FEDERAL TRUST CORP
Form 10-Q
November 09, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Three Months Ended:	Commission File Number:
September 30, 2001	33-27139

FEDERAL TRUST CORPORATION
(Exact name of registrant as specified in its charter)

Florida	59-2935028
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

655 West Morse Boulevard
Winter Park, Florida 32789

(Address of principal executive offices)
Registrant's telephone number: (407) 645-1201

FEDTRUST CORPORATION
(Former name of registrant)

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 quarterly reports), and (2) has been subject to such filing requirements for the past 90 days:

YES X NO ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date:

Common Stock, par value $.01 per share	5,409,449
(class)	Outstanding at November 9, 2001

FEDERAL TRUST CORPORATION AND SUBSIDIARIES

INDEX

FEDERAL TRUST CORPORATION AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Condensed Balance Sheet
(unaudited)

	Sep

Assets	
Cash	$
Interest bearing deposits	
Investment securities available for sale	
Investment securities held to maturity	
Loans receivable, net (net of allowance for loan losses of $1,690,341 and $1,634,259 at September 30, 2001 and and December 31, 2000, respectively)	2
Loans held for sale	
Accrued interest receivable - Loans	
Accrued interest receivable - Securities	
Federal Home Loan Bank of Atlanta stock, at cost	
Mortgage servicing rights, net	
Real Estate owned, net	
Property and equipment, net	
Prepaid expenses and other assets	
Executive supplemental income plan-cash surrender value of life insurance policies	
Deferred income taxes	

Total	$ 2
	===
Liabilities and Stockholders' Equity	
Deposit accounts	$ 2
Official Checks	
Federal Home Loan Bank advances	
Other Borrowings	
Advance payments for taxes and insurance	
Accrued expenses and other liabilities	

Total Liabilities	$ 2

Stockholders' equity:	
Common stock, $.01 par value, 15,000,000 shares authorized; 4,947,911 shares issued and outstanding	
Additional paid-in capital	
Retained Earnings (accumulated deficit)	
Accumulated other comprehensive loss	

Total Stockholders' Equity	$

Total Liabilities and Stockholders' Equity	$ 2
	===

See accompanying Notes to Consolidated Condensed Financial Statements.

FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Consolidated Condensed Statements of Operations

For Three and Nine Months Ended September 30, 2001 and 2000
(Unaudited)

	Three Month Ended Sept.	
	2001	
Interest income:		
Loans	$4,708,747	4
Securities	115,115	
Interest-bearing deposits and other	84,952	
Total interest income	4,908,814	4
Interest expense:		
Deposit accounts	2,608,928	2
Federal Home Loan Bank advances & other borrowings	653,205	
Total interest expense	3,262,133	3
Net interest income	1,646,681	1
Provision for loan losses	130,000	
Net interest income after provision	1,516,681	1
Other income:		
Fees and service charges	122,500	
Gain on sale of assets	288,477	
Rental Income	3,376	
Other	57,631	
Total other income	471,984	
Other expenses:		
Employee compensation & benefits	536,239	
Occupancy and equipment	264,983	
Data processing expense	78,086	
Professional fees	136,635	
FDIC Insurance	23,207	
Other	332,532	

Total other expense	1,371,682	1
Income before income tax	616,983	
Income tax expense	249,762	
Net income	$ 367,221	
Per share amounts:		
Earnings per share (basic and diluted)	.07	
Cash dividends per share	0.00	
Weighted average number of shares outstanding	4,947,911	4

See accompanying Notes to Consolidated Condensed Financial Statements.

