities securing the agreements at period-end:		
Carrying value	51,242	
Estimated market value	51,242	
Accrued interest payable at the end of the period	2	

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

(5) SENIOR NOTES

During the nine months ended September 30, 2001 and 2000, the Company purchased and retired approximately $150,000 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 $4,000 and $871,000, respectively, net of tax. Subsequent to the quarter ended September 30, 2001, the Company purchased and retired an additional $19.5 million of senior notes, which will result in an extraordinary item charge to income of $1.6 million, net of tax, in the fourth quarter of 2001.

(6) MANDATORY REDEEMABLE TRUST PREFERRED SECURITIES

On September 20, 2001, Local Financial Capital Trust I (the "Trust"), a newly-formed Delaware business trust and wholly-owned finance subsidiary of the Company, issued 1,400,000 shares of its 9.00% Cumulative Trust Preferred Securities (the "Trust Preferred Securities") for an aggregate price of $35 million. An additional 210,000 shares of these securities were

subsequently issued on October 3, 2001 for an aggregate price of $5.3 million. The Trust Preferred Securities will mature on September 30, 2031. Distributions on the Trust Preferred Securities and on the common securities issued to the Company are payable on March 31, June 30, September 30 and December 31 of each year beginning December 31, 2001. The proceeds from the sale of the Trust Preferred Securities and the common securities were used by the Trust to purchase $41.5 million of 9% junior subordinated debentures (the "Debentures") of the Company, which have the same payment terms as the preferred securities. Except under certain circumstances, the common securities issued to the Company possess sole voting rights with respect to matters involving the Trust. Under certain circumstances, the Company may, from time to time, defer the Debentures' interest payments, which would result in a deferral of distribution payments on the related Trust Preferred Securities and, with certain exceptions, prevent the Company from declaring or paying cash distributions on the Company's common stock and any other future debt ranking equally with or junior to the Debentures.

Subject to any applicable regulatory approvals, the Trust Preferred Securities and the common securities issued by the Trust to the Company are redeemable in whole or in part on or after September 30, 2006, or at any time in whole, but not in part, from the date of issuance upon the occurrence of certain events. The Trust Preferred Securities are presently fully included in Tier 1 capital for capital adequacy determination purposes. The obligations of the Company with respect to the issuance of the Trust Preferred Securities constitute a full and unconditional guarantee by the Company of the Trust's obligation with respect to the Trust Preferred Securities subject to certain limitations.

(7) COMMITMENTS AND CONTINGENCIES

As of September 30, 2001, the Bank had entered into a commitment to purchase $175.0 million in new government agency securities to be issued in October. These securities were issued on October 30, 2001, and, accordingly, are not included in the accompanying September 30, 2001 consolidated statement of financial condition.

(8) COMPREHENSIVE INCOME

Comprehensive income for the periods ended September 30, 2001 and 2000 consists of (dollars in thousands):

	Three Months Ended September 30,		Nine Se
	2001	2000	2001
Net income	$ 7,194	6,161	21,
Other comprehensive income, net of tax:			
Unrealized gains on securities, net of reclassification adjustment	4,001	2,415	5,
Comprehensive income	$ 11,195	8,576	26,

(9) NET INCOME PER SHARE

Stock options and warrants to purchase 2,689,005 and 2,680,005 shares of common stock were outstanding as of September 30, 2001 and 2000, respectively. The stock options and warrants

were included in the computation of diluted net income per share for 2001 to the extent they were not anti-dilutive. None of the stock options and warrants were included in the computation of diluted net income per share in 2000 as they were all anti-dilutive.

(10) 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.

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

(11) NEW ACCOUNTING PRONOUNCEMENTS

In August 2001, the FASB issued FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While Statement No. 144 supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, it retains many of the fundamental provisions of that Statement. Statement No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. However, it retains the requirement in Opinion No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of by sale, abandonment, or in a distribution to owners or is classified as held for sale. The statement is effective for fiscal years beginning after December 15, 2001. Management has determined the impact of this statement will not have a material impact on the consolidated financial position or the future results of operations of the Company.

In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement No. 142 will require

that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement No. 142. Statement No. 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of or Statement No. 144 upon adoption.

The Company is required to adopt the provisions of Statement No. 141 immediately and Statement No. 142 effective January 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of Statement No. 142.

Statement No. 141 will require upon adoption of Statement No. 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement No. 141 for recognition apart from goodwill. Upon adoption of Statement No. 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of Statement No. 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, Statement No. 142 will require the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of it assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement No. 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's consolidated statement of operations.

