

EFC BANCORP INC
Form 10-Q
August 14, 2002

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2002

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 1-13605

EFC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

36-4193304

(I.R.S. Employer
Identification No.)

1695 Larkin Avenue, Elgin, Illinois

(Address of principal executive offices)

60123

(Zip Code)

(847) 741-3900

(Registrant's telephone number, including area code)

Not Applicable

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

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 4,644,643 shares of common stock, par value \$0.01 per share, were outstanding as of August 8, 2002.

EFC Bancorp, Inc.

Form 10-Q

For the Quarter Ended June 30, 2002

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PART I. FINANCIAL INFORMATION EFC BANCORP, INC.

Item 1. Financial Statements.

EFC BANCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (unaudited)

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June 30, 2002 and December 31, 2001

| | June 30, 2002 | December 31, 2001 |
|--|-----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents: | | |
| On hand and in banks | \$ 3,057,437 | 3,186,966 |
| Interest bearing deposits with financial institutions | 29,349,048 | 14,988,324 |
| Loans receivable, net | 572,212,121 | 537,070,664 |
| Mortgage-backed securities available-for-sale, at fair value | 11,095,729 | 13,855,715 |
| Investment securities available-for-sale, at fair value | 73,040,370 | 68,615,462 |
| Stock in Federal Home Loan Bank of Chicago, at cost | 9,131,900 | 8,891,900 |
| Accrued interest receivable | 3,860,268 | 3,682,120 |
| Office properties and equipment, net | 12,359,515 | 10,990,206 |
| Other assets | 17,432,962 | 12,162,083 |
| Total assets | \$ 731,539,350 | 673,443,440 |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Deposits | \$ 476,680,551 | 420,084,289 |
| Borrowed money | 171,787,924 | 175,200,000 |
| Advance payments by borrowers for taxes and insurance | 1,298,518 | 1,226,614 |
| Income taxes payable | 196,834 | 419,125 |
| Accrued expenses and other liabilities | 9,410,692 | 7,884,849 |
| Total liabilities | 659,374,519 | 604,814,877 |
| Minority interest | (19,953) | |
| Stockholders' Equity: | | |
| Preferred stock, par value \$.01 per share, authorized 2,000,000 shares; no shares issued | | |
| Common stock, par value \$.01 per share, authorized 25,000,000 shares; issued 7,491,434 shares | 74,914 | 74,914 |
| Additional paid-in capital | 71,666,253 | 71,663,695 |
| Treasury stock, at cost, 2,853,791 and 2,884,873 shares at June 30, 2002 and December 31, 2001, respectively | (33,265,474) | (33,584,554) |
| Unearned employee stock ownership plan (ESOP), 419,521 and 439,498 shares at June 30, 2002 and December 31, 2001, respectively | (6,272,905) | (6,571,619) |
| Unearned stock award plan, 79,683 and 107,943 shares at June 30, 2002 and December 31, 2001, respectively | (886,474) | (1,200,866) |
| Retained earnings, substantially restricted | 40,081,533 | 38,015,742 |
| Accumulated other comprehensive income | 786,937 | 231,251 |
| Total stockholders' equity | 72,184,784 | 68,628,563 |
| Commitments and contingencies | | |
| Total liabilities and stockholders' equity | \$ 731,539,350 | 673,443,440 |

See accompanying notes to consolidated financial statements.

**EFC BANCORP, INC.
AND SUBSIDIARIES**

Consolidated Statements of Income (unaudited)

For the three and six months ended June 30, 2002 and 2001

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|-------------------|------------------------------|-------------------|
| | 2002 | 2001 | 2002 | 2001 |
| Interest income: | | | | |
| Loans secured by real estate | \$ 8,533,528 | 8,216,205 | 17,211,523 | 16,280,568 |
| Other loans | 1,236,386 | 1,079,057 | 2,412,923 | 1,969,091 |
| Mortgage-backed securities available-for-sale | 167,499 | 235,782 | 353,027 | 461,217 |
| Investment securities available-for-sale and interest bearing deposits with financial institutions | 1,204,160 | 1,223,706 | 2,289,780 | 2,719,878 |
| Total interest income | 11,141,573 | 10,754,750 | 22,267,253 | 21,430,754 |
| Interest expense: | | | | |
| Deposits | 3,420,884 | 4,244,093 | 6,784,290 | 8,506,167 |
| Borrowed money | 2,299,382 | 2,145,121 | 4,623,299 | 4,371,245 |
| Total interest expense | 5,720,266 | 6,389,214 | 11,407,589 | 12,877,412 |
| Net interest income before provision for loan losses | 5,421,307 | 4,365,536 | 10,859,664 | 8,553,342 |
| Provision for loan losses | 225,000 | 105,000 | 450,000 | 195,000 |
| Net interest income after provision for loan losses | 5,196,307 | 4,260,536 | 10,409,664 | 8,358,342 |
| Noninterest income: | | | | |
| Service fees | 430,858 | 285,504 | 768,792 | 521,045 |
| Insurance and brokerage commissions | 79,825 | 88,149 | 310,340 | 183,590 |
| Information Technology sales and service income, net | 438,478 | | 740,880 | |
| Gain on sale of real estate owned | | 7,922 | | 7,922 |
| Other | 199,259 | 17,246 | 407,998 | 28,445 |
| Total noninterest income | 1,148,420 | 398,821 | 2,228,010 | 741,002 |
| Noninterest expense: | | | | |
| Compensation and benefits | 2,492,944 | 1,891,840 | 5,120,533 | 3,722,893 |
| Office building, net | 542,252 | 439,693 | 1,050,693 | 876,010 |
| Federal insurance premiums | 18,450 | 22,315 | 36,958 | 39,957 |
| Advertising | 118,895 | 185,763 | 268,572 | 315,668 |
| Data processing | 269,907 | 210,370 | 451,332 | 409,882 |
| NOW/checking account expenses | 124,836 | 77,610 | 247,415 | 140,091 |
| Other | 433,333 | 374,252 | 855,672 | 730,605 |