4

FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows

For the Nine Months Ended September 30, 2001 and 2000
(Unaudited)

Cash flows from operating activities:	
Net income	$
Adjustments to reconcile net income to net cash flows from operations:	
Depreciation & amortization of property & equipment	
Amort. (net) of premiums, fees & disc. on loans & securities	
Provision for loan losses	
Gain on sale of assets	
Accretion of stock option expense	
Deferred Income Taxes	
Executive supplemental income plan	
Loans originated or purchased for resale	
Proceeds collected from loan sales	
Cash provided by (used for) changes in:	
Accrued interest receivable	
Prepaid expenses & other assets	
Official checks	
Accrued expenses & other liabilities	
Net cash provided by operating activities	
Cash flows from investing activities:	
Acquisition of office properties and equipment	
Purchase of Federal Home Loan Bank stock	
Purchase of securities available for sale	

Reimbursement of real estate owned costs
Proceeds from sale of real estate owned
Proceeds from securities available for sale
Principal collected on loans
Loans originated or purchased

Net cash used in investing activities

Cash flows from financing activities:

Increase in deposits, net
Increase in Federal Home Loan Bank advances
Increase in other borrowings
Net increase in advance payments by borrowers for taxes & insurance

Net cash provided by financing activities

Decrease in cash and cash equivalents
Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period $

See accompanying Notes to Consolidated Condensed Financial Statements.

5

FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (unaudited)

1. General

Federal Trust Corporation ("Federal Trust") is a unitary savings and loan holding company for Federal Trust Bank ("Bank") a federally-chartered stock savings bank. Federal Trust and the Bank are collectively referred to as the "Company". The Company is headquartered in Winter Park, Florida. Federal Trust is currently conducting business as a unitary savings and loan holding company, and its principal asset is all of the capital stock of the Bank. As a unitary holding company, Federal Trust has greater flexibility than the Bank to diversify and expand its business activities, either through newly formed subsidiaries or through acquisitions.

Federal Trust's primary investment is the ownership of the Bank. The Bank is primarily engaged in the business of attracting deposits from the general public and using these funds with advances from the Federal Home Loan Bank of Atlanta ("FHLB") to originate one-to-four family residential mortgage loans, residential consumer loans, multi-family loans, and to a lesser extent, commercial real estate related SBA loans, commercial loans, and consumer loans and also fund bulk purchases of one-to-four family residential mortgage loans.

The consolidated condensed balance sheet as of September 30, 2001, and the consolidated condensed statements of operations for the three and nine month periods ended September 30, 2001 and 2000, and the cash flows for the nine month periods ended September 30, 2001 and 2000, include the accounts and operations of Federal Trust and all subsidiaries. All material intercompany accounts and transactions have been eliminated.

In the opinion of management of the Company, the accompanying consolidated condensed financial statements contain all adjustments (principally consisting of normal recurring accruals) necessary to present fairly the financial position as of September 30, 2001, the results of operations for the three and nine month periods ended September 30, 2001 and 2000, and cash flows for the nine month periods ended September 30, 2001 and 2000. The results of operations for the three and nine month periods ended September 30, 2001, are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10 - KSB for the year ended December 31, 2000.

2. Comprehensive Income:

The Company's accumulated comprehensive loss is the unrealized loss on investment securities available for sale. Total comprehensive income for the three and nine month periods ended September 30, 2001 was $410,605 and $835,398, as compared to the three and nine month periods ended September 30, 2000, of $310,798 and $762,964.

3. New Accounting Pronouncements

In June 2001, the Financial Accounting Standard Board ("FASB) issued Financial Accounting Standards ("SFAS") No. 141, "Business Combinations." This Statement addresses financial accounting and reporting for business combinations and supersedes Accounting Principles Board ("APB") Opinion No. 16, Business Combinations, and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises. All business combinations in the scope of this Statement are to be accounted for using one method, the purchase method. The provisions of this Statement apply to all business combinations initiated after June 30, 2001. This Statement also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. Adoption of this Statement is not expected to have a significant impact on the financial position or results of operations of the Company.

(continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (unaudited)

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This Statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, Intangible Assets. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. ___ Adoption of this Statement is not expected to have a significant impact on the financial position or results of operations of the Company.

In July 2001, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 102, "Selected Loan Loss Allowance Methodology and Documentation Issues" ("SAB 102") which expresses certain of the staff's views on the development, documentation and application of a systematic methodology for determining allowances for loan and lease losses in accordance with generally accepted accounting principles. In particular, the guidance focuses on the documentation the staff normally would expect registrants to prepare and maintain in support of their allowances for loan losses. Management believes that the Company complies with the views included in SAB 102.

