FIRSTFED AMERICA BANCORP INC
Form 10-Q
August 13, 2001

1

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

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

FOR THE TRANSITION PERIOD FROM _______ TO _____

COMMISSION FILE NUMBER 1-12305

FIRSTFED AMERICA BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

ONE FIRSTFED PARK, SWANSEA, MASSACHUSETTS 02777

(Address of principal executive offices)

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

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

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

Yes (X) No ( )

As of August 3, 2001 there were 6,220,249 shares of the Registrant's Common Stock outstanding.

2

FIRSTFED AMERICA BANCORP, INC.

INDEX TO FORM 10-Q

FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

ASSETS	JUNE 30, 2001	MARCH 2001

	(UNAUDITED)	
Cash on hand and due from banks	$ 23,495	$ 23
Short-term investments	28,295	
Total cash and cash equivalents	51,790	23
Mortgage loans held for sale	41,205	39
Investment in trading securities, at fair value	871	
Investment securities available for sale, at fair value (amortized cost of $21,323 and $6,405)	22,610	7
Mortgage-backed securities available for sale, at fair value (amortized cost of $565,436 and $498,344)	567,459	501
Mortgage-backed securities held to maturity (fair value of $1,736 and $2,154)	1,724	2
Stock in Federal Home Loan Bank of Boston, at cost	40,369	40
Loans receivable, net (net of allowance for loan losses of $13,521 and $13,233)	940,300	977
Accrued interest receivable	8,346	7
Mortgage servicing rights	5,441	4
Office properties and equipment, net	23,504	24
Real estate owned	175	
Bank-Owned Life Insurance	34,224	33
Goodwill	1,122	1
Prepaid expenses and other assets	8,522	7
Total assets	$ 1,747,662	$ 1,671

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:		
Deposits	$ 730,310	$ 707
FHLB advances and other borrowings	869,818	814
Advance payments by borrowers for taxes and insurance	5,400	5
Accrued interest payable	5,826	5
Other liabilities	22,711	25
Total liabilities	1,634,065	1,559
Stockholders' equity:		
Common stock	87	
Additional paid-in capital	85,715	85
Retained earnings	72,461	70
Accumulated other comprehensive income	2,022	2
Unallocated ESOP shares	(3,098)	(3
Unearned stock incentive plan	(2,924)	(2
Treasury stock	(40,666)	(40
Total stockholders' equity	113,597	111
Total liabilities and stockholders' equity	$ 1,747,662	$ 1,671

See accompanying notes to consolidated financial statements.

FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE THRE ENDED JU
	2001
	(UNAUDITE
Interest and dividend income:	
Loans	$ 18,938
Investment securities	283
Mortgage-backed securities	8,156
Federal Home Loan Bank stock	629
Total interest and dividend income	28,006
Interest expense:	
Deposits	6,708
Borrowed funds	12,175
Total interest expense	18,883
Net interest income before provision for loan losses	9,123
Provision for loan losses	300
Net interest income after provision for loan losses	8,823
Non-interest income:	
Service charges on deposit accounts	452
Loan servicing income	327
Insurance commission income	254
Trust fee income	343
Earnings on Bank-Owned Life Insurance	460
Gain on sale of mortgage loans, net	873
Gain on sale of investment securities available for sale	750
Other income	507
Total non-interest income	3,966
Non-interest expense:	
Compensation and employee benefits	4,643
Office occupancy and equipment	1,083
Data processing	499
Advertising and business promotion	267
Federal deposit insurance premiums	33
Other expense	930
Total non-interest expense	7,455
Income before income tax expense	5,334
Income tax expense	1,837
Net income before cumulative effect of accounting change	3,497
Cumulative effect of change in accounting for derivative	

instruments and hedging activities, net of $237 tax benefit	(461)
Net income	$ 3,036
Basic earnings per share before cumulative effect of accounting change	$ 0.61
Cumulative effect of accounting change	(0.08)
Basic earnings per share	$ 0.53
Diluted earnings per share before cumulative effect of accounting change	$ 0.61
Cumulative effect of accounting change	(0.08)
Diluted earnings per share	$ 0.53
Weighted average shares outstanding - basic	5,708,416
Weighted average shares outstanding - diluted	5,764,100

See accompanying notes to consolidated financial statements.