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| | Three months ended June 30, | | Six months ended June 30, | |
|---------------------------------|--------------------------------|-----------|------------------------------|-----------|
| | | | | |
| Total noninterest expense | 4,000,617 | 3,201,843 | 8,031,175 | 6,235,106 |
| Income before income taxes | 2,344,110 | 1,457,514 | 4,606,499 | 2,864,238 |
| Income tax expense | 732,308 | 496,480 | 1,445,920 | 1,001,630 |
| Income before minority interest | 1,611,802 | 961,034 | 3,160,579 | 1,862,608 |
| Minority interest | (17,152) | | 2,509 | |
| Net income | \$ 1,594,650 | 961,034 | 3,163,088 | 1,862,608 |
| Earnings per share: | | | | |
| Basic | \$ 0.38 | 0.23 | 0.75 | 0.43 |
| Diluted | 0.36 | 0.23 | 0.72 | 0.43 |

See accompanying notes to consolidated financial statements.

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**EFC BANCORP, INC.
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows (unaudited)

For the six months ended June 30, 2002 and 2001

| | 2002 | 2001 |
|--|--------------|-----------|
| Cash flows from operating activities: | | |
| Net income | \$ 3,163,088 | 1,862,608 |
| Adjustment to reconcile net income to net cash provided by operating activities: | | |
| Amortization of premiums and discounts, net | (57,574) | 62,511 |
| Provision for loan losses | 450,000 | 195,000 |
| Stock award plan shares allocated | 314,392 | 317,358 |
| ESOP shares committed to be released | 298,714 | 298,714 |
| Change in fair value of ESOP shares | 2,558 | (82,246) |
| Gain on sale of foreclosed real estate | | (8,014) |
| Minority interest in subsidiary | (19,953) | |
| Depreciation of office properties and equipment | 377,544 | 377,624 |
| Increase in accrued interest receivable and other assets, net | (5,384,547) | (229,565) |
| Increase in income taxes payable, accrued expenses and other liabilities, net | 1,348,305 | 3,620,069 |
| Net cash provided by operating activities | 492,527 | 6,414,059 |
| Cash flows from investing activities: | | |

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| | 2002 | 2001 |
|---|---------------|--------------|
| Net increase in loans receivable | (1,630,329) | (15,875,901) |
| Purchases of loans receivable | (33,961,128) | (23,707,057) |
| Purchases of mortgage-backed securities available-for-sale | | (6,241,618) |
| Principal payments on mortgage-backed securities available-for-sale | 2,682,224 | 2,549,072 |
| Maturities of investment securities available-for-sale | 12,421,819 | 18,131,584 |
| Purchases of investment securities available-for-sale | (15,800,431) | (14,826,311) |
| Purchases of office properties and equipment | (1,746,853) | (361,670) |
| Purchases of stock in the Federal Home Loan Bank of Chicago | (240,000) | (641,500) |
| Cash investment in majority-owned subsidiary | (420,000) | |
| Proceeds from the sale of foreclosed real estate | | 4,104,916 |
| Net cash used in investing activities | (38,694,698) | (36,868,485) |
| Cash flows from financing activities: | | |
| Cash dividends paid | (1,069,900) | (1,041,412) |
| Purchase of treasury stock | (4,200) | (1,244,733) |
| Stock options exercised | 323,280 | |
| Net increase in deposits | 56,596,262 | 11,772,919 |
| Proceeds from borrowed money | 405,298 | 30,000,000 |
| Repayments on borrowed money | (3,817,374) | (15,000,000) |
| Net cash provided by financing activities | 52,433,366 | 24,486,774 |
| Net increase/(decrease) in cash and cash equivalents | 14,231,195 | (5,967,652) |
| Cash and cash equivalents at beginning of period | 18,175,290 | 27,022,671 |
| Cash and cash equivalents at end of period | \$ 32,406,485 | 21,055,019 |

See accompanying notes to consolidated financial statements.