4. Loans

The Company's policy is to classify all loans 90 days or more past due as non-performing and not accrue interest on these loans and reverse all accrued and unpaid interest. When the ultimate collectibility of an impaired loan's principal is in doubt, wholly or partially, all cash receipts are applied to principal. When this doubt does not exist, cash receipts are applied under the contractual terms of the loan agreement first to interest income and then to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are applied to interest income, to the extent that any interest has been forgone. Further cash receipts are recorded as recoveries of any amounts previously charged off.

At September 30, 2001, impaired loans amounted to $3.5 million as compared to $3.5 million at September 30, 2000. Included in the allowance for loan losses is $508 thousand related to the impaired loans as compared to $396 thousand at September 30, 2000. The Company measures impairment on collateralized loans using the fair value of the collateral, and on unsecured loans using the present value of expected future cash flows discounted at the loan's effective interest rate.

In the first nine months of 2001, the average recorded investment in impaired loans was $3.7 million and $70 thousand of interest income was recognized on loans while they were impaired. All of this income was recognized using a cash basis method of accounting.

A summary of loans receivable at September 30, 2001, is as follows:

	September 3
Mortgage Loans:	
Permanent conventional:	
Commercial	$ 27,227
Residential	183,856
Residential Construction	38,746
Total Mortgage Loans	249,830
Commercial loans	3,351
Consumer loans	1,598
Lines of credit	1,779

Total loans receivable	256,560

(continued)

7

FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (unaudited)

Add (deduct):	
Net premium on mortgage loans purchased	1,
Unearned loan origination fees, net of direct loan origination costs	
Undisbursed portion of loans in process	(14,
Allowance for loan losses	(1,
Loans receivable, net	$ 242,

5. Allowance for Losses

The following is an analysis of the activity in the allowance for loan losses for the periods presented:

	Three Months Ended September 30,	
	2001	2000
Balance at beginning of period	$ 1,808,681	1,416,114
Provision for loan losses	130,000	60,000
Less Charge-offs	251,034	--
Plus recoveries	2,694	4,041
Balance at end of period	$ 1,690,341	1,480,155
Loans Outstanding	$242,279,125	213,410,680
Ratio of charge-offs to Loans Outstanding	.10%	.00%
Ratio of allowance to Loans Outstanding	.70%	.69%

A provision for loan losses is generally charged to operations based upon management's evaluation of the potential losses in its loan portfolio. During the quarter ended September 30, 2001, management made a provision of $130,000 based on its evaluation of the loan portfolio, as compared to the provision of $60,000 made in the quarter ended September 30, 2000. The increase in the provision for the quarter was primarily the result of the increase in the amount of loans outstanding as compared to September 30, 2000, an increase in the number of commercial loans, and an increase in the reserve ratio on a segment of the loan portfolio. Management believes that the allowance is adequate, primarily as a result of the overall quality, and the high percentage of residential single family home loans, in the portfolio.

6. Supplemental Disclosure of Cash Flow and Non-Cash Investing and Financing Activities

Cash paid during the period for:
Interest expense
Income taxes

Supplemental disclosure of non-cash transactions:
Real estate acquired in settlement of loans
Market Value adjustment - investment securities available for sale:
Market value adjustment - investments
Deferred income tax asset

Unrealized loss on investment securities available for sale, net
Transfer of Loans from held to maturity to available for sale

(continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (unaudited)

7. Real Estate Owned, Net

The following is an analysis of the activity in real estate acquired through foreclosure for the periods ended:

	Three Months Ended September 30,	
	2001	2000
Balance at beginning of period	$1,559,263	$ 88,215
Acquired through foreclosure	19,899	-
Add: Capitalized costs (net of insurance recoveries)	--	--

Less: Sale of real estate	930,553	9,500
Balance at end of period	$ 648,609	78,715

8. Investment Securities

Held to maturity:

FHLB Floating Rate Note, 5.44%, due 7/30/03

Available for sale:
Bear Stearns Preferred Stock 6.15%, 10,000 shares
FHLMC Series 2136 CMO, 6.00%, due 01/15/28
FHLMC Series 2248 CMO, 7.00%, due 07/15/24

