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WEBSTER CITY FEDERAL BANCORP
Form 10KSB
March 31, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 [FEE REQUIRED] FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 [NO FEE REQUIRED] For the transaction period
from _____ to _____

Commission Number: 0-26577

WEBSTER CITY FEDERAL BANCORP

(Exact Name of Registrant as Specified in its Charter)

UNITED STATES

42-1491186

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification Number)

820 DES MOINES STREET, WEBSTER CITY, IOWA

50595-0638

(Address of Principal Executive Offices)

(Zip Code)

(515) 832-3071

(Registrant's Telephone Number including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

NONE

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value \$.10 per share

(Title of Class)

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 twelve months (or for such shorter period that the
Registrant was required to file reports) and (2) has been subject to such
requirements for the past 90 days. YES ☒ NO

Indicate by check mark if disclosure of delinquent filers pursuant to
Item 405 of Regulation S-B is not contained herein, and will not be contained,
to the best of Registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-KSB or any
amendments to this Form 10-KSB. ☒

The Registrant's revenues for year ended December 31, 2002 were \$6.7
million.

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As of February 28, 2003, there were issued and outstanding 1,888,376 shares of the Registrant's Common Stock. The aggregate value of the voting stock held by non-affiliates of the Registrant, computed by reference to the last sale price of such stock on the NASDAQ "Small-Cap" System as of February 28, 2003, was \$ 11,813,436. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the Registrant that such person is an affiliate of the Registrant.)

DOCUMENTS INCORPORATED BY REFERENCE

1. Sections of Annual Report to Stockholders for the year ended December 31, 2002 (Parts II and III).
2. Proxy Statement for the 2003 Annual Meeting of Stockholders (Part III).

1

PART I

ITEM 1. BUSINESS

GENERAL

The Registrant, Webster City Federal Bancorp (the "Company"), and its subsidiaries, Webster City Federal Savings Bank and Security Title and Abstract, Inc., conduct operations in Webster City, Iowa. Webster City Federal Bancorp is the successor to Webster City Federal Savings Bank, a federal stock savings bank (the "Bank"), which reorganized into the holding company structure effective July 1, 1999 (the "Holding Company Reorganization"). In the Holding Company Reorganization, each outstanding share of the Bank's common stock was converted by operation of law into one share of the Registrant's common stock, and each stockholder of the Bank received the same ownership interest in the Registrant immediately following the Holding Company Reorganization as he or she had in the Bank immediately prior to that transaction. Webster City Federal Savings Bank conducts its operations from a single office in Webster City, Iowa, and is the successor to Webster City Federal Savings and Loan Association, which was chartered originally in 1934, and became a federally chartered savings and loan association that same year. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") under the Savings Association Insurance Fund ("SAIF"). The Bank has been a member of the Federal Home Loan Bank ("FHLB") System since 1934. Security Title and Abstract, Inc. an Iowa corporation is engaged in the business of providing abstracting and title services for properties located in Hamilton County, Iowa. The Company purchased the abstracting company in September of 2000. At December 31, 2002, the Company had total assets of \$103.5 million, total deposits of \$70.3 million, and stockholders' equity of \$22.2 million.

The Company is primarily engaged in the business of attracting deposits from the general public in the Company's market area and investing such deposits, together with other sources of funds, in mortgage loans secured by one- to four-family residential real estate for retention in the Company's portfolio. At December 31, 2002, \$62.4 million, or 85.1% of the Company's net loan portfolio, consisted of one-to four-family residential mortgage loans and \$3.9 million, or 5.3%, of the Company's net loan portfolio consisted of multi-family residential, commercial real estate and other loans. The Company also originates home equity loans, which totaled \$4.3 million, or 5.9% of the Company's net loan portfolio at December 31, 2002. At December 31, 2002, consumer and other loans totaled \$3.8 million, or 5.2%, of the Company's net loan portfolio. The Company also invests in mortgage-backed securities issued or

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guaranteed by the United States Government or agencies thereof, which totaled \$2.7 million, or 2.6%, of total assets at December 31, 2002.

The Company's principal executive office is located at 820 Des Moines Street, Webster City, Iowa, and its telephone number at that address is (515) 832-3071.

MARKET AREA AND COMPETITION

The Company is headquartered in Webster City, Iowa, a community of approximately 8,000 people. The Company is the largest independent financial institution and the leading originator of home mortgage loans headquartered in Hamilton County. Although the Company conducts its operations from a single office, its market area for lending and other financial services consists of Hamilton and surrounding contiguous counties. Although the economy of the Company's market area is heavily influenced by agriculture, it has a fairly diverse industrial base. The major employers in the Company's market are Frigidaire, a home appliance manufacturer, Van Diest Supply Co., a chemical and fertilizer concern, Webster City Custom Meats, a meat processor, Tasler Inc., a pallet/styrofoam packaging manufacturer, Arrow Acme Corporation, a die-castings manufacturer, Beam Industries, a central vacuum systems manufacturer, and Daily Freeman Journal, a newspaper and printing firm.

The Company encounters strong competition both in attracting deposits and in originating real estate and other loans. Its most direct competition for deposits has historically come from commercial banks, other savings associations, and credit unions. Competition for loans comes from such financial institutions as well as mortgage banking companies. The Company expects continued strong competition in the foreseeable future, including increased competition from "super-regional" banks entering the market by purchasing large banks and savings banks. Many such institutions have greater financial and marketing resources available to them than does the Company. The Company competes for savings

2

deposits by offering depositors a high level of personal service and a wide range of competitively priced financial services. In recent years, additional strong competition has come from stock and bond dealers and brokers. The Company competes for real estate loans primarily through the interest rates and loan fees it charges and advertising.

Finally, competition is likely to increase as a result of the enactment of the Gramm-Leach-Bliley Act of 1999, which eases restrictions on entry into the financial services market by insurance companies and securities firms. Moreover, to the extent that these changes permit banks, securities firms and insurance companies to affiliate, the financial services industry could experience further consolidation. This could result in a growing number of larger financial institutions competing in the Company's primary market area that offer a wide variety of financial services than the Company currently offers. Competition for deposits, for the origination of loans and the provision of other financial services may limit the Company's growth and adversely impact its profitability in the future.

LENDING ACTIVITIES

LOAN AND MORTGAGE-BACKED SECURITIES PORTFOLIO COMPOSITION. The principal components of the Company's loan portfolio are fixed- and adjustable-rate first mortgage loans secured by one- to four-family residential real estate, home equity loans, multi-family residential mortgage loans, and, to a much lesser extent, commercial real estate loans and consumer loans. At

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December 31, 2002, the Company's net loans receivable totaled \$73.3 million, of which \$60.7 million, or 82.8%, were one- to four-family residential real estate mortgage loans, \$5.7million, or 7.8%, were multi-family residential, commercial real estate and other loans, \$4.3 million, or 5.9%, were home equity loans and \$4.5 million, or 6.0%, were consumer and other loans.

The Company also invests in mortgage-backed securities consisting of pass-through certificates insured or guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC"), the Government National Mortgage Association ("GNMA"), or the Federal National Mortgage Association ("FNMA"). At December 31, 2002, mortgage-backed securities totaled \$2.7 million, or 2.6% of total assets. At December 31, 2002, 54.2% of the Company's mortgage-backed securities were secured by ARM loans, and 45.8% were secured by fixed-rate loans. The Company's policy is to hold mortgage-backed securities to maturity.

3

ANALYSIS OF LOAN PORTFOLIO. Set forth below is selected data relating to the composition of the Company's loan portfolio by type of loan as of the dates indicated.

