FIRSTFED FINANCIAL CORP
Form 10-Q
August 14, 2001

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarter Ended June 30, 2001
OR
TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-9566

FirstFed Financial Corp.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	95-4087449 (I.R.S. Employer Identification No.)
401 Wilshire Boulevard Santa Monica, California (Address of principal executive offices)	90401-1490 (Zip Code)

Registrant's telephone number, including area code: (310) 319-6000

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 August 3, 2001, 17,268,298 shares of the Registrant's $.01 par value common stock were outstanding.

FirstFed Financial Corp.
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PART I - FINANCIAL STATEMENTS

Item 1. Financial Statements

FirstFed Financial Corp. and Subsidiary
Consolidated Statements of Financial Condition
(Dollars in thousands, except share and per share data)
(Unaudited)

	June 30, 2001	December 31, 2000	Jun 2
Assets			
Cash and cash equivalents	$ 69,851	$ 77,677	$ 55
Investment securities, available-for-sale			

(at fair value)	130,019	136,537	147
Mortgage-backed securities, available-for-sale			
(at fair value)	338,269	374,405	391
Loans receivable, held-for-sale (fair value of			
$6,766, $2,246 and $1,245)	6,766	2,246	1
Loans receivable, net	3,876,950	3,627,038	3,458
Accrued interest and dividends receivable	27,162	28,488	25
Real estate	2,002	2,189	2
Office properties and equipment, net	9,932	10,651	11
Investment in Federal Home Loan Bank			
(FHLB) stock, at cost	87,615	80,885	74
Other assets	23,418	25,126	15
	$4,571,984	$4,365,242	$4,182
Liabilities			
Deposits	$2,275,544	$2,165,047	$2,141
FHLB advances and other borrowings	1,674,000	1,579,000	1,454
Securities sold under agreements to repurchase	264,640	294,110	327
Accrued expenses and other liabilities	61,422	59,643	22
	4,275,606	4,097,800	3,946
Commitments and Contingent Liabilities			
Stockholders' Equity			
Common stock, par value $.01 per share; authorized 100,000,000 shares; issued 23,335,788 23,299,707, and 23,274,263 shares, outstanding 17,268,298, 17,232,217 and 17,206,773 shares	233	233	
Additional paid-in capital	33,207	32,540	31
Retained earnings - substantially restricted	338,376	313,411	293
Unreleased shares to employee stock ownership plan	(421)	(841)	(1
Treasury stock, at cost, 6,067,490 shares	(75,743)	(75,743)	(75
Accumulated other comprehensive earnings (loss), net of taxes	726	(2,158)	(10
	296,378	267,442	236
	$4,571,984	$4,365,242	$4,182

See accompanying notes to consolidated financial statements.

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FirstFed Financial Corp. and Subsidiary
Consolidated Statements of Operations and Comprehensive Earnings
(Dollars in thousands, except share and per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Interest income:				
Interest on loans	$77,891	$66,487	$155,871	$127,613
Interest on mortgage-backed securities	5,542	6,096	11,501	12,238
Interest and dividends on investments	4,010	3,872	8,088	7,706
Total interest income	87,443	76,455	175,460	147,557
Interest expense:				
Interest on deposits	25,185	24,508	51,801	47,638
Interest on borrowings	28,696	25,780	57,945	47,772
Total interest expense	53,881	50,288	109,746	95,410

Net interest income	33,562	26,167	65,714	52,147
Provision for loan losses	-	-	-	-
Net interest income after provision for loan losses	33,562	26,167	65,714	52,147
Non-interest income:				
Loan and other fees	624	794	1,475	1,532
Gain on sale of loans	108	38	210	3
Real estate operations, net	(268)	476	(226)	438
Other operating income	1,177	1,110	2,189	2,170
Total non-interest income	1,641	2,418	3,648	4,143
Non-interest expense:				
Compensation	7,435	6,809	14,730	13,439
Occupancy	2,098	2,021	3,979	3,977
Other expenses	3,662	3,740	7,019	7,399
Total non-interest expense	13,195	12,570	25,728	24,815
Earnings before income taxes	22,008	16,015	43,634	31,475
Income tax provision	9,416	6,664	18,669	13,289
Net earnings	$12,592	$ 9,351	$ 24,965	$ 18,186
Other comprehensive earnings (loss), net of taxes	(187)	(42)	2,884	(2,553)
Comprehensive earnings	$12,405	$ 9,309	$ 27,849	$ 15,633
Earnings per share:				
Basic	$ 0.73	$ 0.54	$ 1.45	$ 1.04
Diluted	$ 0.71	$ 0.54	$ 1.42	$ 1.03
Weighted average shares outstanding:				
Basic	17,218,464	17,225,285	17,200,593	17,522,641
Diluted	17,650,751	17,330,584	17,638,569	17,629,206

See accompanying notes to consolidated financial statements.