EFC BANCORP, INC.

Notes to Consolidated Financial Statements

Note 1: BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of EFC Bancorp, Inc. (the Company), its majority-owned subsidiary, Computer Dynamics Group Inc. (CDGI), its wholly-owned subsidiary, Elgin Financial Savings Bank (the Bank) and its wholly-owned subsidiary, Fox Valley Service Corporation of Elgin. A controlling interest in CDGI was purchased for \$420,000 in January 2002. The accompanying financial statements include the operating results of CDGI for the three and six months ended June 30, 2002 since the date of acquisition. Certain amounts for the prior year have been reclassified to conform to the current year presentation.

In the opinion of the management of the Company, the accompanying consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for the periods presented. All significant intercompany transactions have been eliminated in consolidation. These interim financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission and therefore certain information and footnote 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. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. It is

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suggested that the accompanying unaudited consolidated financial statements be read in conjunction with the Company's 2001 Annual Report on Form 10-K. Currently, other than investing in various securities, the Company does not directly transact any material business other than through the Bank. Accordingly, the discussion herein addresses the operations of the Company as they are conducted through the Bank.

Note 2: COMPREHENSIVE INCOME

The Company's comprehensive income for the three and six month periods ended June 30, 2002 and 2001 are as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|----------|------------------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| Net income | \$ 1,594,650 | 961,034 | \$ 3,163,088 | 1,862,608 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized holding gains (losses) on securities arising during the period, net of tax effect | 752,939 | (78,700) | 555,686 | 512,641 |
| Comprehensive income | \$ 2,347,589 | 882,334 | \$ 3,718,774 | 2,375,249 |

There were no sales of investment securities as of and for the three and six months ended June 30, 2002 and 2001.

Note 3: COMPUTATION OF PER SHARE EARNINGS

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding adjusted for the dilutive effect of outstanding stock options. ESOP shares are only considered outstanding for earnings per share calculations when they are released or committed to be released.

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Presented below are the calculations for the basic and diluted earnings per share:

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| <i>Basic:</i> | | | | |
| Net income | \$ 1,594,650 | 961,034 | 3,163,088 | 1,862,608 |
| Weighted average shares outstanding | 4,207,308 | 4,261,903 | 4,193,973 | 4,294,406 |
| Basic earnings per share | \$ 0.38 | 0.23 | 0.75 | 0.43 |
| <i>Diluted:</i> | | | | |
| Net income | \$ 1,594,650 | 961,034 | 3,163,088 | 1,862,608 |
| Weighted average shares outstanding | 4,207,308 | 4,261,903 | 4,193,973 | 4,294,406 |
| Effect of dilutive stock options outstanding | 236,119 | 7,522 | 202,536 | 5,709 |
| Diluted weighted average shares outstanding | 4,443,427 | 4,269,425 | 4,396,509 | 4,300,115 |

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| | Three months ended June 30, | | Six months ended June 30, | |
|----------------------------|--------------------------------|------|------------------------------|------|
| | | | | |
| Diluted earnings per share | \$ 0.36 | 0.23 | 0.72 | 0.43 |

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

The following analysis discusses changes in the financial condition at June 30, 2002 and results of operations for the three and six months ended June 30, 2002, and should be read in conjunction with the Company's Unaudited Consolidated Financial Statements and the notes thereto, appearing in Part I, Item 1 of this document.

Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and the subsidiaries include, but are not limited to, changes in: interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning the Company and its business, including additional factors that could materially affect the Company's financial results, is included in the Company's filings with the SEC, including its 2001 Annual Report on Form 10-K.

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

Comparison of Financial Condition at June 30, 2002 and December 31, 2001

Total assets at June 30, 2002 were \$731.5 million, which represented an increase of \$58.1 million, or 8.6%, compared to \$673.4 million at December 31, 2001. The increase in total assets was primarily as a result of an increase in loans receivable of \$35.1 million, or 6.5%, to \$572.2 million at June 30, 2002 from \$537.1 million at December 31, 2001. Of the \$35.1 million increase, \$12.9 million represents net loans purchased. The remaining increase in loans receivable was primarily attributable to strong loan demand during the period. In addition, cash and cash equivalents increased \$14.2 million, or 78.3%, to \$32.4 million at June 30, 2002 from \$18.2 million at December 31, 2001. These increases were partially offset by a decrease in mortgage-backed securities of \$2.8 million, or 19.9%, to \$11.1 million at June 30, 2002 from \$13.9 million at December 31, 2001. The growth in total assets was funded by increases in deposits. Deposits increased \$56.6 million to \$476.7 million at June 30, 2002 from \$420.1 million at December 31, 2001. Stockholders' equity increased by \$3.6 million to \$72.2 million at June 30, 2002 from \$68.6 million at December 31, 2001. The increase in stockholders' equity was primarily the result of the Company's increase in net income during the period, and a \$556,000 increase in the Company's accumulated other comprehensive income relating to its available-for-sale investment portfolio, the effect of which was partially offset by dividends paid.