	At December 31,						
	2002		2001		2000		
	Amount	Percent	Amount	Percent	Amount	Percent	Amount
Real estate loans:							
One- to four-family residential	\$ 60,677	82.76%	\$62,109	82.84%	\$55,114	79.76%	\$ 50,000
Home equity	4,347	5.93	4,729	6.35	4,750	6.87	4,000
Multi-family residential, commercial real estate and other	5,680	7.75	4,963	7.19	5,317	7.69	5,000
Total real estate loans	70,704	96.43%	71,801	96.38%	59,810	94.32%	59,000
Consumer and other loans:							
Automobile	1,994	2.72%	2,362	3.17%	2,418	3.50%	1,000
Home improvement	768	1.05	1,124	1.51	1,485	2.15	1,000
Loans on savings deposits	320	.44	255	.34	526	.76	0
Other	706	.96	720	.97	770	1.11	0
Total consumer and other loans	3,788	5.17%	4,461	5.99%	5,199	7.52%	3,000
Real estate sold on contract	53	0.07	62	0.09	66	0.10	0
Total loans receivable	74,545	101.67	76,324	102.46%	70,446	101.95%	63,000
Less:							
Undisbursed loan proceeds	\$ 822	1.12%	\$ 1,449	1.95%	\$ 928	1.35%	0

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Premiums on loans purchased	—	—	(1)	(0.01)%	(3)	(0.01)%	
Unearned discount and net deferred loan fees	—	—	6	0.01%	14	0.02%	
Allowance for loan losses	404	0.55%	378	0.51%	403	0.59%	
Total loans receivable, net	\$ 73,319	100.00%	\$74,492	100.00%	\$69,104	100.00%	\$ 62

4

LOAN AND MORTGAGE-BACKED SECURITIES MATURITY SCHEDULE. The following table sets forth the maturity or period of repricing of the Company's loan and mortgage-backed securities portfolio at December 31, 2002. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Adjustable and floating rate loans are included in the period in which interest rates are next scheduled to adjust rather than in which they contractually mature, and fixed rate loans and mortgage-backed securities are included in the period in which the final contractual repayment is due.

	Within 1 Year	1-3 Years	3-5 Years	5-10 Years	10-20 Years
(In Thousands)					
Real estate loans:					
One- to four-family residential.....	\$6,928	\$5,753	\$3,542	\$7,997	\$13,590
Multi-family residential, commercial					
real estate and other loans.....	969	1,084	268	17	1,503
Consumer and other loans.....	676	1,290	1,053	375	354
Real estate sold on contract.....	---	---	---	53	---
Total loans receivable (gross).....	8,573	8,127	4,863	8,442	15,447
Mortgage-backed securities (gross).....	1,195	320	32	342	613
Total loans and mortgage-backed securities.....	\$9,768	\$ 8,447	\$ 4,896	\$ 8,731	\$16,060

FIXED- AND ADJUSTABLE-RATE LOAN AND MORTGAGE-BACKED SECURITIES SCHEDULE. The following table sets forth at December 31, 2002, the dollar amount of all fixed rate and adjustable rate loans due, and mortgage-backed securities that mature, after December 31, 2003.

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	Fixed -----	Adjustable ----- (In Thousands)
Real estate loans:		
One- to four-family residential.....	\$ 46,614	\$ 11,483
Multi-family residential, commercial real estate and other.....	3,808	903
Consumer and other loans.....	4,710	--
Real estate sold on contract.....	53	--
	-----	-----
Total loans receivable (gross).....	\$ 55,185	\$ 12,386
	=====	=====
Mortgage-backed securities (gross).....	\$ 1,179	\$ 290
	=====	=====

ONE- TO FOUR-FAMILY RESIDENTIAL REAL ESTATE LOANS. The Company's primary lending activity currently consists of the origination of fixed rate and adjustable-rate one- to four-family owner-occupied residential mortgage loans collateralized by properties located in the Company's market area. The Company also originates one- to four-family construction loans that convert to permanent loans after the initial construction period which generally does not exceed nine months. The Company is a portfolio lender. In recent years, it has not sold loans in the secondary mortgage market and does not intend to conduct secondary market sales in the foreseeable future. One- to four-family loans are underwritten and originated according to policies approved by the Board of Directors. The Company has purchased one- to four-family mortgage loans collateralized by properties in Texas and Colorado. At December 31, 2002, the Company had an aggregate principal balance of \$4.0 million in purchased loans.

The Company currently offers fixed rate one- to four-family residential mortgage loans with terms of up to 30 years. One- to four-family residential real estate loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers may refinance or prepay loans at their option. The average length of time that the Company's one- to four-family residential mortgage loans remain outstanding varies significantly depending upon

trends in market interest rates and other factors. In recent years, the average maturity of the Company's mortgage loans has decreased significantly due to unprecedented volume of refinancing activity. Accordingly, estimates of the average length of one- to four-family loans that remain outstanding cannot be made with any degree of certainty. Originations of fixed rate mortgage loans are monitored on an ongoing basis and are affected significantly by the level of market interest rates, the Company's interest rate gap position, and loan products offered by the Company's competitors. The Company's fixed rate mortgage loans amortize on a monthly basis, with principal and interest due each month.

The Company also originates adjustable-rate mortgage ("ARM") loans with a maximum term of up to 30 years. The Company's ARM loans have interest rates that adjust every year or every three years based on an interest rate index. The Company's one-year ARM loans have terms of up to 30 years, with interest rates

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that adjust annually based on changes in the Quarterly National Average Cost of Funds for All SAIF Insured Institutions (the "SII Index"). The maximum annual increase in the interest rate charged on the Company's one-year ARM loans is 100 basis points, and the maximum life of the loan increase in interest rates is 600 basis points. The interest rate on the Company's three-year ARM loans adjusts every three years by up to 200 basis points per adjustment based on the SII Index at the time of adjustment. The maximum life of the loan increase in interest rate on the Company's three-year ARM loans is 600 basis points. In 2002, ARM loan originations decreased as a percentage of total mortgage loan originations, due to a higher demand for longer term fixed rate loans in the generally lower market interest rate environment. For the years ended December 31, 2002 and December 31, 2001, the Company originated \$2.8 million and \$1.1 million of ARM loans, respectively, which represented 16.4% and 5.9% of total mortgage loan originations, respectively, during such years.

The Company's one- to four-family residential first mortgage loans customarily include due-on-sale clauses, which are provisions giving the Company the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells or otherwise disposes of the underlying real property serving as security for the loan. Due-on-sale clauses are an important means of adjusting the rates on the Company's fixed rate mortgage loan portfolio, and the Company has generally exercised its rights under these clauses.

Regulations limit the amount that a savings association may lend relative to the appraised value of the real estate securing the loan, as determined by an appraisal at the time of loan origination. Such regulations permit a maximum loan-to-value ratio of 100% for residential property and 90% for all other real estate loans. The Company's lending policies limit the maximum loan-to-value ratio on fixed rate loans without private mortgage insurance to 90% of the lesser of the appraised value or the purchase price of the property to serve as collateral for the loan.

The Company makes one- to four-family real estate loans with loan-to-value ratios of up to 95%; however, for one- to four-family real estate loans with loan-to-value ratios of between 90% and 95%, the Company requires the first 25% of the loan amount to be covered by private mortgage insurance. The Company requires fire and casualty insurance, as well as a certificate of title, on all properties securing real estate loans made by the Company.

LOW AND MODERATE INCOME LOANS. The Company participates in low- to moderate-income home loan programs to qualifying borrowers. One loan program, which is offered through the Company, enables borrowers to purchase a home with a minimum 5% downpayment and a 95% loan-to-value ratio. Loans are offered on a fixed-rate basis with terms of up to 30 years.

MULTI-FAMILY RESIDENTIAL, COMMERCIAL REAL ESTATE AND OTHER REAL ESTATE LOANS. At December 31, 2002, the Company had a total of 44 loans secured by multi-family and commercial real estate properties. The Company's multi-family real estate loans are secured by multi-family residences, such as rental properties, and commercial real estate loans are secured by other income producing properties such as nursing homes and office buildings. The Company also originates multi-family construction loans that convert to permanent loans after the initial construction period which generally does not exceed nine months. At December 31, 2002, the Company's multi-family and commercial real estate loans had an average principal balance of \$126,500 and the largest multi-family or commercial real estate loan had a principal balance of \$867,000. Multi-family and commercial real estate loans currently are offered with adjustable interest rates, although in the past the Company has originated fixed-rate multi-family and commercial real estate loans. The terms of each loan are negotiated on a case-by-case basis, although such loans typically have adjustable interest rates tied to a market index with a 600 basis point lifetime

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interest rate cap, and amortize over 15 years. An origination fee of 1% is usually charged on multi-family loans. The Company generally makes multi-family and commercial real estate loans up to 75% of the appraised value of the property securing the loan.

6

The Company's originations of multi-family and commercial real estate loans have been limited in recent years because of limited local demand. However, as noted previously, the Company has in the past purchased out-of-market loans, and the aggregate principal balance of such multi-family and commercial real estate loans at December 31, 2002 was \$5.6 million.