FirstFed Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30, 2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 24,965	$ 18,186
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Net change in loans-held-for-sale	(4,520)	1,058
Depreciation	923	929
Valuation adjustments on real estate sold	(120)	(367)
Amortization of fees and discounts	1,593	589
Decrease in servicing asset	120	269
Change in deferred taxes	(2,526)	(1,878)
(Increase) decrease in interest and dividends receivable	1,326	(3,212)

Decrease in interest payable	(1,819)	(1,010)
Amortization of core deposit intangible assets	745	425
Decrease in other assets	(3,954)	(896)
Increase (decrease) in accrued expenses and other liabilities	6,124	(5,291)
Total adjustments	(2,108)	(9,384)
Net cash provided by operating activities	22,857	8,802
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans made to customers net of principal collection on loans	(125,757)	(276,982)
Loans purchased	(127,598)	(304)
Proceeds from sales of real estate owned	2,692	3,743
Proceeds from maturities and principal payments of investment securities available-for-sale	28,216	7,064
Principal reductions on mortgage-backed securities available for sale	39,540	33,107
Purchase of investment securities available-for sale	(19,964)	(3,447)
Purchase of FHLB stock	(4,025)	(494)
Net cash from acquisition of loans and deposits	-	32,866
Other	(481)	(1,186)
Net cash used in investing activities	(207,377)	(205,633)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in savings deposits	110,497	(87,946)
Net increase in short term borrowings	65,530	248,975
Treasury stock purchases	-	(10,175)
Other	667	37
Net cash provided by financing activities	176,694	150,891
Net decrease in cash and cash equivalents	(7,826)	(45,940)
Cash and cash equivalents at beginning of period	77,677	101,807
Cash and cash equivalents at end of period	$ 69,851	$ 55,867

See accompanying notes to consolidated financial statements.

FirstFed Financial Corp. and Subsidiary
Notes to Consolidated Financial Statements
(Unaudited)

1. The unaudited consolidated financial statements included herein have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of the Company, all adjustments (which include only normal recurring adjustments) necessary to present fairly the results of operations for the periods covered have been made. Certain information and note disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures are adequate to make the information presented not misleading.

It is suggested that these condensed financial statements are read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report on Form 10-K. The results for the periods covered hereby are not necessarily indicative of the operating results for a full year.

2. Basic earnings per share were computed by dividing net earnings by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per share additionally include the effect of stock options, if dilutive.

3. For purposes of reporting cash flows on the "Consolidated Statements of Cash Flows", cash and cash equivalents include cash, overnight investments and securities purchased under agreements to resell which mature within 90 days of the date of purchase.

4. Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB")issued Statement No. 141, Business Combinations ("SFAS No. 141")and Statement No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also applies to all business combinations using the purchase method completed after June 30, 2001. SFAS No.141 specifies the criteria that intangible assets acquired in a purchase method business combination must meet in order to be recognized and reported apart from goodwill. SFAS No. 142 requires 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 SFAS No. 142. SFAS No.142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their residual values ,and reviewed for impairment in accordance with SFAS No.121, Accounting for the Impairment of Long-Lived Assets and forlong-lived Assets to be Disposed Of.

The Company is required to adopt the provisions of SFAS No. 141 immediately and SFAS No. 142 effective January 1, 2002. As of June 30, 2001 the Company has no assets to be classified as goodwill under these new pronouncements. However,the Company does have core deposit intangible assets related to the acquisition of retail savings deposits. Under the provisions of SFAS No. 142, the Company expects to continue amortizing these intangible assets over their estimated useful lives. Amortization of the Company's core deposit intangible assets totaled $745 thousand and $2.0 million for the six months ended June 30, 2001 and the year ended December 31, 2000, respectively. The Company does not expect any material adjustments to its core deposit intangible assets when SFAS No.142 becomes effective.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

At June 30, 2001, FirstFed Financial Corp. (the "Company"), holding company for First Federal Bank of California and its subsidiaries (the "Bank"), had consolidated assets totaling $4.6 billion, compared to $4.4 billion at December 31, 2000 and $4.2 billion at June 30, 2000. The growth in total assets during the first six months of 2001 is primarily attributable to an increase in the portfolio of loans, including mortgage-backed securities. The loan portfolio including mortgage-backed securities increased to $4.2 billion at June 30, 2001 from $4.0 billion at December 31, 2000 and $3.9 billion at June 30, 2000. The increase is primarily due to loan originations of $687.1 million and loan purchases of $127.6 million during the first six months of 2001. Loan payoffs and principal reductions totaling $565.5 million offset the increase. Payoff activity increased during the first six months of 2001, as borrowers refinanced existing loans into new loans at lower rates.