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Comparison of Operating Results For the Three Months Ended June 30, 2002 and 2001

General. The Company's net income increased \$634,000, or 65.9%, to \$1.6 million for the three months ended June 30, 2002, from \$961,000 for the three months ended June 30, 2001.

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Interest Income. Interest income increased \$387,000, or 3.6%, to \$11.1 million for the three months ended June 30, 2002, compared with \$10.8 million for the same period in 2001. The increase in interest income was primarily due to an increase in average interest-earning assets, which increased by \$89.3 million, or 15.1%, to \$680.8 million for the three months ended June 30, 2002 from \$591.5 million for the comparable period in 2001, offset by a decrease in the average yield on interest-earning assets by 68 basis points to 6.61% for the three months ended June 30, 2002 from 7.29% for the three months ended June 30, 2001.

Mortgage loan interest income increased by \$317,000 for the three months ended June 30, 2002 compared with the same period in 2001. The average balance of mortgage loans increased \$50.5 million, while the loan yield decreased by 52 basis points from 7.54% to 7.02%. Interest income from investment securities, mortgage-backed securities and short-term deposits decreased by \$88,000 for the three months ended June 30, 2002, compared with the same period in 2001. This decrease resulted from a combination of an increase in average balance of \$14.0 million, offset by a 66 basis point decrease in yield from 5.74% for the three months ended June 30, 2001 to 5.08% for the three months ended June 30, 2002. The decrease in yield is largely attributed to the effect of the lower interest rate environment reducing yields on short-term deposits.

Interest Expense. Interest expense decreased by \$669,000, or 10.5%, to \$5.7 million for the three months ended June 30, 2002 from \$6.4 million for the three months ended June 30, 2001. This decrease resulted from an increase in the average balance of interest-bearing liabilities, offset by a decrease in the average rate paid on those interest-bearing liabilities. The average balance of interest-bearing liabilities increased by \$96.4 million, or 19.0%, to \$604.8 million for the three months ended June 30, 2002 from \$508.4 million for the three months ended June 30, 2001. This change reflects a \$79.9 million increase in the deposit accounts, which is primarily attributable to a \$48.3 million increase in money market accounts and a \$33.2 million increase in passbook savings accounts, partially offset by a decrease of \$6.5 million in certificates of deposits. The remaining \$16.5 million increase is attributable to advances from the FHLB-Chicago. The average rate paid on combined deposits and borrowed money decreased by 125 basis points to 3.78% for the three months ended June 30, 2002 from 5.03% for the three months ended June 30, 2001.

Net Interest Income Before Provision for Loan Losses. Net interest income before provision for loan losses increased \$1.0 million, or 24.2%, to \$5.4 million for the three months ended June 30, 2002 from \$4.4 million for the comparable period in 2001. The net interest margin as a percent of interest-earning assets increased by 28 basis points to 3.25% for the three months ended June 30, 2002 from 2.97% for the comparable period in 2001.

Provision for Loan Losses. The provision for loan losses increased by \$120,000, to \$225,000 for the three months ended June 30, 2002 from \$105,000 in 2001. This increase is primarily due to the growth in the loan portfolio. At June 30, 2002, December 31, 2001 and June 30, 2001, non-performing loans totaled \$3.5 million, \$2.6 million and \$3.1 million, respectively. At June 30, 2002, the ratio of the allowance for loan losses to non-performing loans was 77.1% compared to 87.4% at December 31, 2001 and 63.9% at June 30, 2001. The ratio of the allowance to total loans was 0.47%, 0.42% and 0.40%, at June 30, 2002, December 31, 2001 and June 30, 2001, respectively. Charge-offs totaled \$2,000 and \$85,000 for the three months ended June 30, 2002 and 2001, respectively. Management periodically calculates an allowance sufficiency analysis based upon the portfolio composition, asset classifications, loan-to-value ratios, potential impairments in the loan portfolio, and other factors.

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Noninterest Income. Noninterest income totaled \$1.1 million and \$399,000 for the three months ended June 30, 2002 and 2001, respectively. The increase in noninterest income is primarily attributable to increases in service fees of \$145,000, information/technology sales and service income of \$438,000 related to the Company's majority-owned subsidiary CDGI and an increase of \$170,000 in the cash surrender value of the Company's bank owned life insurance.