Loans secured by multi-family and commercial real estate generally involve a greater degree of credit risk than one- to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family and commercial real estate is typically dependent upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

HOME EQUITY AND HOME IMPROVEMENT LOANS. The Company also originates home equity and home improvement loans. As of December 31, 2002, home equity and home improvement loans totaled \$5.1 million, or 7.0%, of the Company's total loan portfolio. The Company's home equity and home improvement loans have fixed interest rates and are generally for terms of 5 to 10 years, with a maximum of 15 years. The Company's home equity and home improvement loans are closed-end loans for specific dollar amounts. They are secured by the borrower's principal residence with a maximum loan-to-value ratio, including the principal balances of both the first and second mortgage loans, of 90% or less.

OTHER CONSUMER LOANS. To a much lesser extent, the Company also originates loans secured by savings deposits, generally with fixed rates, as well as automobile loans and student loans. Automobile loans are made on both new and used cars, and are offered for terms of up to 72 months. The Company's automobile loans have fixed interest rates and have loan-to-value ratios of up to 85%. Consumer loans entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans that are secured by assets that depreciate rapidly, such as automobiles, mobile homes, boats, and recreational vehicles.

LOAN ORIGINATIONS, SOLICITATION, PROCESSING, AND COMMITMENTS. Loan originations are derived from a number of sources such as real estate agent referrals, existing customers, borrowers, builders, attorneys, and walk-in customers. Upon receiving a loan application, the Company obtains a credit report and employment verification to verify specific information relating to the applicant's employment, income, and credit standing. In the case of a real estate loan, an appraiser approved by the Company appraises the real estate intended to collateralize the proposed loan. An underwriter in the Company's loan department checks the loan application file for accuracy and completeness, and verifies the information provided. Pursuant to the Company's written loan policies, all loans are approved by the Loan Committee, which meets as necessary. After the loan is approved, a loan commitment letter is promptly issued to the borrower.

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If the loan is approved, the commitment letter specifies the terms and conditions of the proposed loan including the amount of the loan, interest rate, amortization term, a brief description of the required collateral, and required insurance coverage. Commitments are typically issued for 60-day periods. The borrower must provide proof of fire and casualty insurance on the property serving as collateral, which insurance must be maintained during the full term of the loan. A certificate of title, based on a title search of the property, is generally required on all loans secured by real property. At December 31, 2002, the Company had outstanding loan commitments of \$272,300. This amount does not include \$822,500 of the unfunded portion of loans in process.

7

ORIGINATION, PURCHASE OF LOANS. The table below shows the Company's originations, purchases and sales of loans for the years indicated.

	Year Ended Decem	
	2002	2001
	----	----
	(In Thousands)	
Total loans receivable at beginning of year.....	\$ 74,492	\$ 69,104
Loans purchased:		
Real estate:		
Total loans purchased.....	--	--
	-----	-----
Loans originated:		
Real estate.....	16,783	21,101
Consumer.....	5,430	2,116
	-----	-----
Total loans originated.....	22,213	23,217
	-----	-----
Loans transferred to REO.....	(391)	(48)
Loan repayments.....	(23,012)	(17,789)
Other loan activity (net).....	17	8
	-----	-----
Total loans receivable at end of year, net...	\$ 73,319	\$ 74,492
	=====	=====

LOAN ORIGINATION FEES. In addition to interest earned on loans, the Company generally receives fees in connection with loan originations. Mortgage loan origination fees and certain loan origination costs, if material, are deferred and the net fee or cost is recognized in operations using the interest method. Direct loan origination costs on other loans are expensed, as such costs are not material in amount. Fees deferred are recognized into income immediately upon prepayment of the related loan. Such fees vary with the volume and type of loans and commitments made and purchased, principal repayments, and competitive conditions in the mortgage markets, which in turn respond to the demand and availability of money.

MORTGAGE-BACKED SECURITIES

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Apart of the Company's business involves investments in mortgage-backed securities. At December 31, 2002, all of the Company's mortgage-backed securities were insured or guaranteed by a United States Government agency or sponsored corporation. All of the Company's mortgage-backed securities portfolio consists of pass-through certificates. The Company invests in mortgage-backed securities to supplement local loan originations as well as to reduce interest rate risk exposure.

The Company's pass-through certificates represent a participation interest in a pool of single-family mortgages, the principal and interest payments on which are passed from the mortgage originators, through intermediaries (generally quasi-governmental agencies) that pool and repackage the participation interest in the form of securities, to investors such as the Company. Such quasi-governmental agencies that guarantee the payment of principal and interest to investors, include the FHLMC, GNMA, or the FNMA. Pass-through certificates typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with interest rates and maturities that are within a specified range. The underlying pool of mortgages can be composed of either fixed rate mortgage loans or ARM loans. The interest rate risk characteristics of the underlying pool of mortgages, I.E., fixed rate or adjustable rate, are passed on to the certificate holder.

8

Set forth below is information relating to the Company's purchases and repayments of mortgage-backed securities for the years indicated.

	Year Ended December	
	2002	2001
	----	----
	(In Thousands)	
Mortgage-backed securities		
at beginning of year:.....	\$4,205	\$6,025
Purchases.....		
Repayments.....	(1,509)	(1,807)
Discount (premium) amortization.....	(7)	(13)
	-----	-----
Mortgage-backed securities		
at end of year, net.....	\$2,689	\$4,205
	=====	=====

The following table sets forth selected data relating to the composition of the Company's mortgage-backed securities for the years indicated.

	At December 31,	
	2002	2001
	-----	-----

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	----- \$	%	----- \$	%
	---	---	---	---
	(Dollars in Thousands)			
Mortgage-backed securities:				
Adjustable.....	\$ 1,457	54.2%	\$ 2,349	55.9%
Fixed.....	1,232	45.8	1,856	44.1
	-----	-----	-----	-----
Total mortgage-backed securities, net.....	\$ 2,689	100.0%	\$ 4,205	100.0%
	=====	=====	=====	=====

At December 31, 2002, mortgage-backed securities totaled \$2.7 million, or 2.6%, of total assets. ARM loans collateralized 54.2% of the Company's mortgage-backed securities portfolio, and fixed-rate loans collateralized 45.8% of the Company's mortgage-backed securities portfolio. All of the Company's mortgage-backed securities are insured or guaranteed by the FHLMC, the GNMA, or the FNMA. At December 31, 2002, all the Company's mortgage-backed securities were classified as "held to maturity." At December 31, 2002, the Company's mortgage-backed securities portfolio had a fair value of \$2.8 million.

Effective February 1992, the OTS adopted Thrift Bulletin 52 ("TB 52"). Among other things, TB 52 sets forth certain guidelines with respect to depository institutions' investment in certain "high risk mortgage securities." "High-risk mortgage securities" are defined as any mortgage derivative product that at the time of purchase, or at any subsequent date, meets any of three tests that are set forth in TB 52. High-risk mortgage securities may be purchased only in limited circumstances, and if held in a portfolio, must be reported as trading assets at market value, or as available-for-sale assets at the lower of cost or market value. In certain circumstances, OTS examiners may seek the orderly divestiture of high-risk mortgage securities. As of December 31, 2002, the Company did not hold any "high-risk mortgage securities" in its portfolio.

DELINQUENCIES AND CLASSIFIED ASSETS

DELINQUENCIES. The Company's collection procedures provide that when a loan is 15 days past due, a computer-generated late charge notice is sent to the borrower requesting payment, plus a late charge. If delinquency continues, early in the second month, a delinquent notice is mailed along with a letter or telephone call advising that the mortgagors are in violation of the terms of their mortgage contract. If a loan becomes 60 days past due, the loan becomes subject to possible legal action. Management has been authorized by the Board of Directors to send a letter during the third month advising of pending legal action. This letter generally grants mortgagors an additional 15 days to bring the account to

date prior to start of any legal action. If not paid, foreclosure proceedings are initiated. To the extent required by the Department of Housing and Urban Development ("HUD") regulations, generally within 45 days of delinquency, a Section 160 HUD notice is given to the borrower, which provides access to consumer counseling services.

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It is sometimes necessary and desirable to arrange special repayment schedules with mortgagors to prevent foreclosure or filing for bankruptcy. The mortgagors are required to submit a written repayment schedule, which is closely monitored for compliance. Under these terms, the account is brought to date, usually within a few months.