The following is a summary of loan originations and purchases as of the dates indicated (dollars in thousands):

	Six months ended June 30, 2001	Six months ended June 30, 2000		Six months ended June 30, 2001	Six months ended June 30, 2000
Property Type:			Loan Type:		
Single family	$583,003	$355,518			
Multi-family	167,674	251,809	Adjustable	$206,527	$609,943
Other	64,058	18,759	Fixed(1)	608,208	16,143
Total	$814,735	$626,086	Total	$814,735	$626,086

(1) This loan type includes fixed/adjustable hybrid loan products with initial repricing periods ranging from three to ten years.

The Bank's primary market area is Southern California. According to the UCLA Anderson Forecast for California, June 2001 Report (the "UCLA Report"), the Southern California economy remains healthy but is beginning to slow due to declines in the U.S., Asian, and Mexican economies. According to the UCLA Report, average home prices in Los Angeles County increased by 6.2% in 2000. In comparison, home prices are expected to increase by 6.7% during 2001 and 3.4% during 2002.

The Company's non-performing assets ratio remained modest at 0.22% of total assets as of June 30,2001, approximately the same as 0.19% as of December 31, 2000 and 0.27% as of June 30, 2000. (See "Non-performing Assets" for further discussion.)

The Company recorded net loan charge-offs of $160 thousand and $225 thousand for the second quarter and first six months of 2001, respectively. For the comparable period of last year, the Company recorded net loan loss recoveries of $219 thousand and $787 thousand for the second quarter and first six months of 2000, respectively. The Company did not record a provision for loan losses during the first six months of 2001 or for the comparable 2000 period. The Bank's general valuation allowance was $70.9 million or 1.65% of total assets with loss exposure at June 30, 2001. This compares with $71.2 million or 1.81% as of December 31, 2000 and $71.9 million or 1.93% at June 30, 2000. The Bank also maintains valuation allowances for impaired loans, which totaled $1.9 million at June 30, 2001, $1.8 million at December 31, 2000 and $1.8 million at June 30, 2000.

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The following table shows the components of the Bank's portfolio of loans (including loans held for sale) and mortgage-backed securities by collateral type as of the dates indicated:

	June 30, 2001	December 31, 2000	June 30, 2000

(Dollars in thousands)

REAL ESTATE LOANS:			
First trust deed residential loans:			
One to four units	$2,306,471	$2,158,940	$2,022,106
Five or more units	1,369,772	1,308,440	1,302,565
Residential loans	3,676,243	3,467,380	3,324,671
OTHER REAL ESTATE LOANS:			
Commercial and industrial	247,307	217,619	186,794
Second trust deeds	9,363	8,453	12,350
Construction loans	698	-	-
Real estate loans	3,933,611	3,693,542	3,523,815
NON-REAL ESTATE LOANS:			
Manufactured housing	-	-	545
Deposit accounts	462	576	566
Commercial business loans	23,040	12,600	10,787
Consumer	12,412	6,946	3,578
Loans receivable	3,969,525	3,713,664	3,539,291
LESS:			
General valuation allowance- loan portfolio	70,526	70,809	71,545
Valuation allowances - impaired loans	1,850	1,792	1,792
Unrealized loan fees	13,433	11,779	6,563
Net loans receivable	3,883,716	3,629,284	3,459,391
FHLMC AND FNMA MORTGAGE- BACKED SECURITIES (at fair value):			
Secured by single family dwellings	325,138	360,210	376,024
Secured by multi-family dwellings	13,131	14,195	15,190
Mortgage-backed securities	338,269	374,405	391,214
TOTAL	$4,221,985	$4,003,689	$3,850,605

The mortgage-backed securities portfolio, classified as available-for-sale, was recorded at fair value as of June 30, 2001. An unrealized gain of $111 thousand, net of taxes, was recorded in stockholders' equity as of June 30, 2001. This compares to net unrealized losses of $1.9 million as of December 31, 2000 and $9.1 million as of June 30, 2000.