Noninterest Expense. Noninterest expense increased \$799,000, to \$4.0 million for the three months ended June 30, 2002 from \$3.2 million for the comparable period in 2001. Compensation and benefits increased by \$601,000. This increase was primarily due to a combination of annual salary increases, the addition of staff and the related compensation and benefits expenses of CDGI. The additional staff expenses are primarily attributed to the opening of the Bank's new Carpentersville, Illinois branch. All other operating expenses, including advertising, audit, data processing, marketing, postage, communications, and other expense increased by a combined \$198,000, or 15.1%, to \$1.5 million for the three months ended June 30, 2002 from \$1.3 million for the three months ended June 30, 2001. Management continues to emphasize the importance of expense management and control while continuing to provide expanded banking services to a growing market base.

Income Tax Expense. Income tax expense totaled \$732,000 and \$496,000 for the three months ended June 30, 2002 and 2001, respectively. The increase was primarily due to an \$887,000 increase in earnings before income taxes to \$2.3 million for the three months ended June 30, 2002 from \$1.5 million for the prior year period. The effective tax rate was 31.2% and 34.1% for the three months ended June 30, 2002 and 2001, respectively. The decrease in the effective tax rate for the three months ended June 30, 2002 is primarily due to the increase in tax exempt income including municipal interest income and an increase in income from bank owned life insurance.

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Comparison of Operating Results For the Six Months Ended June 30, 2002 and 2001

General. The Company's net income increased \$1.3 million, or 69.8%, to \$3.2 million for the six months ended June 30, 2002, from \$1.9 million for the six months ended June 30, 2001.

Interest Income. Interest income increased \$836,000, or 3.9%, to \$22.3 million for the six months ended June 30, 2002, compared with \$21.4 million for the same period in 2001. The increase in interest income was primarily due to an increase in average interest-earning assets, which increased by \$85.3 million, or 14.6%, to \$671.3 million for the six months ended June 30, 2002 from \$586.0 million for the comparable period in 2001, offset by a decrease in the average yield on interest-earning assets by 63 basis points to 6.70% for the six months ended June 30, 2002 from 7.33% for the six months ended June 30, 2001.

Mortgage loan interest income increased by \$931,000 for the six months ended June 30, 2002 compared with the same period in 2001. The average balance of mortgage loans increased \$51.3 million, while the loan yield decreased by 42 basis points from 7.57% to 7.15%. Interest income from investment securities, mortgage-backed securities and short-term deposits decreased by \$538,000 for the six months ended June 30, 2002, compared with the same period in 2001. This decrease resulted from a combination of an increase in average balance of \$7.1 million, offset by a 96 basis point decrease in yield from 5.92% for the six months ended June 30, 2001 to 4.96% for the six months ended June 30, 2002. The decrease in yield is largely attributed to the effect of the lower interest rate environment reducing yields on short-term deposits.

Interest Expense. Interest expense decreased by \$1.5 million, or 11.4%, to \$11.4 million for the six months ended June 30, 2002 from \$12.9 million for the six months ended June 30, 2001. This decrease resulted from an increase in the average balance of interest-bearing liabilities, offset by a decrease in the average rate paid on those interest-bearing liabilities. The average balance of interest-bearing liabilities increased by \$89.8 million, or 17.7%, to \$596.7 million for the six months ended June 30,

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2002 from \$506.9 million for the six months ended June 30, 2001. This change reflects a \$73.2 million increase in the deposit accounts, which is primarily attributable to a \$54.8 million increase in money market accounts and a \$29.9 million increase in passbook savings accounts, partially offset by a decrease of \$14.0 million in certificates of deposits. The remaining \$16.6 million increase is attributable to advances from the FHLB-Chicago. The average rate paid on combined deposits and borrowed money decreased by 126 basis points to 3.82% for the six months ended June 30, 2002 from 5.08% for the six months ended June 30, 2001.

Net Interest Income Before Provision for Loan Losses. Net interest income before provision for loan losses increased \$2.3 million, or 27.0%, to \$10.9 million for the six months ended June 30, 2002 from \$8.6 million for the comparable period in 2001. The net interest margin as a percent of interest-earning assets increased by 37 basis points to 3.30% for the six months ended June 30, 2002 from 2.93% for the comparable period in 2001.

Provision for Loan Losses. The provision for loan losses increased by \$255,000, to \$450,000 for the six months ended June 30, 2002 from \$195,000 in 2001. This increase is primarily due to the growth in the loan portfolio. At June 30, 2002, December 31, 2001 and June 30, 2001, non-performing loans totaled \$3.5 million, \$2.6 million and \$3.1 million, respectively. At June 30, 2002, the ratio of the allowance for loan losses to non-performing loans was 77.1% compared to 87.4% at December 31, 2001 and 63.9% at June 30, 2001. The ratio of the allowance to total loans was 0.47%, 0.42% and 0.40%, at June 30, 2002, December 31, 2001 and June 30, 2001, respectively. Charge-offs totaled \$2,000 and \$85,000 for the six months ended June 30, 2002 and 2001, respectively. Management periodically calculates an allowance sufficiency analysis based upon the portfolio composition, asset classifications, loan-to-value ratios, potential impairments in the loan portfolio, and other factors.