As of the date of adoption, the Company expects to have unamortized goodwill in the amount of $15.5 million, which will be subject to the transition provisions of Statement Nos. 141 and 142. Amortization expense related to goodwill was $1.0 million and $1.3 million for the nine months ended September 30, 2001 and for the year ended December 31, 2000, respectively. Because of the extensive effort needed to comply with adopting Statement Nos. 141 and 142, it is not

practicable to reasonably estimate the impact of adopting these statements on the Company's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle; however, management does not anticipate an impairment loss at January 1, 2002.

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 SEPTEMBER 30, 2001

During the nine months ended September 30, 2001, total assets increased $363.7 million or 15.30%. The growth in assets during the period was attributable to continued commercial loan growth as well as growth in the investment portfolio as the Company maintained its strategy of pursuing additions to the investment portfolio in this declining rate environment. These activities were funded primarily by investment cashflows and FHLB borrowings. Commercial loan balances during the nine months ended September 30, 2001 rose $124.0 million or 8.70%. Securities available for sale and Federal Home Loan Bank stock rose by $188.2 million or 53.15% and $14.4 million or 74.0%, respectively, during the nine months ended September 30, 2001. Interest-bearing deposits with other banks were $79.4 million at September 30, 2001 compared with $4.4 million at December 31, 2000. The larger balance at September 30, 2001 was attributable to FHLB borrowings, which were received on September 24, 2001 and invested in overnight deposits. These funds were reinvested in securities available for sale on October 30, 2001.

FHLB advances increased $410.0 million as the Company took advantage of market-driven opportunities for lower cost borrowings. The increase in FHLB advances offset a $131.7 million or 10.43% decrease in time deposits as some public and brokered deposits matured and were not renewed.

On September 20, 2001, the Trust issued $35.0 million of 9.00% Cumulative Trust Preferred Securities. These securities are included in the Company's consolidated statements of financial condition and are presented under the caption "Mandatory Redeemable Trust Preferred Securities". An additional $5.3 million of these securities were subsequently issued on October 3, 2001. See Note 7 to the Notes to Consolidated Financial Statements included herein.

Total stockholders' equity increased $26.7 million during the nine months ended September 30, 2001 which reflected net income during the period of $21.0 million and a $5.6 million increase in unrealized gains on securities net of tax.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000 AND THE THREE MONTHS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000

Net Income. The Company reported income before extraordinary item of $21.0 million or $1.02 basic earnings per share for the nine months ended September 30, 2001, compared to income before extraordinary item of $18.2 million or $.88 basic earnings per share for the nine months ended September 30, 2000. Income before extraordinary item rose to $7.2 million or $.35 basic earnings per share for the three months ended September 30, 2001 from $6.2 million or $.30 basic earnings per share for the three months ended September 30, 2000 Basic earnings per share for the periods are based on 20.5 million average shares outstanding. The extraordinary item charge to income in the nine months ended September 30, 2001 and 2000 was a result of the Company's purchase and retirement of $150,000 and $32.1 million, respectively, of senior notes during such periods.

Subsequent to September 30, 2001, the Company purchased and retired an additional $19.5 million of senior notes, which will result in an extraordinary item charge to income of $1.6 million in the fourth quarter of 2001.

Net Interest and Dividend Income. Net interest and dividend income totaled $64.3 million in the nine months ended September 30, 2001, up 11.9% from the same period in the prior year primarily due to the increase in commercial loan volume. Likewise, net interest and dividend income in the three-month comparative period ended September 30, 2001 totaled $22.4 million, a 15.00% increase over the same period in the prior year. The increase in the three-month comparative period came as the Company replaced maturing time deposits with lower cost FHLB borrowings as a primary source of funding.

Interest Income. Total interest and dividend income increased by $5.5 million or 3.96% during the nine months ended September 30, 2001 as compared to the same period in the prior year and remained constant during the three months ended September 30, 2001 compared to the same period in the prior year. Increases in the Bank's commercial loan volume and security portfolio contributed positively to interest income during both the three and nine-month periods; however, they were offset in the three months ended September 30, 2001 by the effect of declining rates on the loan portfolio. The Bank also recognized certain interest income from commercial loan prepayments and other sources during the quarter ended September 30, 2001, which resulted in higher spreads and net interest margins for the quarter and nine months ended September 30, 2001.