The investment securities portfolio, classified as available-for-sale, was recorded at fair value as of June 30, 2001. An unrealized gain of $615 thousand, net of taxes, was reflected in stockholders' equity as of June 30, 2001. This compares to unrealized losses of $295 thousand as of December 31, 2000 and $1.7 million as of June 30, 2000.

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Asset/Liability Management

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from the interest rate risk inherent in its lending and deposit taking activities. Management actively monitors its interest rate risk exposure.

The Federal Reserve Board has decreased interest rates six times thus far during 2001. The Bank's market risk profile remains substantially unchanged with regard to interest rate risk because over 81% of its loan portfolio is invested in adjustable rate products.

The one year GAP (the difference between rate-sensitive assets and liabilities repricing within one year or less) was a positive $104.1 million or 2.28% of total assets at June 30, 2001. In comparison, the one year GAP was a positive $515.2 million or 11.8% of total assets as of December 31, 2000.

The one year GAP decreased from December 31, 2000 to June 30, 2001 due to the fact that asset growth during the first six months of 2001 was primarily in fixed/adjustable hybrid loan products that reprice for the first time in periods ranging from three to ten years. To a lesser extent, the Bank also lengthened the maturities of its borrowings.

A positive GAP normally benefits a financial institution in times of increasing interest rates. However, the Bank's net interest income typically improves during periods of decreasing interest rates because of a three month time lag before changes in the FHLB Eleventh District Cost of Funds Index (the "Index") can be implemented with respect to the Bank's loans. Therefore, during a period immediately following interest rate decreases, the Bank's cost of funds tends to decrease faster than the rates on its adjustable rate loan portfolio.

Capital

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and percentages of total capital to risk-weighted assets. The Bank meets the standards necessary to be deemed well capitalized under the applicable regulatory requirements. The following table summarizes the Bank's actual capital and required capital as of June 30, 2001:

	Tangible Capital	Core Capital	Risk-based Capital
	(Dollars in thousands)		
Actual Capital:			
Amount	280,112	280,112	312,364
Ratio	6.14%	6.14%	12.29%
Minimum required capital:			
Amount	68,458	182,556	203,354
Ratio	1.50%	4.0%	8.0%
Well capitalized required capital:			
Amount	-	228,195	254,193
Ratio	-	5.0%	10.0%

Results of Operations

The Company reported consolidated net earnings of $12.6 for the second quarter of 2001 compared to net earnings of $9.4 million for the second quarter of 2000. Quarterly earnings improved compared to last year due to increased interest income resulting from growth in average interest-earning assets and higher interest rate spreads.

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The Company reported consolidated net earnings of $25.0 million for the first six months of 2001, compared to $18.2 million for the same period last year. The increase in year-to-date net earnings resulted primarily from the same factors that affected quarterly earnings.

Loan Loss Allowances

Listed below is a summary of activity in the Bank's general valuation allowance and the valuation allowance for impaired loans during the periods indicated:

	Six Months Ended June 30, 2001		
	General Valuation Allowances	Impaired Valuation Allowances	Total
	(Dollars in thousands)		
Balance at December 31, 2000	$70,809	$1,792	$72,601
Provision	(58)	58	-
Charge-offs:			
Single family	(161)	-	(161)
Multi-family	(52)	-	(52)
Land	(53)	-	(53)
Total charge-offs	(266)	-	(266)
Recoveries	41	-	41
Net charge-offs	(225)	-	(225)
Balance at June 30, 2001	$70,526	$1,850	$72,376

	Six Months Ended June 30, 2000		
	General Valuation Allowances	Impaired Valuation Allowances	Total
	(Dollars in thousands)		
Balance at December 31, 1999	$69,954	$2,596	$72,550
Charge-offs:			
Single family	(484)	-	(484)
Multi-family	-	(804)	(804)
Commercial	(105)	-	(105)
Non-real estate	(103)	-	(103)
Total charge-offs	(692)	(804)	(1,496)
Recoveries	2,283	-	2,283
Net recoveries (charge-offs)	1,591	(804)	787
Balance at June 30, 2000	$71,545	$1,792	$73,337

Management is unable to predict future levels of loan loss provisions. Among other things, future loan loss provisions are based on the level of loan charge-offs, foreclosure activity, and the economic climate in Southern California.

The Bank maintains a repurchase liability for loans sold with recourse which totaled $12.8 million at June 30, 2001, December 31, 2000 and June 30, 2000. This liability was 9.31% of loans sold with recourse as of June 30, 2001, compared to 8.75% as of December 31, 2000 and 8.14% as of June 30, 2000. The balance of loans sold with recourse totaled $137.7 million, $146.5 million and $157.6 million as of June 30, 2001, December 31, 2000 and June 30, 2000, respectively. The Bank has not entered into any new recourse arrangements for over ten years.