Total

The Company's investment in obligations of U.S. government agencies consists of one dual indexed bond issued by the Federal Home Loan Bank and two bonds issued by the Federal Home Loan Mortgage Corporation. At September 30, 2001, the FHLB bond had a market value of $7,094,062. The bond has a par value of $7,000,000 and pays interest at the 10-year constant maturity treasury ("CMT") rate less six month LIBOR rate plus a contractual amount of 4.0%. The FHLMC bonds, Series 2136 and 2248, are fixed rate planned amortization class (PAC) fixed rate bonds with yields of 6.405% and 5.969%. In addition, the Company owns 10,000 shares of $50 par value Bear Stearns Preferred Stock with a coupon of 6.15%.

9. Advances from Federal Home Loan Bank and Other Borrowings

The following is an analysis of the advances from the Federal Home Loan Bank:

Amounts Outstanding at September 30, 2001:

(continued)

Maturity Date	Rate	Amount	Type
12/04/01	3.59%	7,500,000	Variable rate
12/14/01	3.94%	10,000,000	Fixed rate
01/22/02	5.45%	5,000,000	Fixed rate

12/05/02		6.39%	5,000,000	Fixed rate
12/27/02		5.95%	5,000,000	Fixed rate
12/05/03		6.39%	5,000,000	Fixed rate
	Total	4.99%	$37,500,000	

Variable rate advances reprice daily and may be repaid at any time without penalty. Fixed rate advances incur a prepayment penalty if repaid prior to maturity, and the interest rate is fixed for the term of the advance.

Amounts Outstanding at:

Month-end	Rate	Amount
7/31/01	4.34%	$ 56,000,000
8/31/01	4.99%	47,500,000
9/30/01	4.99%	37,500,000

The maximum amount of advances outstanding at any month end during the three month period ended September 30, 2001, was $56,000,000. During the three month period ended September 30, 2001, average advances outstanding totaled $45.6 million at an average rate of 5.12%.

Advances from the FHLB are collateralized by a blanket pledge of eligible assets in an amount required to be maintained so that the estimated value of such eligible assets exceeds at all times, approximately 133% of the outstanding advances, and a pledge of all FHLB stock owned by the Bank.

The maximum amount of other borrowings outstanding at any month end during the three month period ended September 30, 2001, was $3,514,546. During the three month period ended September 30, 2001, average other borrowings outstanding totaled $3.5 million at an average rate of 6.79%.

10. Supervision

Federal Trust and the Bank are subject to extensive regulation, supervision and examination by the OTS, their primary federal regulator, by the FDIC with regard to the insurance of deposit accounts and, to a lesser extent, the Federal Reserve. Such regulation and supervision establishes a comprehensive framework of activities in which a savings and loan holding company and its financial institution subsidiary may engage and is intended primarily for the protection of the Savings Association Insurance Fund administered by the FDIC and depositors.

On October 3, 1994, Federal Trust and the Bank voluntarily entered into individual Cease and Desist Orders (collectively, the "Orders") with the OTS. Federal Trust's Order focused on operating expenses and its financial relationship with the Bank. The Bank's Order required the Bank to control its operating expenses and to institute and adhere to programs and policies designed to strengthen its overall lending practices, primarily in regard to underwriting procedures and credit risk. The Bank's Order also placed restrictions on the Bank's asset growth and on the payment of dividends to Federal Trust.

(continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (unaudited)

Pursuant to the Orders, both Federal Trust and the Bank established Compliance Committees that met monthly to review, in detail, the terms of the Orders to ensure that the Holding Company and the Bank were in compliance with their respective Orders. On March 12, 1998, the OTS rescinded the growth restrictions and on June 1, 1998, the OTS rescinded the Orders.

At the present, neither Federal Trust nor the Bank are operating under any extraordinary regulatory restrictions, agreements or orders. At September 30, 2001, the bank is categorized as well capitalized.