3

5

FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED JUNE 30, 2001
(DOLLARS AND SHARES IN THOUSANDS)
(UNAUDITED)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	UNALLOCATED ESOP SHARES	I P
Balance at March 31, 2001	$ 87	$ 85,585	$ 70,048	$ 2,551	$ (3,098)	$
Earned SIP stock awards	-	(5)	-	-	-	
Earned ESOP shares charged to expense	-	135	-	-	-	
Cash dividends declared and paid ($0.10 per share)	-	-	(623)	-	-	
Common stock acquired for certain employee benefit plans (3,031 shares at an average price of $16.09 per share)	-	-	-	-	-	
Comprehensive income:						

Net income	-	-	3,036	-	-
Other comprehensive income, net of tax					
Unrealized holding gains (losses) on available for sale securities	-	-	-	(259)	-
Reclassification adjustment for losses (gains) included in net income	-	-	-	(750)	-
Net unrealized (losses) gains	-	-	-	(1,009)	-
Tax effect	-	-	-	480	-
Net-of-tax effect	-	-	-	(529)	-
Total comprehensive income	-	-	-	-	-
Balance at June 30, 2001	$ 87	$ 85,715	$ 72,461	$ 2,022	$ (3,098)

See accompanying notes to consolidated financial statements.

4

6

FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	FOR THE THREE MONTH ENDED JUNE 30,	
	2001	200
Cash flows from operating activities:		
Net income	$ 3,036	$ 2,
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Amortization (accretion) of:		
Premium (discount) on investment and mortgage-backed securities	20	(
Deferred loan origination fees (costs)	(377)	
Mortgage servicing rights	649	
Goodwill	23	
Provision for loan losses	300	
Gains on sales of:		
Mortgage loans	(611)	
Investment securities available for sale	(750)	
Net proceeds from sales of mortgage loans	136,294	11,
Origination of mortgage loans held for sale	(138,994)	(13,
Earnings on Bank-Owned Life Insurance	(460)	(
Unrealized (gain) loss on trading securities	117	
Depreciation of office properties and equipment	589	

Appreciation in fair value of ESOP shares	135	
Earned SIP shares	69	
Increase or decrease in:		
Accrued interest receivable	(418)	(
Fair value of commitments to originate and sell mortgage loans held for sale	(262)	
Other assets	(526)	1,
Accrued interest payable	(171)	1,
Other liabilities	(2,751)	(2,
Net cash (used in) provided by operating activities	$ (4,088)	$ 1,

(Continued)

FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
(IN THOUSANDS)
(UNAUDITED)

	FOR THE ENDE
	2001
Cash flows from investing activities:	
Purchase of investment securities available-for-sale	$ (14,921)
Purchase of trading securities	(173)
Purchase of mortgage-backed securities available-for-sale	(121,693)
Payments received on mortgage-backed securities available for sale	54,582
Proceeds from sale of investment securities available-for-sale	753
Payments received on mortgage-backed securities held to maturity	413
Purchase of Federal Home Loan Bank stock	--
Net decrease (increase) in loans	36,951
Purchases of office properties and equipment	(55)
Net cash used in investing activities	(44,143)
Cash flows from financing activities:	
Net increase in deposits	22,894

Proceeds from FHLB advances and other borrowings	367,391
Repayments on FHLB advances and other borrowings	(312,337)
Net change in advance payments by borrowers for taxes and insurance	(468)
Cash dividend paid	(623)
Payments to acquire common stock for treasury stock	(49)
Net cash provided by financing activities	76,808
Net increase in cash and cash equivalents	28,577
Cash and cash equivalents at beginning of year	23,213
Cash and cash equivalents at end of quarter	$ 51,790
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	$ 19,054
Income taxes	$ 2,630

See accompanying notes to consolidated financial statements.

FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

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

The interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three months ended June 30, 2001 are not necessarily indicative of the results of operations that may be expected for all of fiscal year 2002.

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

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report to Stockholders on Form 10-K for the fiscal year ended March 31, 2001.

(2) ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

On April 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" and recognized an after-tax loss from the cumulative effect of adoption of $461,000, or $0.08 per share, representing the initial adjustment to fair value of certain derivative instruments, including a pre-tax adjustment of $743,000 related to interest rate swaps designed to reduce its exposure to interest rate changes, partially offset by a pre-tax adjustment of $45,000 related to commitments to originate and sell mortgage loans for sale that hedge its secondary market activities. Changes to the fair value of derivative instruments will be recognized in non-interest income each quarter, and pre-tax income of $288,000, or approximately $0.03 per share, was recognized for the first quarter of fiscal year 2002.