The Bank also maintains a general valuation allowance for real estate acquired by foreclosure, which totaled $350 thousand at June 30, 2001, December 31, 2000 and June 30, 2000. This allowance is to be used to offset further deterioration of property value after acquisition of the foreclosed real estate. See "Non-performing Assets" for additional discussion on foreclosed real estate.

Net Interest Income

During the first six months of 2001, the interest rate spread increased to 2.66% from 2.35% for the same period of the prior year. The COFI Index (on a lagged basis) determines the yield on over 77% of the loan portfolio. The index in effect during the six month ended June 30, 2001 increased by 0.63% compared to the same period of the prior year. However, during the same time period, the Company's average cost of funds increased by only 0.12%.

On a quarterly basis, the Bank's interest rate spread increased to 2.72% for the second quarter of 2001 from 2.28% for the second quarter of last year. The Index in effect during the second quarter of 2001 increased by 0.42% compared to the prior year second quarter. However, the Bank's average cost of funds decreased by 0.17% compared to the second quarter of the prior year.

The following table sets forth: (i) the average daily dollar amounts of and average yields earned on loans, mortgage-backed securities and investment securities, (ii) the average daily dollar amounts of and average rates paid on savings and borrowings, (iii) the average daily dollar differences, (iv) the interest rate spreads, and (v) the effective net spreads for the periods indicated:

	During the Six Months Ended June 30,	
	2001	2000
	(Dollars in thousands)	
Average loans and mortgage-backed securities	$4,131,442	$3,657,015
Average investment securities	199,566	170,311
Average interest-earning assets	4,331,008	3,827,326
Average savings deposits	2,251,907	2,109,439
Average borrowings	1,907,509	1,585,304
Average interest-bearing liabilities	4,159,416	3,694,743
Excess of interest-earning assets over interest-bearing liabilities	$ 171,592	$ 132,583
Yields earned on average interest earning assets	7.97%	7.54%
Rates paid on average interest-bearing liabilities	5.31	5.19
Net interest rate spread	2.66	2.35
Effective net spread(1)	2.87	2.53
Total interest income	$ 172,617	$ 144,319
Total interest expense	109,729	95,392
	62,888	48,927
Total other items(2)	2,826	3,220
Net interest income	$ 65,714	$ 52,147

	During the Three Months Ended June 30,	
	2001	2000
	(Dollars in thousands)	
Average loans and mortgage-backed securities	$ 4,184,565	$3,786,079
Average investment securities	200,924	157,131
Average interest-earning assets	4,385,489	3,943,210
Average savings deposits	2,279,483	2,146,295

Average borrowings	1,935,997	1,670,431
Average interest-bearing liabilities	4,215,480	3,816,726
Excess of interest-earning assets over interest-bearing liabilities	$ 170,009	$ 126,484
Yields earned on average interest earning assets	7.84%	7.57%
Rates paid on average interest-bearing liabilities	5.12	5.29
Net interest rate spread	2.72	2.28
Effective net spread(1)	2.92	2.24
Total interest income	$ 85,966	$ 74,616
Total interest expense	53,873	50,257
	32,093	24,359
Total other items(2)	1,469	1,808
Net interest income	$ 33,562	$ 26,167

(1) The effective net spread is a fraction, the denominator of which is the average dollar amount of interest-earning assets , and the numerator of which is net interest income (excluding stock dividends and miscellaneous interest income).
(2) Includes Federal Home Loan Bank Stock dividends and other miscellaneous items.

Non-Interest Income and Expense

Loan and other fees were $624 thousand and $1.5 million for the second quarter and first six months of 2001, respectively, compared to $794 thousand and $1.5 million for the second quarter and first six months of 2000, respectively. The decrease in loan and other fees is due to lower service fees on loans serviced for others due to payoffs.

Gain on sale of loans results primarily from loan fees recognized at the time of sale. Gain on sale of loans increased to $108 thousand and $210 thousand for the second quarter and first six months of 2001, respectively, compared to gains of $38 thousand and $3 thousand for the second quarter and first six months of 2000, respectively. The volume of loans sold totaled $20.2 million and $30.9 million during the second quarter and first six months of 2001, respectively, compared to $2.6 and $3.9 million, respectively, for the same periods of 2000. The increase in loans originated for sale is due to higher borrower demand for 15-year and 30-year fixed rate loans compared to last year.