11. Branching

On March 27, 2001, the Bank filed an application with the OTS for permission to open a branch office in New Smyrna Beach, Florida. New Smyrna Beach is located in Volusia County and the proposed branch office is approximately 40 miles northeast of the Bank's main office in Winter Park, Florida. On April 20, 2001, the Bank received approval from OTS, and the branch opened on June 22, 2001. The Bank also has a branch in Sanford, Florida which opened on October 30, 1998.

12. Subsidiaries

Up until March, 2001, the Bank had two operating subsidiaries, FTB Financial Services, Inc. ("FTB Financial") and Vantage Mortgage Service Center, Inc. ("VMSC"). FTB Financial, which commenced operation in 1996, engages in the business of selling insurance, annuities, stocks and bonds at the Bank's branch offices.

VMSC was a mortgage subsidiary located in Gainesville, Florida. Since its inception in June 1999, VMSC has not been able to generate the loan production or profitability necessary to warrant its continued operation. The subsidiary was closed on March 11, 2001.

(The remainder of this page left intentionally blank)

(continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARIES

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

Forward Looking Statements

Readers should note, in particular, that this document contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve substantial risks and uncertainties. When used in this document, or in the documents incorporated by reference herein, the words "anticipate", "believe", "estimate", "may", "intend"and "expect"and similar expressions identify certain of such forward-looking statements. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained herein. Actual results may differ materially, depending upon a variety of important factors, including competition, inflation, general economic conditions, changes in interest rates and changes in the value of collateral securing loans we have made, among other things.

Results of Operations

Comparison of the Three-Month Periods Ended September 30, 2001 and 2000

General. The Company had a net profit for the three-month period ended September 30, 2001, of $367,221 or $.07 per share, compared to a net profit of $288,935 or $.06 per share for the same period in 2000. The increase in the net profit was due primarily to an increase in net interest income, a decrease in other expense, offset partially by an increase in the provision for loan losses and a decrease in other income.

Interest Income and Expense. Interest income increased by $118,148 to $4,908,814 for the three-month period ended September 30, 2001, from $4,790,666 for the same period in 2000. Interest income on loans increased to $4,708,747 in 2001 from $4,612,895 in 2000, primarily as a result of an increase in the average amount of loans outstanding and offset partially by a decrease in the average yield earned on loans. The decrease in the average yield earned on loans is the result of the overall decrease in loan rates during 2001. Interest income on the securities portfolio increased by $48,395 for the three-month period ended September 30, 2001, over the same period in 2000, as a result of an increase in the amount of securities owned and an increase in the yield earned on the securities. Other interest and dividends decreased $26,099 during the same three-month period in 2001 from 2000, as a result of a decrease in the average volume of, and a decrease in the rates earned on other interest-bearing assets. Management expects the rates earned on the portfolio to fluctuate with general market conditions.

Interest expense decreased $70,252 during the three-month period ended September 30, 2001, to $3,262,133 from $3,332,385 for the same period in 2000, due to a decrease in the rates paid on deposits and borrowings, offset partially by an increase in deposits and borrowings. Interest on deposits increased to $2,608,928 in 2001 from $2,531,894 in 2000, as a result of an increase in the amount of deposits, offset partially by a decrease in rates paid on deposits, and interest on FHLB advances and other borrowings decreased to $653,205 in 2001 from $800,491 in 2000, as a result of a decrease in the interest rates paid on advances and other borrowings, offset partially by an increase in the amounts outstanding. Management expects to continue to use FHLB advances and other borrowings as a liability management tool.

Provisions for Loan Losses. A provision for loan losses is generally charged to operations based upon management's evaluation of the losses in its loan

(continued)

portfolio. During the quarter ended September 30, 2001, management made a provision for loan losses of $130,000 based on its evaluation of the loan portfolio, which was an increase of $70,000 from the same period in 2000. The increase in the provision was attributable to the growth of the loan portfolio and the increase in commercial loans. There were recoveries of $2,694 during the three-month period ended September 30, 2001, as compared to recoveries of $4,041 during the three-month period ended September 30, 2000. Total non-performing loans at September 30, 2001, were $3,365,389 compared to $2,987,234 at September 30, 2000. The allowance for loan losses at September 30, 2001 was $1,690,341 or 50% of non-performing loans and .70% of net loans outstanding, versus $1,480,155 at September 30, 2000, or 50% of non-performing loans and .69% of net loans outstanding.