NONPERFORMING ASSETS. Loans are reviewed on a regular basis and are placed on a nonaccrual status when, in the opinion of management, the collection of additional interest is doubtful. Mortgage loans are placed on nonaccrual status generally when either principal or interest is more than 90 days past due. Interest accrued and unpaid at the time a loan is placed on nonaccrual status is charged against interest income.

Real estate acquired by the Company as a result of foreclosure or by deed in lieu of foreclosure is deemed real estate owned ("REO") until such time as it is sold. In general, the Company considers collateral for a loan to be in-substance foreclosed if: (i) the borrower has little or no equity in the collateral; (ii) proceeds for repayment of the loan can be expected to come only from the operation or sale of the collateral; and (iii) the borrower has either formally or effectively abandoned control of the collateral to the Company, or retained control of the collateral but is unlikely to be able to rebuild equity in the collateral or otherwise repay the loan in the foreseeable future. Cash flow attributable to in-substance foreclosures is used to reduce the carrying value of the collateral.

When REO is acquired or otherwise deemed REO, it is recorded at the lower of the unpaid principal balance of the related loan or its estimated fair value, less estimated selling expenses. Valuations are periodically performed by management, and any subsequent decline in fair value is charged to operations. At December 31, 2002, the Company had \$18,000 in REO.

DELINQUENT LOANS AND NONPERFORMING ASSETS. The following table sets forth information regarding non-accrual loans delinquent 90 days or more and real estate owned by the Company at the dates indicated. When a loan is delinquent 90 days or more, the Company fully reserves all accrued interest thereon and ceases to accrue interest thereafter. See notes 1 and 3 to the Notes to Consolidated Financial Statements.

	At December 31,			
	2002	2001	2000	1999
	----	----	----	----
	(Dollars in Thousands)			
Delinquent loans:				
One- to four-family residential real estate.....	\$ 104	\$ 909	\$ 195	\$ --
All other real estate.....	--	--	--	--
Consumer loans, other.....	6	58	--	6
	----	----	----	----
Total delinquent loans.....	110	967	195	6
Total real estate owned (1).....	19	48	--	--
	-----	-----	-----	-----
Total non-performing assets.....	\$ 129	\$1,015	195	\$ 6
	=====	=====	=====	=====
Total loans delinquent 90 days or more				
to net loans receivable.....	.18%	1.30%	0.29%	0.01%
Total loans delinquent 90 days or more				

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to total assets.....	.11%	0.95%	0.20%	0.01%
to total assets.....	.12%	1.00%	0.20%	0.01%

-
- (1) Represents the net book value of property acquired by the Company through foreclosure foreclosure. Upon acquisition, this property is recorded at the lower of its fair value selling costs, or the principal balance of the related loan.

10

The following table sets forth information with respect to loans delinquent 30-89 days in the Company's portfolio at the dates indicated.

	At December 31,			
	2002	2001	2000	
	-----	-----	-----	-----
	(In Thousands)			
Loans past due 30-89 days:				
One- to four-family residential.....	\$1,453	\$1,145	\$ 588	\$
All other mortgages.....	938	--	--	
Consumer, other.....	167	197	208	
	-----	-----	-----	-----
Total past due 30-89 days.....	\$2,558	\$1,342	\$ 796	\$
	=====	=====	=====	=====

The following table sets forth information with respect to the Company's delinquent loans and other problem assets at December 31, 2002.

	At Dece

	Balance
	(Dollar
Residential real estate:	
Loans 30 to 89 days delinquent.....	\$ 1,453
Loans 90 days or more delinquent.....	150
All other real estate loans:	
Loans 30 to 89 days delinquent.....	--

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Loans 90 days or more delinquent.....	--
Commercial non-real estate (30 days or more delinquent).....	--
Consumer loans (30 days or more delinquent).....	204
Foreclosed real estate and repossessions.....	18
Other non-performing assets.....	--
Restructured loans within the meaning of Statement of Financial Accounting Standards No. 15 (not included in other nonperforming categories above).....	--
Loans to facilitate sale of real estate owned.....	53

CLASSIFICATION OF ASSETS. Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by the OTS to be of lesser quality as "substandard," "doubtful," or "loss" assets. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the savings institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets that do not expose the savings institution to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weaknesses, are required to be designated "special mention" by management. Loans designated as special mention are generally loans that, while current in required payments, have exhibited some potential weaknesses that, if not corrected, could increase the level of risk in the future. At December 31, 2002, the Company had no special mention loans, \$1.1 million in substandard assets and \$17,000 in doubtful assets.

11

The following table sets forth the aggregate amount of the Company's classified assets for the years indicated.

	Year Ended De	
	2002	2001
	-----	-----
	(In Thousands)	
Substandard assets.....	\$ 1,070	\$ 1,396
Doubtful assets.....	17	42
Loss assets.....	--	--
	-----	-----
Total classified assets.....	\$ 1,087	\$ 1,438
	=====	=====

ALLOWANCE FOR LOAN LOSSES. Management's policy is to provide for estimated losses on the Company's loan portfolio based on management's

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evaluation of the estimated losses that may be incurred. The Company regularly reviews its loan portfolio, including problem loans, to determine whether any loans require classification or the establishment of appropriate reserves or allowances for losses. Such evaluation, which includes a review of all loans of which full collectibility of interest and principal may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral. During the years ended December 31, 2002, 2001 and 2000, the Company added \$80,000, \$ 0, and \$0, respectively, to the provision for loan losses. The Company's allowance for loan losses totaled \$404,000, \$378,000, and \$403,000 at December 31, 2002, 2001, and 2000, respectively.

Management believes that the allowances for losses on loans are adequate. While management uses available information to recognize losses on loans future additions to the allowances may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances for losses on loans and investments in real estate. Such agencies may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examination.

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES. The following table sets forth the analysis of the allowance for loan losses for the years indicated.

	Year Ended December 31,			
	2002	2001	2000	1999
	----	-----	----	----
	(Dollars in Thousands)			
Net loans outstanding.....	\$73,319	\$74,492	\$69,104	\$62,104
Average net loans outstanding.....	75,378	72,620	66,222	58,104
	=====	=====	=====	=====
Allowance balances (at beginning of year).....	378	382	385	385
Provision for losses.....	80	—	—	—
Charge-offs.....	78	25	2	9
Recoveries.....	24	0	23	23
	-----	-----	-----	-----
Allowance balance (at end of year).....	\$ 404	\$ 378	\$ 403	\$ 403
	=====	=====	=====	=====
Allowance for loan losses as a percent of net loans receivable at end of year.....	0.55%	0. 51%	0.59%	0.59%
Net loans charged off as a percent of average net loans outstanding.....	0.10%	0. 04%	0.01%	0.01%
Ratio of allowance for loan losses to total nonperforming loans at end of year.....	N/M	39.1%	N/M	N/M
Ratio of allowance for loan losses to total nonperforming loans and REO at end of year.....	N/M	37.2%	N/M	N/M

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INVESTMENT ACTIVITIES

The Company's investment portfolio comprises investment securities, FHLB stock, and interest-earning deposits in other institutions. The Company has \$4.0 million in corporate debt securities, all of which were rated A2 or better. At December 31, 2002, \$12.8 million, or 52.7%, of the Company's investment securities were scheduled to mature in one year or less, \$10.5 million, or 43.3%, were scheduled to mature in from one to five years, and \$1.0 million, or 4.0%, were scheduled to mature in over five years.

The Company is required under federal regulations to maintain a minimum amount of liquid assets that may be invested in specified short-term securities and certain other investments. The Company generally has maintained a portfolio of liquid assets that exceeds regulatory requirements. Liquidity levels may be increased or decreased depending upon the yields on investment alternatives and upon management's judgment as to the attractiveness of the yields then available in relation to other opportunities and its expectation of the level of yield that will be available in the future, as well as management's projections as to the short term demand for funds to be used in the Company's loan origination and other activities. Currently, due to lower demand for loans, the Company's liquidity levels are higher than they have been in recent periods. Management believes that the higher levels are prudent because of the possibility that interest rates may increase. By maintaining high levels of liquidity, the Company is able to reinvest its assets more quickly in response to changes in market interest rates, thereby potentially reducing its exposure to interest rate volatility.

INVESTMENT PORTFOLIO. The following table sets forth the carrying value of the Company's investment portfolio for the years indicated.