Real estate operations resulted in net losses of $268 thousand and $226 thousand for the second quarter and first six months of 2001, respectively. This compares to net gains of $476 thousand and $438 thousand for second quarter and first six months 2000, respectively. Real estate operations include gains and losses on the sale of foreclosed properties as well as operational income and expense during the holding period. The loss on real estate operations during 2001 resulted from increased operating expenses on real estate owned.

Non-interest expense increased to $13.2 million and $25.7 million during the second quarter and first six months of 2001, respectively, compared with $12.6 million and $24.8 million for second quarter and first six months of 2000, respectively. The increase in non-interest expense during the second quarter of 2001 resulted from higher compensation and incentive payments due to an increase in business volume. Expenses during the first six months of 2001 also increased due to higher compensation and incentive costs.

The ratio of non-interest expense to average assets decreased to 1.16% and

1.15% of average assets for the second quarter and first six months of 2001, respectively, from 1.22% and 1.23% for the second quarter and first six months of 2000, respectively. The ratios decreased due to growth in average assets during 2001.

Non-accrual, Past Due, Modified and Restructured Loans

The Bank accrues interest earned but uncollected for every loan without regard to its contractual delinquency status and establishes a specific interest allowance for each loan which becomes 90 days or more past due or is in foreclosure. Loans requiring delinquent interest allowances (non-accrual loans) totaled $8.4 million at June 30, 2001 compared with $6.3 at December 31, 2000 and $9.6 million at June 30, 2000.

The amount of interest allowance for loans 90 days or more delinquent or in foreclosure was $508 thousand, $511 thousand, and $604 thousand, respectively, as of June 30, 2001, December 31, 2000, and June 30, 2000.

Delinquent loans as a percentage of the Bank's total loan portfolio for the periods indicated are as follows:

	June 30, 2001	December 31, 2000	June 30, 2000
	Percentage of Portfolio		
Period of delinquency			
1 monthly payment	0.35%	0.39%	0.19%
2 monthly payments	0.01%	0.12%	0.04%
3 or more monthly payments or in foreclosure	0.20%	0.17%	0.25%

The Bank has debt restructurings that result from temporary modifications of principal and interest payments. Under these arrangements, loan terms are typically reduced to no less than a monthly interest payment required under the note. Any loss of revenues under the modified terms would be immaterial to the Bank. Generally, if the borrower is unable to return to scheduled principal and interest payments at the end of the modification period, foreclosure proceedings are initiated. As of June 30, 2001, the Bank had modified loans totaling $7.3 million net of loan loss allowances totaling $2.0 million. No modified loans were 90 days or more delinquent as of June 30, 2001.

Pursuant to Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" ("SFAS No. 114"), the Bank considers a loan impaired when management believes that it is probable that the Bank will not be able to collect all amounts due under the contractual terms of the loan. Estimated impairment losses are recorded as separate valuation allowances and may be subsequently adjusted based upon changes in the measurement of impairment. Impaired loans, disclosed net of valuation allowances, include non-accrual major loans (single family loans with an outstanding principal amount greater than or equal to $500 thousand and multi-family and commercial real estate loans with an outstanding principal amount greater than or equal to $750 thousand), modified loans, and major loans less than 90 days delinquent in which full payment of principal and interest is not expected to be received.

The following is a summary of impaired loans, net of valuation allowances for impairment, as of the dates indicated:

June 30,	December 31,	June 30,

	2001	2000	2000
	(Dollars in thousands)		
Non-accrual loans	$ 857	$ -	$ 1,004
Modified loans	6,523	8,770	7,145
Other impaired loans	-	-	1,851
	$7,380	$8,770	$10,000

The Bank evaluates loans for impairment whenever the collectibility of contractual principal and interest payments is questionable. Large groups of smaller balance homogenous loans that are collectively evaluated for impairment, including residential mortgage loans, are not subject to the application of SFAS No. 114.

When a loan is considered impaired the Bank measures impairment based on the present value of expected future cash flows (over a period not to exceed 5 years) discounted at the loan's effective interest rate. However, if the loan is "collateral-dependent" or foreclosure is probable, impairment is measured based on the fair value of the collateral. When the measure of an impaired loan is less than the recorded investment in the loan, the Bank records an impairment allowance equal to the excess of the Bank's recorded investment in the loan over its measured value.

All impaired loans were measured using the fair value method as of June 30, 2001, December 31, 2000 and June 30, 2000.