(3) IMPACT OF RECENT ACCOUNTING STANDARDS

On July 20, 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Accounting for Goodwill and Other Intangible Assets," which requires that goodwill will no longer be amortized to earnings subsequent to adoption, but will instead be periodically reviewed for impairment. The Company will adopt SFAS No. 142 on April 1, 2002. At June 30, 2001, the Company had $1.1 million of goodwill on its balance sheet with an annual amortization rate of approximately $92,000.

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

GENERAL

The Company's primary business is attracting retail deposits from the general public and investing those deposits and other borrowed funds in loans, mortgage-backed securities, U.S. Government securities and other securities. The Company originates commercial, consumer, and mortgage loans for investment, and mortgage loans for sale in the secondary market. The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans, FHLB advances, and other borrowings.

The Company's results of operations are primarily dependent on net interest income, which is the difference between the income earned on its loan and investment portfolios and its cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by the Company's provision for loan losses and non-interest income including service charges on deposit accounts, loan servicing income, revenue from the Trust Company and Agency operations, earnings on Bank-Owned Life Insurance ("BOLI"), gains on sale of loans and investment securities, and other income. The Company's non-interest expense consists of compensation and employee benefits, office occupancy and equipment expense, data processing expense, advertising and business promotion, federal deposit insurance premiums, and other expenses. Results of operations of the Company are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and the actions of regulatory authorities.

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 on 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 Securities and Exchange Commission.

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

RESULTS OF OPERATIONS

OVERVIEW

Net income was $3.5 million before the cumulative effect of adoption of SFAS No. 133 for the first quarter of fiscal year 2002, an increase of $1.1 million, or 47.4%, from net income of $2.4 million for the first quarter of fiscal year 2001. After the cumulative effect of adoption of SFAS No. 133, net income was $3.0 million for the first quarter of fiscal year 2002. Income before income tax expense increased $1.9 million, or 54.7%, to $5.3 million for the first quarter of fiscal year 2002 as compared to the first quarter of fiscal year 2001, the net result of increases in net interest income of $344,000, non-interest income of $2.0 million and non-interest expense of $457,000.

Basic and diluted earnings per share ("EPS") was $0.61 before the cumulative effect of adoption of SFAS No. 133 for the first quarter of fiscal year 2002, an increase of 53% from $0.40 per share for the comparable quarter of fiscal year 2001. After the cumulative effect of adoption of SFAS No. 133, EPS was $0.53 for the first quarter of fiscal year 2002. The growth in EPS was caused by the growth in net income, and a reduction in shares outstanding primarily as a result of the Company's stock repurchases.

NET INTEREST INCOME

Net interest income before provision for loan losses increased $344,000, or 3.9%, to $9.1 million for the first quarter of fiscal year 2002 from $8.8 million for the first quarter of fiscal year 2001, primarily due to growth in loans receivable funded by increases in deposits and FHLB advances and other borrowings. The net interest rate spread and net interest margin were 1.90% and 2.29% for the first quarter of fiscal year 2002, compared to 2.01% and 2.33%, respectively, for the first quarter of fiscal year 2001.

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income is a function of both the relative amounts of interest earning assets and interest-bearing liabilities, and the interest rates earned or paid on them. Income from BOLI is excluded from interest income, and the BOLI cash value balances are excluded from interest earning assets.

The following table sets forth certain information relating to the Company for the three months ended June 30, 2001 and 2000. The average yields and costs are derived by dividing interest income or expense by the average balance of interest earning assets or interest bearing liabilities, respectively, for the periods shown. Average balances are derived from the best available daily or monthly data, which management believes approximates the average balances computed on a daily basis. The yields and the costs include fees, premiums and discounts, which are considered adjustments to yields.