Noninterest Income. Noninterest income totaled \$2.2 million and \$741,000 for the six months ended June 30, 2002 and 2001, respectively. The increase in noninterest income is primarily attributable to increases in service fees of \$248,000, insurance and brokerage commissions of \$127,000, information/technology sales and service income of \$741,000 related to the Company's majority-owned subsidiary CDGI and an increase of \$337,000 in the cash surrender value of the Company's bank owned life insurance. The increase in insurance and brokerage commissions is the result of a greater emphasis placed on this area.

Noninterest Expense. Noninterest expense increased \$1.8 million, to \$8.0 million for the six months ended June 30, 2002 from \$6.2 million for the comparable period in 2001. Compensation and benefits increased by \$1.4 million. This increase was primarily due to a combination of annual salary increases, the addition of staff and the related compensation and benefits expenses of CDGI. The additional staff expenses are primarily attributed to the opening of the Bank's new Carpentersville, Illinois branch. All other operating expenses, including advertising, audit, data processing, marketing, postage, communications, and other expense increased by a combined \$398,000, or 15.9%, to \$2.9 million for the six months ended June 30, 2002 from \$2.5 million for the six months ended June 30, 2001. Management continues to

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emphasize the importance of expense management and control while continuing to provide expanded banking services to a growing market base.

Income Tax Expense. Income tax expense totaled \$1.4 million and \$1.0 million for the six months ended June 30, 2002 and 2001, respectively. The increase was primarily due to a \$1.7 million increase in earnings before income taxes to \$4.6 million for the six months ended June 30, 2002 from \$2.9 million for the prior year period. The effective tax rate was 31.4% and 35.0% for the six months ended June 30, 2002 and 2001, respectively. The decrease in the effective tax rate for the six months ended June 30, 2002 is primarily due to the increase in tax exempt income including municipal interest income and increase in income from bank owned life insurance.

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Liquidity and Capital Resources

The Company's primary source of funding for dividends and periodic stock repurchases has been dividends from the Bank. The Bank's ability to pay dividends and other capital distributions to the Company is generally limited by OTS regulations.

The Bank's primary sources of funds are savings deposits, proceeds from the principal and interest payments on loans and proceeds from the maturity of securities and borrowings from the FHLB-Chicago. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

The primary investing activities of the Bank are the origination of residential one-to-four-family loans and, to a lesser extent multi-family and commercial real estate, construction and land, commercial and consumer loans and the purchase of mortgage-backed and mortgage-related securities. In addition, the Bank purchases loans, consisting of single-family, multi-family and commercial real estate. Deposit flows are affected by the level of interest rates, the interest rates and products offered by the local competitors, the Bank and other factors.

In addition to the primary investing activities of the Bank, the Company has repurchased shares of its common stock from time to time in the open market. The Company is in the process of its sixth stock repurchase program, which was previously announced in September 2001. Under this program the Company is authorized to repurchase up to 231,808, or 5.0% of its outstanding common stock. Under this current program, 29,900 shares of the Company's common stock have been repurchased at an average price per share of \$12.51. As of June 30, 2002, the Company repurchased a total of 2,853,791 shares of the Company's common stock at an average price per share of \$11.64.

The Bank's most liquid assets are cash and interest-bearing demand accounts. The levels of these assets are dependent on the Bank's operating, financing, lending and investing activities during any given period. At June 30, 2002, cash and interest-bearing demand accounts totaled \$32.4 million, or 4.4% of total assets.

See the "Consolidated Statements of Cash Flows" in the Unaudited Consolidated Financial Statements included in this Form 10-Q for the sources and uses of cash flows for operating, investing and financing activities for the six months ended June 30, 2002 and 2001.

At June 30, 2002, the Bank exceeded all of its regulatory capital requirements. The following is a summary of the Bank's regulatory capital ratios at June 30, 2002:

| | |
|---------------------------------------|--------|
| Total Capital to Total Assets | 9.22% |
| Total Capital to Risk-Weighted Assets | 13.75% |
| Tier I Leverage Ratio | 9.26% |
| Tier I to Risk-Weighted Assets | 13.59% |

At June 30, 2002, the Company had a Total Capital to Total Assets ratio of 9.87%.

On June 12, 2002, the Company announced its second quarter dividend of \$0.1325 per share. The dividend was paid on July 9, 2002 to stockholders of record on June 28, 2002.