Interest Expense. Total interest expense decreased $1.3 million or 1.60% in the nine months ended September 30, 2001 as compared to the same period in the prior year. Total interest expense decreased $2.9 million or 10.26% during the three months ended September 30, 2001 as compared to the same period in the prior year. The decreases in interest expense during both the nine and three-month comparative periods were primarily the result of market-driven rate declines as well as volume declines on time deposits offset partially by the effect of additional borrowings at the FHLB as the Company took advantage of lower cost borrowing opportunities.

Provision for Loan Losses. The Company established provisions for loan losses of $3.7 million and $1.8 million during the nine months and three months ended September 30, 2001, respectively. Charge-offs (net of recoveries) during the same periods were $4.4 million and $1.8 million, 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 income. Total noninterest income increased $2.0 million or 15.21% and $861,000 or 19.41% during the nine and three-month comparative periods, respectively. In both comparative periods, loan fees and service charges driven by the growth in the commercial loan portfolio and deposit related income resulting from increased marketing efforts were the primary contributors to higher noninterest income.

Noninterest Expense. Total noninterest expense increased $3.7 million or 9.10% during the nine months ended September 30, 2001 as compared to the same period in the prior year. Total noninterest expense increased $1.3 million or 9.67% during the three months ended September 30, 2001 as compared to the same period in the prior year. The increases in noninterest expense during both the nine and three-month comparative periods resulted primarily from increases in compensation costs as well as start-up costs related to new marketing initiatives.

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 Ended Septem			
	2001			
	Average Balance	Interest	Average Yield/ Cost	Average Balance
ASSETS				
Loans receivable(1)	$1,921,171	$ 37,725	7.85%	$1,865,8
Securities(2)	511,849	8,956	7.00%	379,3
Other earning assets(3)	49,734	1,211	9.74%	29,7
Total interest-earning	2,482,754	47,892	7.72%	2,274,9
Noninterest-earning assets	116,367			93,6
Total assets	$2,599,121			$2,368,5
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Transaction accounts(4)	$ 515,993	3,632	2.79%	$ 420,0
Term certificates of deposit	1,124,768	14,520	5.12%	1,298,1
Total deposits	1,640,761	18,152	4.39%	1,718,2
FHLB advances	513,933	5,620	4.28%	272,7
Securities sold under agreements to repurchase and other borrowings	48,787	419	3.41%	24,3
Senior notes	41,010	1,212	11.81%	43,1
Mandatory redeemable trust preferred securities	4,185	97	9.27%	
Total interest-bearing	2,248,676	25,500	4.49%	2,058,5
Noninterest-bearing liabilities	174,887			168,8
Stockholders' equity	175,558			141,2
Total liabilities and stockholders' equity	$2,599,121			$2,368,5
Net interest-earning assets	$ 234,078			$ 216,3
Net interest income/interest rate spread		$ 22,392	3.23%	

Net interest margin		3.61%
Ratio of average interest-earning to average interest-bearing		110.41%

	Nine Months Ended Septembe			
	2001			
	Average Balance	Interest	Average Yield/ Cost	Average Balance
ASSETS				
Loans receivable(1)	$1,894,335	$ 115,039	8.14%	$1,788,2
Securities(2)	482,925	26,192	7.23%	430,1
Other earning assets(3)	70,281	3,501	6.64%	42,6
Total interest-earning	2,447,541	144,732	7.91%	2,261,0
Noninterest-earning assets	117,309			94,5
Total assets	$2,564,850			$2,355,6
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Transaction accounts(4)	$ 516,447	11,882	3.08%	$ 419,3
Term certificates of deposit	1,154,737	48,148	5.57%	1,309,3
Total deposits	1,671,184	60,030	4.80%	1,728,6
FHLB advances	462,862	15,185	4.33%	263,7
Securities sold under agreements to repurchase and other borrowings	46,612	1,435	4.12%	12,8
Senior notes	41,036	3,637	11.81%	52,7
Mandatory redeemable trust preferred securities	1,410	97	9.17%	
Total interest-bearing	2,223,104	80,384	4.83%	2,058,0
Noninterest-bearing liabilities	174,545			163,0
Stockholders' equity	167,201			134,5
Total liabilities and stockholders' equity	$2,564,850			$2,355,6
Net interest-earning assets	$ 224,437			$ 203,0
Net interest income/interest rate spread		$ 64,348	3.08%	
Net interest margin			3.50%	
Ratio of average interest-earning to average interest-bearing			110.11%	