	FOR THE THREE MONTHS ENDE			
	2001			
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AV BA
	(DOLLARS IN THOUSANDS)			
Assets:				
Interest-earning assets:				
Loans receivable, net and mortgage loans held for sale (1)	$1,004,677	$18,938	7.54%	$
Investment securities (2)	67,561	912	5.41	
Mortgage-backed securities (3)	522,775	8,156	6.24	
Total interest-earning assets	1,595,013	28,006	7.02	1,
Noninterest-earning assets	104,049			
Total assets	$1,699,062			$1,

Liabilities and Stockholders' Equity:				
Interest-bearing liabilities:				
Deposits (4)	$ 637,521	6,708	4.22	$
FHLB advances and other borrowings	841,228	12,175	5.81	
Total interest-bearing liabilities	1,478,749	18,883	5.12	1,
Noninterest-bearing liabilities (5)	101,214			
Total liabilities	1,579,963			1,
Stockholders' equity	119,099			
Total liabilities and stockholders' equity	$1,699,062			$1,
Net interest rate spread (6)		$9,123	1.90%	
Net interest margin (7)			2.29%	
Ratio of interest-earning assets to interest-bearing liabilities	107.86%			

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(1) Amount is net of deferred loan origination costs, undisbursed proceeds of construction mortgages in process, allowance for loan losses and includes non-performing loans.

(2) Includes short-term investments, investments in trading securities, investment securities available for sale and held to maturity, and FHLB stock.

(3) Consists of mortgage-backed securities available for sale and held to maturity.

(4) Includes the net effect of interest rate swaps.

(5) Consists primarily of business checking accounts.

(6) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(7) Net interest margin represents net interest income as a percentage of average interest-earning assets.

PROVISION FOR LOAN LOSSES

The Company's provision for loan losses remained unchanged at $300,000 for the first quarters of fiscal years 2002 and 2001. The allowance for loan losses was $13.5 million, or 1.42% of loans receivable at June 30, 2001, compared to $13.2 million, or 1.34% of loans receivable at March 31, 2001.

The provision for loan losses is based on management's assessment of the loan loss reserve level, the existing loan portfolio, current market conditions, and the volume and mix of new originations. To the extent the

Company experiences further increases in the overall balance of its loan portfolio or increases its concentrations of loans which bear a higher degree of risk than one-to-four family loans, the Company anticipates further increases in its allowance for loan losses through continued provisions for loan losses.

For additional information on the amount of the allowance and the process for evaluating its adequacy, see "Financial Condition - Asset Quality."

NON-INTEREST INCOME

Non-interest income increased $2.0 million, or 101.7% to $4.0 million for the first quarter of fiscal year 2002 from $2.0 million for the first quarter of fiscal year 2001. This increase was primarily attributable to increases of $855,000 in gain on sale of mortgage loans, $750,000 in gain on sale of investment securities available for sale, $182,000 in trust fee income and $111,000 in service charges on deposit accounts.

The increase in gain on sale of mortgage loans included an increase of $593,000 in net gain on sale of loans in the secondary market for the first quarter of fiscal year 2002 as compared to the first quarter of fiscal year 2001, due to a higher volume of fixed rate loans originated for sale and more favorable loan pricing, and a $262,000 change in fair value of derivative instruments utilized in secondary market hedging activities following the adoption of SFAS No. 133 on April 1, 2001. Management of the Company believes that the adoption of SFAS No. 133 will introduce the potential for greater volatility to quarterly earnings due to valuation changes and accelerated recognition of gains or losses in the Company's mortgage banking activities. However, such effects are expected to offset over time.

The increase in trust fee income was due to continued growth at the Trust Company, which opened in February 2000. The increase in service charges on deposit accounts was due primarily to a higher fee rate structure.

NON-INTEREST EXPENSE

Non-interest expense increased $457,000, or 6.5%, to $7.5 million for the first quarter of fiscal year 2002 from $7.0 million for the first quarter of fiscal year 2001. This increase was primarily attributable to increases of $335,000 in compensation and benefits and $103,000 in data processing costs. The increase in compensation and benefits was due primarily to the accounting impact of an increase in the market price of FIRSTFED stock held by certain employee benefits plans.

INCOME TAXES

Income tax expense increased $763,000, or 71.0%, to $1.8 million for the first quarter of fiscal year 2002 from $1.1 million for the first quarter of fiscal year 2001, due primarily to increased income before income tax expense. The Company's effective tax rate increased to 34.4% for the first quarter of fiscal year 2002, from 31.2% for the first quarter of fiscal year 2001.