Recent Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 141, "*Business Combinations*" (SFAS No. 141) and SFAS No. 142, "*Goodwill and Other Intangible Assets*" (SFAS No. 142). SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS No. 142 addresses the initial recognition and measurement of intangible

assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives will not be amortized, but will rather be tested at least annually for impairment. SFAS No. 142 was effective January 1, 2002 for calendar year companies. The adoption of SFAS No. 141 and No. 142 did not have a material impact on the Company's results of operations or financial condition.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This Statement is effective for exit or disposal activities that are initiated after December 31, 2002. Adoption of this statement is not expected to have a material effect on the Company's consolidated financial statements.

Average Balance Sheet

The following tables set forth certain information relating to the Bank for the three and six months ended June 30, 2002 and 2001, respectively. The average yields and costs are derived by dividing income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods shown and reflect annualized yields and costs. Average balances are derived from average monthly balances. The yields and costs include fees, which are considered adjustments to yields. Tax exempt income has been calculated on a tax equivalent basis.

| | Three Months Ended June 30, 2002 | | | Three Months Ended June 30, 2001 | | |
|---|----------------------------------|---------------|--------------|----------------------------------|---------------|--------------|
| | Average Balance | Interest | Yield/Cost | Average Balance | Interest | Yield/Cost |
| (in thousands) | | | | | | |
| Assets: | | | | | | |
| Interest earning assets: | | | | | | |
| Short-term deposits and FHLB stock | \$ 34,243 | 176 | 2.06% | 29,918 | 301 | 4.02% |
| Investment securities | 71,311 | 1,143 | 6.41% | 59,381 | 941 | 6.34% |
| Mortgage-backed securities | 11,556 | 167 | 5.80% | 13,800 | 236 | 6.83% |
| Mortgage loans, net | 486,124 | 8,534 | 7.02% | 435,640 | 8,216 | 7.54% |
| Other loans, net | 77,556 | 1,236 | 6.38% | 52,755 | 1,085 | 8.23% |
| | <u>680,790</u> | <u>11,256</u> | <u>6.61%</u> | <u>591,494</u> | <u>10,779</u> | <u>7.29%</u> |
| Noninterest earning assets | 38,902 | | | 20,202 | | |
| | <u>\$ 719,692</u> | | | <u>611,696</u> | | |
| Liabilities and stockholders' equity | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Deposits: | | | | | | |
| Money market accounts | \$ 115,058 | 851 | 2.96% | 66,724 | 760 | 4.55% |
| Passbook savings accounts | 103,800 | 630 | 2.43% | 70,588 | 575 | 3.26% |

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| | Three Months Ended June 30, 2002 | | | Three Months Ended June 30, 2001 | | |
|--|----------------------------------|--------------|--------------|----------------------------------|--------------|--------------|
| | | | | | | |
| NOW Accounts | 32,582 | 85 | 1.05% | 27,770 | 85 | 1.22% |
| Certificates of deposit | 181,667 | 1,855 | 4.08% | 188,152 | 2,825 | 6.00% |
| Total deposits | 433,107 | 3,421 | 3.16% | 353,234 | 4,245 | 4.81% |
| FHLB Advances | 171,700 | 2,299 | 5.36% | 155,200 | 2,145 | 5.53% |
| Total interest-bearing liabilities | 604,807 | 5,720 | 3.78% | 508,434 | 6,390 | 5.03% |
| Noninterest-bearing liabilities | 43,697 | | | 35,541 | | |
| Total liabilities | 648,504 | | | 543,975 | | |
| Total stockholders' equity | 71,188 | | | 67,721 | | |
| Total liabilities and stockholders' equity | \$ 719,692 | | | 611,696 | | |
| Net interest income before provision for loan losses | | 5,536 | | | 4,389 | |
| Interest rate spread | | | 2.83% | | | 2.26% |
| Net interest margin as a percent of interest earning assets | | | 3.25% | | | 2.97% |
| Ratio of interest-earning assets to interest-bearing liabilities | | | 112.56% | | | 116.34% |

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| | Six Months Ended June 30, 2002 | | | Six Months Ended June 30, 2001 | | |
|---|--------------------------------|---------------|--------------|--------------------------------|---------------|--------------|
| | Average Balance | Interest | Yield/Cost | Average Balance | Interest | Yield/Cost |
| (in thousands) | | | | | | |
| Assets: | | | | | | |
| Interest earning assets: | | | | | | |
| Short-term deposits and FHLB stock | \$ 33,255 | 334 | 2.01% | 35,554 | 793 | 4.46% |
| Investment securities | 70,165 | 2,178 | 6.21% | 59,649 | 1,956 | 6.56% |
| Mortgage-backed securities | 12,179 | 353 | 5.80% | 13,300 | 461 | 6.94% |
| Mortgage loans, net | 481,438 | 17,212 | 7.15% | 430,172 | 16,281 | 7.57% |
| Other loans, net | 74,247 | 2,413 | 6.50% | 47,336 | 1,977 | 8.35% |
| Total interest earning assets | 671,284 | 22,490 | 6.70% | 586,011 | 21,468 | 7.33% |
| Noninterest earning assets | 36,518 | | | 20,026 | | |
| Total assets | \$ 707,802 | | | 606,037 | | |
| Liabilities and stockholders' equity | | | | | | |