	Year Ended December	
	2002	2001
	-----	-----
		(In Thousands)
Investment portfolio:		
U.S. Government and agency obligations.....	\$ 3,550	\$ 1,518
Corporate debt securities.....	4,040	5,096
Interest-earning deposits in other institutions..	15,976	10,258
FHLB stock.....	705	613
	-----	-----
Total investments.....	\$ 24,271	\$ 21,060
	=====	=====

INVESTMENT PORTFOLIO MATURITIES. The following table sets forth the scheduled maturities, carrying values, market values and weighted average yields for the Company's investment portfolio at December 31, 2002.

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At December 31, 2002						
	One Year or Less		One to Five Years		Five to Ten Years	
	Carrying Value	Annualized Weighted Average Yield	Carrying Value	Annualized Weighted Average Yield	Carrying Value	Annualized Weighted Average Yield
(Dollars)						
Investment portfolio:						
Investment securities,						
U.S. Government	\$ 2,015	5.16%	\$4,546	5.34%	\$1,029	6.34%
FHLB stock.....	705	3.00	--	--	--	--
Interest-earning deposits						
in other institutions....	10,043	1.81	5,933	3.55	--	--
Total.....	\$12,763	2.40%	\$10,479	4.33%	\$1,029	6.34%

14

SOURCES OF FUNDS

GENERAL. The Company's deposit-gathering activities are currently conducted from the Company's facility in Webster City, Iowa. Deposits are the major source of the Company's funds for lending and other investment purposes. In addition to deposits, the Company derives funds from the amortization and prepayment of loans and mortgage-backed securities, the maturity of investment securities, and operations. Scheduled loan principal repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are influenced significantly by general interest rates and market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources or on a longer term basis for general business purposes. Historically, the Company has maintained a high level of liquidity, and only rarely uses borrowed funds.

DEPOSITS. Consumer and commercial deposits are attracted principally from within the Company's market area through the offering of a broad selection of deposit instruments including NOW accounts, passbook savings, money market deposit, term certificate accounts and individual retirement accounts. Deposit account terms vary according to the minimum balance required, the period of time during which the funds must remain on deposit, and the interest rate, among other factors. The maximum rate of interest, which the Company must pay, is not established by regulatory authority. The Company regularly evaluates its internal cost of funds, surveys rates offered by competing institutions, reviews the Company's cash flow requirements for lending and liquidity, and executes rate changes when deemed appropriate. The Company has sought to decrease the risk associated with changes in interest rates by offering competitive rates on deposit accounts and by pricing certificates of deposit to provide customers with incentives to choose certificates of deposit with longer terms. Due to the

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current low market interest rate environment, however, terms of over 36 months are not attractive to customers. The Company does not obtain funds through brokers through a solicitation of funds outside its market area. The Company also obtains funds from local governmental sources and held approximately \$2.2 million in such funds at December 31, 2002.

DEPOSIT PORTFOLIO. Savings in the Company as of December 31, 2002, were represented by the various types of deposit programs described below.

Weighted Average Interest Rate -----	Minimum Term -----	Checking and Savings Deposits -----	Minimum Amount -----	Balance ----- (In Thousa
0.00%	None	Noninterest-bearing checking	\$ --	\$ 1,58
0.50	None	NOW accounts	--	8,13
1.00	None	Passbook	--	4,87
1.61	None	Money market accounts	1,000	7,82
Certificates o				
1.98%	3 months	Fixed term, fixed rate	\$ 1,000	\$ 80
2.24	6 months	Fixed term, fixed rate	1,000	1,76
2.59	9 months	Fixed term, fixed rate	1,000	1,92
2.73	12 months	Fixed term, fixed rate	1,000	4,65
2.79	15 months	Fixed term, fixed rate	1,000	93
3.52	18 months	Fixed term, fixed rate	1,000	11,30
3.63	24 months	Fixed term, fixed rate	1,000	3,15
3.95	30 months	Fixed term, fixed rate	1,000	85
4.32	36 months	Fixed term, fixed rate	1,000	16,16
4.52	48 months	Fixed term, fixed rate	1,000	74
4.88	Over 48 months	Fixed term, fixed rate	1,000	5,50
				----- \$ 70,21

15

The following table sets forth the change in dollar amount of savings deposits in the various types of savings accounts offered by the Company between the dates indicated.

At December 31,					
2002 -----			2001 -----		
Balance	Percent (1)	Change (2)	Balance	Percent (1)	Change (2)
-----	-----	-----	-----	-----	-----

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Noninterest-bearing						
demand.....	\$ 1,580	2.25%	\$ (183)	1,763	2.52%	\$ 1,003
NOW accounts.....	8,134	11.58	(127)	8,261	11.80	819
Passbooks.....	4,871	6.94	237	4,634	6.62	315
Money market accounts.....	7,825	11.14	265	7,560	10.80	1,537
Time deposits that mature:						
within 12 months.....	20,420	29.08	(17,846)	38,266	54.64	11,337
within 12-36 months.....	24,725	35.21	17,576	7,149	10.21	(10,337)
beyond 36 months.....	2,657	3.78	247	2,410	3.44	696
	-----	-----	-----	-----	-----	-----
Total.....	\$ 70,212	100.00%	\$ 169	\$ 70,042	100.00%	\$ 5,434
	=====	=====	=====	=====	=====	=====

	1999			1998
	Balance	Percent (1)	Change (2)	Balance
	-----	-----	-----	-----
Noninterest-bearing	\$ 898	1.32%	\$ 586	\$ 312
demand.....	6,808	10.02	(61)	6,869
NOW accounts.....	4,730	6.96	240	4,490
Passbooks.....	6,036	8.89	140	5,896
Money market accounts.....				
Time deposits that mature:	34,917	51.41	3,562	31,355
within 12 months.....	13,587	20.01	(4,348)	7,935
within 12-36 months.....	942	1.39	(905)	1,847
beyond 36 months.....	-----	-----	-----	-----
	\$67,918	100.00%	\$ (786)	\$68,704
	=====	=====	=====	=====
Total.....				

(1) Represents percentage of total deposits.

(2) Represents increase (decrease) in balance from end of prior year.

16

TIME DEPOSIT RATES. The following table sets forth the time deposits in the Company classified by rates as of the dates indicated:

	Years Ended Decem	
	2002	2001
	----	-----
Rate		(In Thousands)

2.00-3.99%.....	\$ 24,979	\$ 10,874
4.00-5.99%.....	22,775	26,835

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6.00-7.99%.....	48	10,116
	-----	-----
	\$ 47,802	\$ 47,825
	=====	=====

TIME DEPOSIT MATURITIES. The following table sets forth the amount and maturities of time deposits at December 31, 2002.

Rate ----	Amount Due			
	Less Than One Year	1-2 Years	2-3 Years	3-4 Years
	(In Thous			
2.00%-3.99%.....	\$ 15,373	\$ 7,245	\$ 1,983	\$ 170
4.00%-5.99%.....	4,991	1,015	14,482	652
6.00-7.99%.....	48	--	--	--
	-----	-----	-----	-----
	\$20,420	\$ 8,260	\$16,465	\$ 822
	=====	=====	=====	=====

LARGE CERTIFICATES OF DEPOSIT MATURITIES. The following table indicates the amount of the Company's certificates of deposit of \$100,000 or more by time remaining until maturity at December 31, 2002. This amount does not include checking and savings deposits of greater than \$100,000, which totaled approximately \$6.2 million at December 31, 2002.

Maturity Period

Three months or less.....	
Three through six months.....	
Six through twelve months.....	
Over twelve months.....	
Total.....	

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CHANGE IN DEPOSITS. The following table sets forth changes in total deposits of the Company for the periods indicated:

	Year Ended December	
	2002	2001
	-----	-----
	(In Thousands)	
Deposits.....	\$147,024	\$135,208
Withdrawals.....	148,414	131,100
	-----	-----
Net increase (decrease) before interest credited...	(1,390)	4,108
Interest credited.....	1,560	1,326
	-----	-----
Net increase (decrease) increase in deposits.....	\$ 170	\$5,434
	=====	=====

BORROWINGS

Deposits are the Company's primary source of funds. The Company may also obtain funds from the FHLB. FHLB advances are collateralized by selected assets of the Company. Advances from the FHLB are secured by the Company's stock in the FHLB and a portion of the Company's first mortgage loans and investment securities. Historically, the Company has rarely used borrowed funds, but at December 31, 2002, the Company had \$9.7 million in borrowed funds.