FINANCIAL CONDITION

OVERVIEW

Total assets at June 30, 2001 were $1.748 billion, an increase of $76.6 million, or 4.6%, compared to $1.671 billion at March 31, 2001. Asset growth was primarily attributable to increases of $66.2 million in mortgage-backed securities available for sale, $28.1 million in short-term investments, and $14.8 million in investment securities available for sale, partially offset by a decrease of $36.9 million in loans receivable, net. The decrease in loans receivable, net, reflected high mortgage refinancing activity, partially offset by growth in the commercial and consumer portfolios. Balance sheet growth was primarily funded by increases of $55.1 million in FHLB advances and other borrowings and $22.9 million in deposit balances during the first quarter of fiscal year 2002. The increase in deposits included increases of $12.9 million in certificate accounts and $10.0 million in demand and savings accounts.

Total stockholders' equity increased $2.0 million, or 1.8%, to $113.6 million at June 30, 2001, from $111.6 million at March 31, 2001. The increase was due primarily to $3.0 million in net income, partially offset by $623,000 in dividends paid to stockholders, and a $529,000 reduction in the fair market value of available for sale securities, net of tax. The stockholders' equity to assets ratio was 6.50% at June 30, 2001, compared to 6.68% at March 31, 2001. Book value per share increased 1.5% to $19.86 at June 30, 2001 from $19.57 at March 31, 2001. Return on average stockholders' equity increased to 10.22% for the first quarter of fiscal year 2002 as compared to 9.26% for the first quarter of fiscal year 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans and securities, FHLB advances, and other borrowings. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and mortgage prepayments are influenced by general interest rates, economic conditions and competition.

The Company's most liquid assets are cash, short-term investments, mortgage loans held for sale, investments in trading securities, investment securities available for sale, and mortgage-backed securities available for sale. The levels of these assets are dependent on the Company's operating, financing, lending and investing activities during any given period. At June 30, 2001, cash, short-term investments, mortgage loans held for sale, investments in trading securities, investment securities available for sale, and mortgage-backed securities available for sale totaled $683.9 million, or 39.1% of total assets.

The Company has other sources of liquidity if a need for additional funds arises, including a $25.0 million FHLB secured line of credit, FHLB advances, and other borrowings. At June 30, 2001, the Company had $869.8 million in advances outstanding from the FHLB and other borrowings, and an additional borrowing capacity from the FHLB of $127.4 million. The Company uses FHLB advances and other borrowings to fund asset growth and other cash flow needs, and may continue to do so in the future, depending on market conditions, the pricing of deposit products, and the pricing of FHLB advances and other borrowings.

At June 30, 2001, the Company had commitments to originate loans and unused outstanding lines of credit and undistributed balances of construction loans totaling $218.2 million. The Company anticipates that it will have sufficient funds available to meet its current loan origination commitments. Certificate of deposit accounts scheduled to mature in less than one year from June 30, 2001 totaled $302.9 million. Based upon historical experience with deposit retention, the Company expects that it will retain a majority of maturing certificate accounts.

At June 30, 2001, the Bank exceeded all of its regulatory capital requirements. The Bank's tangible capital of $106.5 million, or 6.13%, of total adjusted assets, was above the required level of $34.7 million or 2.0%; core capital of $106.5 million, or 6.13% of total adjusted assets, was above the required level of $69.4 million, or 4.0%; risk-based capital of $115.3 million, or 12.99% of risk-weighted assets, was above the required level of $71.0 million or 8.0%, and Tier 1 risk-based capital of $106.5 million, or 11.75% of risk-weighted assets, was above the required level of $35.5 million or 4.0%. The Bank is considered a "well capitalized" institution under the OTS prompt corrective action regulations. The Trust Company is subject to similar regulatory capital requirements, and exceeded all of its capital requirements at June 30, 2001.

MARKET RISK AND MANAGEMENT OF INTEREST-RATE RISK

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

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

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring a bank's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that same time period. At June 30, 2001, the Company's cumulative one year interest rate gap (which is the difference between the amount of interest-earning assets and the amount of interest-bearing liabilities maturing or repricing within one year) as a percentage of total assets was a positive 7.99%. Accordingly, during a period of falling interest rates, the Company's interest-earning assets would be expected to reprice downward at a faster rate than its interest-bearing liabilities, which, consequently, may negatively affect the Company's net interest income. During a period of rising interest rates, the Company's interest-earning assets would be expected to reprice upward at a faster rate than its interest-bearing liabilities, which, consequently, may positively affect the Company's net interest income.

Certain shortcomings are inherent in gap analysis. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain

assets, such as adjustable-rate loans, have features which restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the cumulative one year interest rate gap. Finally, the ability of some borrowers to service their adjustable-rate loans may decrease in the event of an interest rate increase.