Impaired loans for which valuation allowances had been established totaled $3.5 million for the quarter ended June 30, 2001 and $3.7 million for the quarters ended December 31, 2000 and June 30, 2000. Impaired loans for which there was no valuation allowance established totaled $3.9 million, $5.1 million, and $6.3 million for the quarters ended June 30, 2001, December 31, 2000, and June 30, 2000, respectively. See "Results of Operations" for an analysis of activity in the valuation allowance for impaired loans.

As of June 30, 2001, the Bank had $857 thousand in non-performing impaired loans, all of which were multi-family loan types. There were no non-performing impaired loans as of December 31, 2000. As of June 30, 2000, the Bank had $1.0 million of non-performing impaired loans, all of which were single family loan types.

Cash payments received from impaired loans are recorded in accordance with the contractual terms of the loan. The principal portion of the payment is used to reduce the principal balance of the loan, whereas the interest portion is recognized as interest income.

The average recorded investment in impaired loans during the quarters ended June 30, 2001, December 31, 2000, and June 30, 2000 was $8.7 million, $8.8 million and $10.0 million, respectively. The amount of interest income recognized on the cash basis for impaired loans during the quarters ended June 30, 2001, December 31, 2000 and June 30, 2000 was $168 thousand, $183 thousand and $175 thousand, respectively. Interest income recognized under the accrual basis for the quarters ended June 30, 2001, December 31, 2000 and June 30, 2000 was $165 thousand, $184 thousand and $176 thousand, respectively.

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Asset Quality

The following table sets forth certain asset quality ratios of the Bank at the dates indicated:

	June 30, 2001	December 31, 2000	June 30, 2000

Non-Performing Loans to Loans Receivable (1)	0.20%	0.17%	0.25%
Non-Performing Assets to Total Assets(2)	0.22%	0.19%	0.27%
Loan Loss Allowances to Non-Performing Loans (3)	848.46%	1132.19%	750.54%
General Loss Allowances to Assets with Loss Exposure (4)	1.65%	1.81%	1.93%
General Loss Allowances to Total Assets with Loss Exposure (5)	1.89%	2.06%	2.18%

(1) Non-performing loans are net of valuation allowances related to those loans. Loans receivable exclude mortgage-backed securities and are before deducting unrealized loan fees , general valuation allowances and valuation allowances for impaired loans.

(2) Non-performing assets are net of valuation allowances related to those assets.

(3) The Bank's loan loss allowances , including valuation allowances for non-performing loans and general valuation allowances but excluding general valuation allowances for loans sold by the Bank with full or limited recourse. Non-performing loans are before deducting valuation allowances related to those loans.

(4) The Bank's general valuation allowances, excluding general valuation allowances for loans sold with full or limited recourse. The Bank's assets with loss exposure include its loan portfolio, real estate owned, loan commitments,and potential loan buybacks but excludes mortgage-backed securities.

(5) The Bank's general valuation allowances, including general valuation allowances for loans sold with full or limited recourse. Assets with loss exposure include the Bank's portfolio plus loans sold with recourse, but exclude mortgage-backed securities.

Non-performing Assets

The Bank defines non-performing assets as loans delinquent over 90 days (non-accrual loans), loans in foreclosure and real estate acquired by foreclosure (real estate owned). An analysis of non-performing assets follows as of the dates indicated:

	June 30, 2001	December 31, 2000	June 30, 2000
	(Dollars in thousands)		
Real estate owned:			
Single family	$1,845	$2,507	$ 2,470
Multi-family	476	-	-
Less:			
General valuation allowance	(350)	(350)	(350)
Total real estate owned	1,971	2,157	2,120
Non-accrual loans:			
Single family	6,193	5,603	7,543
Multi-family	2,160	662	1,912
Commercial real estate	-	-	163

Less:			
Valuation allowances (1)	(346)	(123)	(642)
Total non-accrual loans	8,007	6,142	8,976
Total non-performing assets	$ 9,978	$8,299	$11,096

(1) Includes loss allowances on other non-performing loans requiring fair value adjustments.

Real estate owned and non-accrual loans, while varying slightly from quarter to quarter, have remained at very low levels for the last few years due to strength in the Southern California real estate market.

Sources of Funds

External sources of funds include savings deposits from several sources, advances from the Federal Home Loan Bank of San Francisco ("FHLB"), and securitized borrowings.