The FHLB functions as a central reserve bank providing credit for the Company and other member savings associations and financial institutions. As a member, the Company is required to own capital stock in the FHLB and is authorized to apply for advances on the security of such stock and certain of its home mortgages and other assets (principally, securities that are obligations of, or guaranteed by, the United States) provided certain standards related to creditworthiness have been met. Advances are made pursuant to several different programs. Each credit program has its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of a member institution's net worth or on the FHLB's assessment of the institution's creditworthiness.

The following table sets forth certain information regarding borrowings by the Company at the dates indicated`

	Year Ended December	
	2002	2001
	----	----
Weighted average rate paid on FHLB advance.....	5.15%	5.73%

	During the Year Ended December	
	2002	2001
	-----	-----
	(Dollars in Thousands)	
Maximum amount of FHLB Advance outstanding at any month.....	\$ 9,700	\$ 9,700
Approximate average FHLB advance outstanding.....	9,700	7,783
Approximate weighted average rate paid on FHLB advance.....	5.15%	5.73%

EMPLOYEES

As of December 31, 2002, the Company had 24 full-time and 4 part-time employees, none of whom is represented by a collective bargaining unit. The Company considers its relationship with its employees to be good.

REGULATION AND SUPERVISION

As a federally chartered SAIF-insured savings association, the Bank is subject to examination, supervision and extensive regulation by the OTS and the FDIC. The Bank is a member of the Federal Home Loan Bank ("FHLB") system. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The Bank also is subject to regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") governing reserves to be maintained against deposits and certain other matters. The OTS examines the Bank and prepares reports for the consideration of the Bank's Board of Directors on any deficiencies that they may find in the Bank's operations. The FDIC also examines the Bank in its role as the administrator of the SAIF. The Bank's relationship with its depositors and borrowers also is regulated to a great extent by both federal and state laws especially in such matters as the ownership of savings accounts and the form and content of the Bank's mortgage documents. Any changes in such regulation, whether by the FDIC, OTS or Congress, could have a material adverse impact on the Company and the Bank and their operations.

The description of statutory provisions and regulations applicable to savings associations set forth herein does not purport to be a complete description of such statutes and regulations and their effect on the Bank.

FEDERAL REGULATION OF SAVINGS INSTITUTIONS

IMPACT OF THE GRAMM-LEACH-BLILEY ACT The Gramm-Leach-Bliley Act (the "GLB Act"), establishes a comprehensive framework to permit affiliations among

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commercial banks, insurance companies and securities firms. The GLB Act restricts the powers of new unitary savings and loan association holding companies. Unitary savings and loan holding companies in existence or with applications filed with the OTS on or before May 4, 1999, such as the Company, retain their authority under the prior law. All

19

other unitary savings and loan holding companies are limited to financially related activities permissible for bank holding companies, as defined under the GLB Act. The GLB Act also prohibits non-financial companies from acquiring grandfathered unitary savings and loan association holding companies.

The Company does not believe that the GLB Act will have a material adverse affect upon its operations in the near term. However, to the extent the GLB Act permits banks, securities firms and insurance companies to affiliate, the financial services industry may experience further consolidation. This could result in a growing number of larger financial institutions that offer a wider variety of financial services than the Company currently offers and that can aggressively compete in the markets the Company currently serves.

BUSINESS ACTIVITIES. The activities of savings institutions are governed by federal law. The federal banking statutes (1) restrict the solicitation of brokered deposits by savings institutions that are troubled or not well-capitalized, (2) prohibit the acquisition of any corporate debt security that is not rated in one of the four highest rating categories, (3) restrict the aggregate amount of loans secured by non-residential real estate property to 400% of capital, (4) permit savings and loan holding companies to acquire up to 5% of the voting shares of non-subsidiary savings institutions or savings and loan holding companies without prior approval, and (5) permit bank holding companies to acquire healthy savings institutions.

LOANS TO ONE BORROWER. Under federal law, savings institutions are generally subject to the national bank limits on loans to one borrower or a related group of borrowers. Generally, this limit is 15% of the Bank's unimpaired capital and surplus on an unsecured basis. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if such loan is secured by readily marketable collateral, which is defined to include certain securities and bullion, but generally does not include real estate. The Bank's maximum loans-to-one-borrower limit was \$1.5 million at December 31, 2002. As of December 31, 2002, the Bank was in compliance with its loans-to-one-borrower limitations.

QUALIFIED THRIFT LENDER TEST. Federal law requires savings institutions to meet a qualified thrift lender ("QTL") test. Under the QTL test, a savings association is required to maintain at least 65% of its "portfolio assets" (total assets less (i) specified liquid assets up to 20% of total assets, (ii) intangibles, including goodwill, and (iii) the value of property used to conduct business) in certain "qualified thrift investments," primarily residential mortgages and related investments, including certain mortgage-backed and related securities on a monthly average basis in 9 out of every 12 months. A savings association that fails the QTL test must either convert to a bank charter or operate under certain restrictions. As of December 31, 2002, the Bank maintained 94.8% of its portfolio assets in qualified thrift investments and, therefore, met the QTL test.

CAPITAL DISTRIBUTIONS. OTS regulations govern capital distributions by federal savings banks, which include cash dividends, stock repurchases and other transactions charged to the capital account of a savings bank. A savings bank must file an application for OTS approval of a capital distribution if either (1) the total capital distributions for the applicable calendar year exceed the

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sum of the savings bank's net income for that year to date plus the bank's retained net income for the preceding two years, (2) the savings bank would not be at least adequately capitalized following the distribution, (3) the distribution would violate any applicable statute, regulation, agreement or OTS-imposed condition, or (4) the savings bank is not eligible for expedited treatment of its filings. If an application is not required to be filed, a savings bank which is a subsidiary of a holding company, as well as certain other savings banks, must still file a notice with the OTS at least 30 days before the board of directors declares a dividend or approves a capital distribution. The Company has declared and paid dividends of \$731,600 during the year ended December 31, 2002.

20

LIQUIDITY. The Bank is required to maintain an average daily balance of specified liquid assets equal to a monthly average of not less than a specified percentage of its net withdrawable deposit accounts plus borrowings payable in one year or less. This liquidity requirement is currently 4%. The Bank's average liquidity ratio for December 2002 was 30.0%, which exceeded the then applicable requirements. The Bank has never been subject to monetary penalties for failure to meet its liquidity requirements.

ASSESSMENTS. Savings institutions are required by OTS regulation to pay assessments to the OTS to fund the operations of the OTS. The general assessment, paid on a semi-annual basis, is computed upon the savings institution's consolidated total assets, as reported in the institution's latest quarterly thrift financial report. Based on assets at December 31, 2002, the Bank was required to pay a semi-annual assessment of approximately \$15,500.

COMMUNITY REINVESTMENT ACT AND FAIR LENDING LAWS. Federal savings banks have a responsibility under the Community Reinvestment Act and related regulations of the Office of Thrift Supervision to help meet the credit needs of their communities, including low-and moderate-income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An institution's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities, and failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Office of Thrift Supervision, as well as other federal regulatory agencies and the Department of Justice. The Bank received a "satisfactory" Community Reinvestment Act rating under the current Community Reinvestment Act regulations in its most recent federal examination by the Office of Thrift Supervision.

TRANSACTIONS WITH RELATED PARTIES. The Bank's authority to engage in transactions with related parties or "affiliates" or to make loans to certain insiders, is limited by Sections 23A and 23B of the Federal Reserve Act ("FRA"). Section 23A limits the aggregate amount of transactions with any individual affiliate to 10% of the capital and surplus of the savings institution and also limits the aggregate amount of transactions with all affiliates to 20% of the savings institution's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in Section 23A and the purchase of low quality assets from affiliates is generally prohibited. Section 23B provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that

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are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Bank's authority to extend credit to executive officers, directors and 10% stockholders, as well as entities controlled by such persons, is currently governed by Sections 22(g) and 22(h) of the FRA, and Regulation O thereunder. Among other things, these regulations require such loans to be made on terms substantially the same as those offered to unaffiliated individuals and do not involve more than the normal risk of repayment. Regulation O also places individual and aggregate limits on the amount of loans the Bank may make to such persons based, in part, on the Bank's capital position, and requires certain approval procedures to be followed. At December 31, 2002, the Bank was in compliance with the regulations.