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

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

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

ASSET QUALITY

NON-PERFORMING ASSETS. At June 30, 2001, non-accrual loans totaled $628,000 and real estate owned ("REO") totaled $175,000. The Company ceases to accrue interest on loans 90 days or more past due and charges off all accrued interest. Foregone interest on non-accrual loans for the three months ended June 30, 2001 was $13,000.

The following table sets forth information regarding non-accrual loans and REO:

	AT JUNE 30, 2001	AT MARCH 31, 2001
	(DOLLARS IN THOUSANDS)	
Non-accrual loans:		
Mortgage loans:		
One-to-four family..................	$ 478	$ 431
Multi-family	--	--
Commercial real estate..............	--	--
Construction and land...............	--	--
Total mortgage loans............	478	431
Commercial loans.....................	19	821
Consumer loans:		
Home equity lines..................	--	--
Second mortgages...................	78	56
Other consumer loans...............	53	24
Total consumer loans............	131	80
Total nonaccrual loans..........	628	1,332
Real estate owned, net (1)..........	175	175
Total non-performing assets.........	$ 803	$1,507
Allowance for loan losses as a percent percent of loans (2)	1.42%	1.34%
Allowance for loan losses as percent		

of non-accrual loans (3)	2,153%	993%
Non-accrual loans as a percent of loans (2)(3)	0.07%	0.13%
Non-performing assets as a percent of total assets (4)	0.05%	0.09%

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(1) REO balances are shown net of related valuation allowances.
(2) Loans includes loans receivable, net, excluding allowance for loan losses.
(3) Non-performing loans consist of all loans 90 days or more past due and other loans which have been identified by the Company as presenting uncertainty with respect to the collectability of interest or principal.
(4) Non-performing assets consist of non-performing loans and REO.

The decrease in non-performing assets during the first quarter of fiscal year 2002 was due primarily to a payment received on non-accrual commercial loan.

ALLOWANCE FOR LOAN LOSSES. The allowance for loan losses is based on management's estimate of the credit losses inherent in the loan portfolio. The level of the allowance is based on management's ongoing review of the existing loan portfolio and current market conditions, as well as the volume and mix of new originations. Management's methodology to estimate loss exposure inherent in the portfolio also includes analysis of individual loans deemed to be impaired, allowance allocations for various loan types based on payment status or loss experience, and an unallocated allowance that is maintained based on management's assessment of many factors including trends in loan delinquencies and charge-offs, current type, mix and balance of the portfolio, performance of individual loans in relation to contract terms, and the perceived risk in the relatively new and rapidly growing commercial loan portfolio. In addition, the OTS and the FDIC, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to make additional provisions for estimated loan losses based upon judgments different from those of management.

The allowance for loan losses totaled $13.5 million at June 30, 2001, an increase of $288,000, or 2.2%, as compared to $13.2 million at March 31, 2001. This increase in the allowance reflected management's assessment of the loan portfolio and was based upon the greater of concentrations of loans that bear a higher degree of risk than one-to-four family loans, including commercial and consumer loans. The Company will continue to monitor and modify its allowances for loan losses as conditions dictate. While management believes the Company's allowance for loan losses was sufficient to absorb losses inherent in its loan portfolio at June 30, 2001, no assurances can be given that the Company's level of allowance for loan losses will be sufficient to cover future loan losses incurred by the Company or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

See the Section of Item 2 captioned, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Market Risk and Management of Interest-Rate Risk" for quantitative and qualitative information about market risk and its potential effect on the Company.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS.

Not Applicable.

ITEM 5. OTHER INFORMATION.

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

a) Exhibits

3.1 Certificate of Incorporation of FIRSTFED AMERICA BANCORP, INC. (1)
3.2 Bylaws of FIRSTFED AMERICA BANCORP, INC. (1)
4.0 Stock Certificate of FIRSTFED AMERICA BANCORP, INC. (1)

b) Reports on Form 8-K

None

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

SIGNATURES

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

FIRSTFED AMERICA BANCORP, INC.
Registrant

Date: August 10, 2001

/s/ Robert F. Stoico
Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)

Date: August 10, 2001

/s/ Edward A. Hjerpe III
Executive Vice President, Chief Operating Officer and Chief Financial Officer (Principal Accounting and Financial Officer)