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| | Six Months Ended June 30, 2002 | | | Six Months Ended June 30, 2001 | | |
|--|--------------------------------|--------|---------|--------------------------------|--------|---------|
| Interest-bearing liabilities | | | | | | |
| Deposits: | | | | | | |
| Money market accounts | \$ 112,693 | 1,642 | 2.91% | 57,939 | 1,309 | 4.52% |
| Passbook savings accounts | 99,780 | 1,200 | 2.40% | 69,868 | 1,172 | 3.35% |
| NOW Accounts | 31,360 | 157 | 1.00% | 28,758 | 169 | 1.18% |
| Certificates of deposit | 178,568 | 3,786 | 4.24% | 192,607 | 5,856 | 6.08% |
| Total deposits | 422,401 | 6,785 | 3.21% | 349,172 | 8,506 | 4.87% |
| FHLB Advances | 174,283 | 4,623 | 5.31% | 157,700 | 4,371 | 5.54% |
| Total interest-bearing liabilities | 596,684 | 11,408 | 3.82% | 506,872 | 12,877 | 5.08% |
| Noninterest-bearing liabilities | 40,683 | | | 31,595 | | |
| Total liabilities | 637,367 | | | 538,467 | | |
| Total stockholders' equity | 70,435 | | | 67,570 | | |
| Total liabilities and stockholders' equity | \$ 707,802 | | | 606,037 | | |
| Net interest income before provision for loan losses | | 11,082 | | | 8,591 | |
| Interest rate spread | | | 2.88% | | | 2.25% |
| Net interest margin as a percent of interest earning assets | | | 3.30% | | | 2.93% |
| Ratio of interest-earning assets to interest-bearing liabilities | | | 112.50% | | | 115.61% |

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Bank's interest rate sensitivity is monitored by management through the use of a Net Portfolio Value Model which generates estimates of the change in the Bank's net portfolio value ("NPV") over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The model assumes estimated prepayment rates, reinvestment rates and deposit decay rates. The Sensitivity Measure is the decline in the NPV ratio, in basis points, caused by a 2% increase or decrease in rates, whichever produces a larger decline. The higher the institution's Sensitivity Ratio, the greater its exposure to interest rate risk is considered to be. The following NPV Table sets forth the Bank's NPV as of June 30, 2002.

| Change in Interest Rates in Basis Points (Rate Shock) | Net Portfolio Value | | | NPV as % of Portfolio Value of Assets | |
|---|---------------------|-----------|----------|---------------------------------------|----------|
| | Amount | \$ Change | % Change | NPV Ratio | % Change |
| | | | | | |

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| | (In thousands) | | | NPV as % of Portfolio Value of Assets | |
|--------|----------------|-------------|----------|---|----------|
| +300 | \$ 44,813 | \$ (46,347) | (50.84)% | 6.38% | (47.23)% |
| +200 | 61,164 | (29,996) | (32.90) | 8.49 | (29.78) |
| +100 | 78,535 | (12,625) | (13.85) | 10.62 | (12.16) |
| Static | 91,160 | | | 12.09 | |
| -100 | 104,316 | 13,156 | 14.43 | 13.57 | 12.24 |
| -200 | 110,097 | 18,937 | 20.77 | 14.19 | 17.37 |
| -300 | 115,881 | 24,721 | 27.12 | 14.80 | 22.42 |

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Such routine legal proceedings, in the aggregate, are believed by management to be immaterial to the Company's financial condition, results of operations and cash flows.

Item 2. Changes in Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

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- (a)
- Exhibits
- 3.1 Certificate of Incorporation of EFC Bancorp, Inc.*
- 3.2 Bylaws of EFC Bancorp, Inc.*
- 11.0 Statement re: Computation of Per Share Earnings Incorporated herein by reference to Footnote 3 on page 5 of this document.
- 99.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
-

*

Incorporated herein by reference from the Exhibits filed with the Registration Statement on Form S-1 and any amendments thereto. Registration Statement No. 333-38637 filed with the Securities and Exchange Commission ("SEC") on October 24, 1997.

- (b) Reports on Form 8-K

None.

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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 hereunto duly authorized.

EFC BANCORP, INC.

Dated: August 14, 2002

By: /s/ Barrett J. O'Connor

Barrett J. O'Connor
President and Chief Executive Officer
(Principal executive officer)

Dated: August 14, 2002

By: /s/ James J. Kovac

James J. Kovac
Executive Vice President and Chief
Financial Officer
(Principal financial and accounting officer)

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