ENFORCEMENT. OTS has primary enforcement responsibility over savings institutions and has the authority to bring enforcement action against all "institution-related parties," including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institutions, receivership, conservatorship or the termination of deposit insurance. Civil penalties cover a wide

21

range of violations and actions, and range up to \$25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as \$1 million per day. Criminal penalties for most financial institution crimes include fines of up to \$1 million and imprisonment for up to 30 years. The FDIC has the authority to recommend to the Director of OTS that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take such action under certain circumstances.

STANDARDS FOR SAFETY AND SOUNDNESS. The federal banking agencies have adopted regulations that set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The standards address internal controls and information systems; internal audit system; credit underwriting; loan documentation; interest rate risk exposure; asset growth; and compensation, fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. The regulations establish deadlines for the submission and review of such safety and soundness compliance plans.

CAPITAL REQUIREMENTS. The Office of Thrift Supervision capital regulations require federal savings banks to meet three minimum capital standards: a 1.5% tangible capital ratio; a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS rating system); and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest CAMELS rating), and together with the risk-based capital standard itself, a 4% Tier 1 risk-based capital standard. Institutions must generally deduct from capital investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standards for federal savings banks require the

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maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8% respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weighted factor of 0% to 100%, assigned by the Office of Thrift Supervision capital regulation based on the risks believed inherent in the type of asset. Core (tier 1) capital is defined as common stockholders' equity (including retained earnings), certain non-cumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangible assets other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets, and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital may not exceed 100% of core capital.

The capital regulations also incorporate an interest rate risk component. Savings institutions with "above normal" interest rate risk exposure are subject to a deduction from capital for purposes of calculating their risk-based capital requirements. For the present time, the Office of Thrift Supervision has deferred implementation of the interest rate risk capital charge. At December 31, 2002 the Bank met each of its capital requirements.

The following table sets forth the Bank's actual and required capital amounts and ratios as of December 31, 2002.

	Actual		For capital adequacy purposes	To be well capitalized under prompt corrective action provisions	
	-----		-----	-----	
			22		
	Amount	Percent	Amount	Percent	Amount
Tangible capital	\$ 21,530,000	20.9%	\$ 1,545,000	1.5%	\$ -
Tier I (core) capital	21,530,000	20.9	4,154,000	4.0	5,148,000
Risk based capital	21,799,000	44.6	3,912,000	8.0	4,890,000
Tier I risk-based capital	21,530,000	44.0	-	-	2,934,000

FEDERAL HOME LOAN BANK SYSTEM

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Des Moines, which is one of the 12 regional FHLBs. As a member of the FHLB, the Bank is required to purchase and maintain stock in the FHLB of Des Moines in an amount equal to the greater of 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year, or 1/20th (or such greater fraction as established by the FHLB) of outstanding FHLB advances. At December 31, 2002 the Bank had \$704,900 in FHLB stock, which was in compliance with this requirement. In past years the Bank has received dividends on its FHLB stock. Dividends for the year ended and at December 31, 2002, were

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2.97% and 2.99% respectively. Certain provisions of FIRREA require all 12 Federal Home Loan Banks to provide financial assistance for the resolution of troubled savings associations and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions could cause rates on the FHLB advances to increase and could affect adversely the level of FHLB dividends paid and the value of FHLB stock in the future.

PROMPT CORRECTIVE REGULATORY ACTION

Under the OTS Prompt Corrective Action regulations, the OTS is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of capitalization. Generally, a savings institution that has total risk-based capital of less than 8.0% or a leverage ratio or a Tier 1 core capital ratio that is less than 4.0% is considered to be undercapitalized. A savings institution that has total risk-based capital less than 6.0%, a Tier 1 core risk-based capital ratio of less than 3.0% or a leverage ratio that is less than 3.0% is considered to be "significantly undercapitalized" and a savings institution that has a tangible capital to assets ratio equal to or less than 2.0% is deemed to be "critically undercapitalized." The banking regulator is required to appoint a receiver or conservator for an institution that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the OTS within 45 days of the date an institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to the institution, including, but not limited to, restrictions on growth, investment activities, capital distributions, and affiliate transactions. The OTS could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

FEDERAL RESERVE SYSTEM

The Federal Reserve Board regulations require savings institutions to maintain non-interest-earning reserves against their transaction accounts (primarily NOW and regular checking accounts). The Bank is in compliance with the foregoing requirements. The balances maintained to meet the reserve requirements imposed by the FRB may be used to satisfy liquidity requirements imposed by the OTS.

23

HOLDING COMPANY REGULATION

GENERAL. WCF Financial, M.H.C. which owns the majority of the Company's common stock outstanding (the "Holding Company") and the Company are non-diversified mutual savings and loan holding companies. As such, the Holding Company and the Company are registered with the OTS and are subject to OTS regulations, examinations, supervision and reporting requirements. In addition, the OTS has enforcement authority over the Holding Company and the Company and their non-savings institution subsidiaries. Among other things, this authority permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution.

The OTS is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (i) the approval of interstate

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supervisory acquisitions by savings and loan holding companies, and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions.

Federal law prohibits a savings and loan holding company including the Holding Company and the Company, directly or indirectly, or through one or more subsidiaries, from acquiring another savings institution or holding company thereof, without prior written approval of the OTS. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a non-subsidiary savings institution, a non-subsidiary holding company, or a non-subsidiary company engaged in activities other than those permitted by federal law; or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the OTS must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

Federal law generally provides that no "person," acting directly or indirectly or through or in concert with one or more other persons, may acquire "control," as that term is defined in OTS regulations, of a federally-insured savings institution without giving at least 60 days written notice to the OTS and providing the OTS an opportunity to disapprove of the proposed acquisition. Such acquisitions of control may be disapproved if it is determined, among other things, that (i) the acquisition would substantially lessen competition; (ii) the financial condition of the acquiring person might jeopardize the financial stability of the savings institution or prejudice the interests of its depositors; or (iii) the competency, experience or integrity of the acquiring person or the proposed management personnel indicates that it would not be in the interest of the depositors or the public to permit the acquisition of control by such person.

RESTRICTIONS APPLICABLE TO MUTUAL HOLDING COMPANIES. Pursuant to federal law and OTS regulations and policy, a mutual holding company such as the Holding Company, and a mid-tier holding company, such as the Company may engage in the following activities: (i) investing in the stock of a savings association; (ii) acquiring a mutual association through the merger of such association into a savings association subsidiary of such holding company or an interim savings association subsidiary of such holding company; (iii) merging with or acquiring another holding company; one of whose subsidiaries is a savings association; (iv) investing in a corporation, the capital stock of which is available for purchase by a savings association under federal law or under the law of any state where the subsidiary savings association or associations share their home offices; (v) furnishing or performing management services for a savings association subsidiary of such company; (vi) holding, managing or liquidating assets owned or acquired from a savings subsidiary of such company; (vii) holding or managing properties used or occupied by a savings association subsidiary of such company; (viii) acting as trustee under deeds of trust; (ix) any other activity (A) that the Federal Reserve Board, by regulation, has determined to be permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act of 1956, unless the Director, by

regulation, prohibits or limits any such activity for savings and loan holding companies; or (B) in which multiple savings and loan holding companies were authorized (by regulation) to directly engage on March 5, 1987; and (x) purchasing, holding, or disposing of stock acquired in connection with a qualified stock issuance if the purchase of such stock by such savings and loan holding company is approved by the Director. If a mutual holding company

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acquires or merges with another holding company, the holding company acquired or the holding company resulting from such merger or acquisition may only invest in assets and engage in activities listed in (i) through (x) above, and has a period of two years to cease any non-conforming activities and divest of any non-conforming investments.

WAIVER OF DIVIDENDS. OTS regulations require the Holding Company, which owns the majority of the Company's common stock, to notify the OTS of any proposed waiver of its right to receive dividends. It is the OTS' recent practice to review dividend waiver notices on a case-by-case basis, and, in general, not object to any such waiver if: (i) the mutual holding company's board of directors determines that such waiver is consistent with such directors' fiduciary duties to the mutual holding company's members.