Total Other Income. Other income decreased from $525,571 for the three-month period ended September 30, 2000, to $471,984 for the same period in 2001. The decrease in other income was due to an decrease of $6,969 in fees and service charges and a decrease of $241,783 in other miscellaneous income, offset partially by an increase of $191,789 in gains on the sale of assets and an increase of $3,376 in rental income. The decrease in fees and service charges was primarily the result of a decrease in servicing fees on loans. The increase in gains on assets sold was the result of an increase in the amount of loans and securities sold during the period. The increase in rental income was attributable to the short term rental of real estate owned. The decrease in other miscellaneous income was attributable primarily to decreased other loan income.

Total Other Expense. Other expense decreased to $1,371,682 for the three-month period ended September 30, 2001, from $1,518,807 for the same period in 2000. Compensation and benefits decreased to $536,239 in 2001, from $820,876 in 2000 due to a decrease in staff as a result of the closure of Vantage Mortgage. Occupancy and equipment expense increased by $9,667 in 2001, to $264,983 due to an increase in overall square footage rented as a result of the growth of the Company, however this increase was offset to a large extent by the relocation of the Company's executive and administrative personnel from the Winter Park office to new quarters in Sanford which have a lower rental cost. Data Processing expense increased by $2,947 due to an increase in the number of accounts in the Bank. Professional fees increased by $64,626, as a result of increased professional and regulatory fees, resulting primarily from the growth of the Company and consultants hired to manage the conversion of the Bank to a new data servicer. FDIC Insurance expense increased by $2,274, as a result of the growth in deposits in the Bank. Other miscellaneous expense increased by $57,998 due primarily to increases in loan expenses related to the increased number of loans originated by the Company and increases in general and administrative expenses resulting from the growth of the Company during the year.

Provision for Income Taxes The income tax provision for the three months ended September 30, 2001 was $249,762 (an effective rate of 40.5%), compared to

$116,110 (an effective rate of 28.7%) for the same period in 2000. The accrual rate for taxes was adjusted in 2000 as a result of the recapture of a portion of the deferred tax asset in 2000.

Comparison of the Nine-Month Periods Ended September 30, 2001 and 2000

General. The Company had a net profit for the nine-month period ended September 30, 2001, of $750,941 or $.15 per share, compared to a net profit of $916,645 or $.19 per share for the same period in 2000. The decrease in the net profit was due primarily to an increase in the provision for loan losses, and an increase in other expense, offset partially by an increase in net interest income, and an increase in other income.

(continued)

Interest Income and Expense. Interest income increased by $1,560,604 to $14,979,317 for the nine-month period ended September 30, 2001, from $13,418,713 for the same period in 2000. Interest income on loans increased to $14,439,778 in 2001 from $12,884,221 in 2000, primarily as a result of an increase in the average amount of loans outstanding, offset partially by a decrease in the average yield earned on loans. The decrease in the average yield earned on loans is the result of the overall decrease in loan rates during 2001. Interest income on the securities portfolio increased by $47,517 for the nine-month period ended September 30, 2001, over the same period in 2000, as a result of an increase in the amount of securities owned. Other interest and dividends decreased $42,470 during the same nine-month period in 2001 from 2000, as a result of a decrease in the average volume of other interest-bearing assets and a decrease in the rates earned. Management expects the rates earned on the portfolio to fluctuate with general market conditions.

Interest expense increased $1,368,491 during the nine-month period ended September 30, 2001, to $10,367,412 from the same period in 2000 due to an increase in the amount of deposits and borrowings, offset partially by a decrease in interest rates during 2001. Interest on deposits increased to $8,181,362 in 2001 from $6,815,244 in 2000, as a result of an increase in the amount of deposits, offset partially by a decrease in rates paid on deposits. Interest on FHLB advances and Other Borrowings increased to $2,186,050 in 2001 from $2,183,677 in 2000, as a result of an increase in the average amount of advances and other borrowings outstanding, offset partially by a decrease in the interest rates paid. The rates on advances and other borrowings adjusted more rapidly in the first nine months of 2001 than the rates on deposits, but the rates on deposits have been declining since early 2001. Management expects to continue to use FHLB advances and other borrowings as a liability management tool.