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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 bank, interest-bearing deposits, Federal Home Loan Bank of Topeka stock 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 September 30, 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 Yea to Five Years
Interest-earning assets(1):				
Loans receivable(2)	$ 827,237	282,361	493,962	199,0
Securities(3)	99,841	126,766	158,923	73,0
Other interest-earning assets(4)	158,365	--	--	
Total	$ 1,085,443	409,127	652,885	272,0
Interest-bearing liabilities:				
Deposits(5):				
Money market and NOW accounts	$ 195,099	45,562	83,517	50,3
Passbook accounts	3,808	11,425	21,138	12,8
Certificates of deposit	275,261	616,831	213,088	24,4
FHLB advances(6)	--	--	--	100,0
Securities sold under agreements to repurchase	45,082	--	--	
Senior notes	19,381	--	21,629	
Mandatory redeemable trust preferred securities	--	--	--	
Total	$ 538,631	673,818	339,372	187,6
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 546,812	(264,691)	313,513	84,4

Cumulative excess of interest-earning assets over interest-bearing liabilities	$ 546,812	282,121	595,634	680,0
Cumulative excess of interest-earning assets over interest-bearing liabilities as a percent of total assets	19.95%	10.29	21.73	24.

(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, Federal Home Loan Bank stock and Federal Reserve Bank stock.

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

(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 is usually caused by factors over which the Company has limited control. The Company derives its liquidity from both its assets and liabilities. Liquidity is derived from assets by receipt of interest and principal payments and prepayments, by the ability to sell assets at market prices and by utilizing unpledged assets as collateral for borrowings. Liquidity is derived from liabilities by maintaining a variety of funding sources, including deposits, advances from the FHLB, securities sold under agreements to repurchase and other short and long-term borrowings.

The Company's liquidity management is both a daily and long-term function of funds management. Liquid assets are generally placed in short-term investments such as overnight money funds and short-term government agency securities. If the Company requires funds beyond its ability to generate them internally, various forms of both short and long-term borrowings provide an additional source of funds. At September 30, 2001, the Company had $381.4 million in available borrowing capacity with the FHLB.

At September 30, 2001, the Bank had approximately $286.8 million of outstanding loan commitments (including unused lines of credit) for home equity, commercial real estate and commercial business loans. Certificates of deposit which are scheduled to mature within one year totaled $892.1 million at September 30, 2001, and borrowings which are scheduled to mature or reprice within the same period amounted to $64.5 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. As of October 3, 2001, the Company has purchased and retired $58.5 million of those outstanding senior notes. These transactions reduced future interest costs associated with those notes. The remaining $21.5 million of senior notes have an annual debt service requirement of $2.6 million (or $1.3 million for each semi-annual period).

Capital Resources. The Company issued $35 million of 9.00% Cumulative Trust Preferred Securities in September of 2001 with an additional issuance of $5.3 million on October 3, 2001. The Trust Preferred Securities increased the Company's regulatory capital, which allows for the continued growth of its banking franchise. The ability to treat these Trust Preferred Securities as regulatory capital under Federal Reserve guidelines, coupled with the Federal income tax deductibility of the related expense, provides the Company with a cost-effective form of capital.

Bank holding companies are required to maintain capital ratios in accordance with guidelines adopted by the FRB. The guidelines are commonly known as Risk-Based Capital Guidelines. On September 30, 2001, the Company exceeded all applicable capital requirements to be well capitalized by having a total risk-based capital ratio of 11.08%, a tier I risk-based capital ratio of 9.83% and a leverage ratio of 7.46%.

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" included in the Company's Form 10-K for the year ended December 31, 2000 for Quantitative and Qualitative Disclosures about Market Risk.

PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

None

b. Reports on Form 8-K

The Company filed the following Form 8-K's during the quarter ended September 30, 2001:

1. A Form 8-K dated July 18, 2001 was filed pursuant to the release of second quarter earnings.

2. A Form 8-K dated September 18, 2001 was filed pursuant to the release of information pertaining to the Company's Stock Repurchase Program.

3. A Form 8-K dated September 20, 2001 was filed pursuant to issuance of the Trust's Trust Preferred Securities public offering.

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: November 9, 2001

By /s/ Edward A. Townsend

Edward A. Townsend
Chairman of the Board
Chief Executive Officer

LOCAL FINANCIAL CORPORATION

Date: November 9, 2001

By /s/ Richard L. Park

Richard L. Park
Chief Financial Officer