Savings deposits are accepted from retail banking offices, telemarketing sources, and national deposit brokers. The cost of funds, operating margins and net earnings of the Bank associated with brokered and telemarketing deposits are generally comparable to the cost of funds, operating margins and net earnings of the Bank associated with retail deposits, FHLB borrowings and repurchase agreements. As the cost of each source of funds fluctuates from time to time, based on market rates of interest offered by the Bank and other depository institutions, the Bank selects funds from the lowest cost source until the relative costs change. As the cost of funds, operating margins and net earnings of the Bank associated with each source of funds are generally comparable, the Bank does not deem the impact of its use of any one of the specific sources of funds at a given time to be material.

Deposits accepted by retail banking offices increased by $20.5 million and by $89.3 million during the second quarter and first six months of 2001, respectively. Retail deposits comprised 80% of total savings deposits as of June 30, 2001.

Telemarketing deposits increased by $11.1 million and $84.2 million during the second quarter and first six months of 2001, respectively. These deposits are normally large deposits from pension plans, managed trusts and other financial institutions. These deposit levels fluctuate based on the attractiveness of the Bank's rates compared to returns available to investors on alternative investments. Telemarketing deposits comprised 6% of total deposits at June 30, 2001.

Deposits acquired from national brokerage firms ("brokered deposits") decreased by $47.4 million and $63.0 million during the second quarter and first six months of 2001, respectively. Because the Bank has sufficient capital to be deemed "well-capitalized" under the standards established by the Office of Thrift Supervision, it may solicit brokered funds without special regulatory approval. At June 30, 2001, brokered deposits comprised 14% of total deposits.

Total borrowings increased by $59.4 million and $65.5 million during the second quarter and first six months of 2001, respectively. The increase was attributable to loan originations in excess of loan payoffs.

Internal sources of funds include both principal payments and payoffs on loans and mortgage-backed securities, loan sales, and positive cash flows from operations. Principal payments include amortized principal and prepayments that are a function of real estate activity and the general level of interest rates.

Total principal payments on loans and mortgage-backed securities were $362.7 million and $ 565.5 million for the second quarter and first six months of 2001, respectively. This compares with principal payments of $136.7 million and $254.0 million for the second quarter and first six months of 2000, respectively.

Loan sales were $20.2 million and $30.9 million for the second quarter and first six months of 2001, compared with sales of $2.6 million and $3.9 million for the second quarter and first six months of 2000. The increase is due to a higher volume of fixed rate loans originated for sale.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form-8K

(3.1) Restated Certificate of Incorporation filed as Exhibit 3.1 to Form 10-K for the fiscal year ended December 31, 1999 and incorporated by reference.
(3.2) By-laws filed as Exhibit (1) (a) to Form 8-A dated September 4, 1987 and incorporated by reference.
(4.1) Amended and Restated Rights Agreement dated as of September 25, 1998, filed as Exhibit 4.1 to Form 8-A/A, dated September 25, 1998 and incorporated by reference.
(10.1) Deferred Compensation Plan filed as Exhibit 10.3 to Form 10-K for the fiscal year ended December 31, 1983 and incorporated by reference.
(10.2) Bonus Plan filed as Exhibit 10 (iii)(A)(2) to Form 10 dated November 2, 1993 and incorporated by reference.
(10.3) Supplemental Executive Retirement Plan dated January 16, 1986 filed as Exhibit 10.5 to Form 10-K for the fiscal year ended December 31, 1992 and incorporated by reference.
(10.4) Change of Control Agreement effective September 26, 1996 filed as Exhibit 10.4 to Form 10-Q for the Quarter ended September 30, 1996 and Amendment filed as Exhibit 10.3 10.4 for change of control to Form 10-Q for the Quarter ended September 30, 2000 and incorporated by reference.
(10.5) 1997 Non-employee Directors Stock Incentive Plan filed as Exhibit 1 to Form S-8 dated August 12, 1997 and Amendment filed as Exhibit 10.5 to Form 10-Q for the Quarter ended September 30, 2000, and incorporated by reference.
(21) Registrant's sole subsidiary is First Federal Bank of California, a federal savingsbank.
(24) Power of Attorney.

(b) Reports on Form 8-K

The Company filed current reports on Form 8-K during the quarter ended June 30, 2001 on the following dates : April 25, 2001, May 23, 2001, and June 15, 2001. These reports are related to the release of the Company's first quarter earnings and the disclosure of certain other financial data.

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 thereunto duly authorized.

FIRSTFED FINANCIAL CORP.
Registrant

Date: August 10, 2001

By /s/ BABETTE E. HEIMBUCH
Babette E. Heimbuch
President and
Chief Executive Officer

By /s/ DOUGLAS J. GODDARD
Douglas J. Goddard
Chief Financial Officer and
Executive Vice President