Provisions for Loan Losses. A provision for loan losses is generally charged to operations based upon management's evaluation of the losses in its loan portfolio. During the nine months ended September 30, 2001, management made a provision for loan losses of $420,000 based on its evaluation of the loan portfolio, which was an increase of $240,000 from the same period in 2000. The increase in the provision was primarily the result of the increase in the size of the loan portfolio and the increase in the number of commercial loans in the portfolio. During the nine months ended September 30, 2001, charge-offs were $376,040 as compared to charge-offs of $149,881 for the same period in 2000. There were recoveries of $12,122 during the nine-month period ended September 30, 2001, as compared to net recoveries of $12,123 during the nine-month period ended September 30, 2000. Total non-performing loans at September 30, 2001, were $3,365,389 compared to $2,987,234 at September 30, 2000. The increase in non-performing loans was attributable to the growth of the loan portfolio, as the percentage of non-performing loans is unchanged at September 30, 2001 as compared to September 30, 2000. The allowance for loan losses at September 30, 2001 was $1,690,341 or 50% of non- performing loans and .70% of net loans outstanding, versus $1,480,155 at September 30, 2000, or 50% of non- performing loans and .69% of net loans outstanding.

Total Other Income. Other income increased from $1,423,530 for the nine-month period ended September 30, 2000, to $1,583,689 for the same period in 2001. The increase in other income was due to an increase of $481,433 in gains on the sale of assets, an increase of $3,376 in rental income, offset partially by a decrease of $5,542 in fees and service charges and a decrease of $319,108 in other miscellaneous income. The increase in gains on assets sold was the result of an increase in the amount of loans and securities sold during the period. The decrease in fees and service charges was primarily the result of a decrease in servicing fees on loans. The increase in rental income was attributable to the short term rental of real estate owned. The decrease in other miscellaneous income was attributable primarily to decreased other loan income.

(continued)

Total Other Expense. Other expense increased to $4,564,874 for the nine-month period ended September 30, 2001, from $4,358,012 for the same period in 2000. Compensation and benefits decreased to $2,243,985 in 2001, from $2,388,152 in 2000 due to a decrease in staff as a result of the closure of Vantage Mortgage. Occupancy and equipment expense increased by $19,761 in 2001, to $789,764 due to an increase in overall square footage rented as a result of the growth of the Company, however this increase was offset to a large extent by the relocation of the Company's executive and administrative personnel from the Winter Park office to new quarters in Sanford which have a lower rental cost. Data Processing expense increased by $39,910 due to an increase in the number of deposit accounts. Professional fees increased by $76,259, as a result of increased professional and regulatory fees, resulting primarily from the growth of the Company and consultants hired to manage the conversion of the Bank to a new data servicer.. FDIC Insurance expense increased by $6,661, as a result of the growth in deposits in the Bank. Other miscellaneous expense increased by $208,438, due primarily to increases in loan expenses related to the increased number of loans originated by the Company and increases in general and administrative expenses resulting from the growth of the Company during the year.

Provision for Income Taxes The income tax provision for the nine months ended September 30, 2001 was $459,779 (an effective rate of 38.0%), compared to

$388,665 (an effective rate of 29.8%) for the same period in 2000. The accrual rate for taxes was adjusted in 2000 as a result of the recapture of a portion of the deferred tax asset in 2000.

(The remainder of this page left intentionally blank)

(continued)

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

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 Shareholders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

Form 8-K - Changes in Registrant's Certifying Accountant - Filed 10-09-01
Form 8-K - Changes in Registrant's Certifying Accountant with Exhibit - Filed 10-10-01

SIGNATURES

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

FEDERAL TRUST CORPORATION
(Registrant)

Date: November 09, 2001

By: /s/ Aubrey H. Wright, Jr.

Aubrey H. Wright, Jr.
Chief Financial Officer and duly
authorized Officer of the Registrant

(continued)