CONVERSION OF THE MUTUAL HOLDING COMPANY TO STOCK FORM. OTS regulations permit the Holding Company to convert from the mutual to the stock form of ownership (a "Conversion Transaction"). There can be no assurance when, if ever, a Conversion Transaction will occur. In a Conversion Transaction a new holding company would be formed as the successor to the Company (the "New Holding Company"), the Holding Company's corporate existence would end, and certain depositors of the Bank would receive the right to subscribe for additional shares of the New Holding Company. In a Conversion Transaction, each share of Common Stock held by the Company's public stockholders ("Minority Shareholders") would be automatically converted into a number of shares of common stock of the New Holding Company determined pursuant an exchange ratio that ensures that after the Conversion Transaction, subject to any adjustment to reflect the receipt of cash in lieu of fractional shares, the percentage of the to-be outstanding shares of the New Holding Company issued to Minority Stockholders in exchange for their Common Stock would be equal to the percentage of the outstanding shares of Common Stock held by Minority Stockholders immediately prior to the Conversion Transaction.

INSURANCE OF ACCOUNTS AND REGULATION BY THE FDIC

The Company is a member of the SAIF, which is administered by the FDIC. Deposits are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the United States Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OTS an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC's SAIF deposit insurance premiums are assessed through a risk-based system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums, ranging from .23% to .67% of deposits, based upon their level of capital and supervisory evaluation. Under the system, institutions classified as well capitalized (i.e., a core capital ratio of at least 5%, a ratio of Tier 1 or core capital to risk-weighted assets ("Tier 1 risk-based capital") of at least 6% and a risk-based capital ratio of at least 10%) and considered healthy pay the lowest premium while institutions that are less than adequately capitalized (i.e., core or Tier 1 risk-based capital ratios of less than 4% or a risk-based capital ratio of less than 8%) and considered of substantial supervisory concern pay the highest premium. Risk classification of all insured institutions will be made by the FDIC for each semi-annual assessment period.

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The FDIC is authorized to increase assessment rates, on a semiannual basis, if it determines that the reserve ratio of the SAIF will be less than the designated reserve ratio of 1.25% of SAIF insured deposits. In setting these increased assessments, the FDIC must seek to restore the reserve ratio to that designated reserve level, or such higher reserve ratio as established by the FDIC. The FDIC may also impose special assessments on SAIF members to repay amounts borrowed from the United States Treasury or for any other reason deemed necessary by the FDIC. The Company anticipates that its ongoing annual SAIF premiums will be approximately \$12,900.

FEDERAL SECURITIES LAW

Shares of the Company's common stock are registered with the SEC under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company is also subject to the proxy rules, tender offer rules, insider trading restrictions, annual and periodic reporting, and other requirements of the Exchange Act.

THE USA PATRIOT ACT

In response to the events of September 11, 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act, was signed into law on October 26, 2001. The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other requirements, Title III of the USA PATRIOT Act imposes the following requirements with respect to financial institutions:

- o Pursuant to Section 352, all financial institutions must establish anti-money laundering programs that include, at minimum: (i) internal policies, procedures, and controls; (ii) specific designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program.
- o Section 326 authorizes the Secretary of the Department of Treasury, in conjunction with other bank regulators, to issue regulations by October 26, 2002 that provide for minimum standards with respect to customer identification at the time new accounts are opened.
- o Section 312 requires financial institutions that establish, maintain, administer, or manage private banking accounts or correspondence accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) to establish appropriate, specific, and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering.
- o Financial institutions are prohibited from establishing, maintaining, administering or managing correspondent accounts for

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foreign shell banks (foreign banks that do not have a physical presence in any country), and will be subject to certain record keeping obligations with respect to correspondent accounts of foreign banks.

26

- o Bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

The federal banking agencies have begun to propose and implement regulations pursuant to the USA PATRIOT Act. These proposed and interim regulations would require financial institutions to adopt the policies and procedures contemplated by the USA PATRIOT Act.

SARBANES-OXLEY ACT OF 2002

On July 30, 2002, the President signed into law the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), which implemented legislative reforms intended to address corporate and accounting fraud. In addition to the establishment of a new accounting oversight board that will enforce auditing, quality control and independence standards and will be funded by fees from all publicly traded companies, Sarbanes-Oxley places certain restrictions on the scope of services that may be provided by accounting firms to their public company audit clients. Any non-audit services being provided to a public company audit client will require pre-approval by the company's audit committee. In addition, Sarbanes-Oxley makes certain changes to the requirements for audit partner rotation after a period of time. Sarbanes-Oxley requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the Securities and Exchange Commission, subject to civil and criminal penalties if they knowingly or willingly violate this certification requirement. The Company's Chief Executive Officer and Chief Financial Officer have signed certifications to this Form 10-K as required by Sarbanes-Oxley. In addition, under Sarbanes-Oxley, counsel will be required to report evidence of a material violation of the securities laws or a breach of fiduciary duty by a company to its chief executive officer or its chief legal officer, and, if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

Under Sarbanes-Oxley, longer prison terms will apply to corporate executives who violate federal securities laws; the period during which certain types of suits can be brought against a company or its officers is extended; and bonuses issued to top executives prior to restatement of a company's financial statements are now subject to disgorgement if such restatement was due to corporate misconduct. Executives are also prohibited from trading the company's securities during retirement plan "blackout" periods, and loans to company executives (other than loans by financial institutions permitted by federal rules and regulations) are restricted. In addition, a provision directs that civil penalties levied by the Securities and Exchange Commission as a result of any judicial or administrative action under Sarbanes-Oxley be deposited to a fund for the benefit of harmed investors. The Federal Accounts for Investor Restitution provision also requires the Securities and Exchange Commission to develop methods of improving collection rates. The legislation accelerates the time frame for disclosures by public companies, as they must immediately disclose any material changes in their financial condition or operations. Directors and executive officers must also provide information for most changes in ownership in a company's securities within two business days of the change.

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Sarbanes-Oxley also increases the oversight of, and codifies certain requirements relating to audit committees of public companies and how they interact with the company's "registered public accounting firm." Audit committee members must be independent and are absolutely barred from accepting consulting, advisory or other compensatory fees from the issuer. In addition, companies must disclose whether at least one member of the committee is a "financial expert" (as such term is defined by the Securities and Exchange Commission) and if not, why not. Under Sarbanes-Oxley, a company's registered public accounting firm is prohibited from performing statutorily mandated audit services for a company if such company's chief executive officer, chief financial officer, comptroller, chief accounting officer or any person serving in equivalent positions had been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date. Sarbanes-Oxley also

27

prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent accountant engaged in the audit of the company's financial statements for the purpose of rendering the financial statements materially misleading. Sarbanes-Oxley also requires the Securities and Exchange Commission to prescribe rules requiring inclusion of any internal control report and assessment by management in the annual report to shareholders. Sarbanes-Oxley requires the company's registered public accounting firm that issues the audit report to attest to and report on management's assessment of the company's internal controls.

Although we anticipate that we will incur additional expense in complying with the provisions of the Sarbanes-Oxley Act and the resulting regulations, management does not expect that such compliance will have a material impact on our results of operations or financial condition.

FEDERAL AND STATE TAXATION

FEDERAL TAXATION

For federal income tax purposes, the Company and its subsidiaries file a consolidated federal income tax return on a calendar year basis. The Holding Company is not permitted to file a consolidated federal income tax return with the Company. Thus, the Holding Company files a separate federal income tax return on a calendar year basis.

The Holding Company and the Company are subject to the rules of federal income taxation generally applicable to corporations under the Internal Revenue Code of 1986, as amended (the "Code"). As a result of the enactment of the Small Business Job Protection Act of 1996, all savings banks and savings associations will be able to convert to a commercial bank charter, diversify their lending, or be merged into a commercial bank without having to recapture any of their pre-1998 tax bad debt reserve accumulations. Any post-1987 reserves will be subject to recapture, regardless of whether or not a particular thrift intends to convert its charter, be acquired, or diversify its activities. The recapture tax on post-1987 reserves is assessed in equal installments over the six year period beginning in 1996. However, if a thrift meets a minimum level of mortgage lending test (i.e., if the thrift's level of mortgage lending activity (re-financing and home equity loans do not count) is equal to or exceeds its average mortgage lending activity for the six years preceding 1996, adjusted for inflation), then the thrift may suspend its tax bad debt recapture for the 1996 and 1997 tax years. At December 31, 2002 and 2001, the Bank had federal income tax bad debt reserves of approximately \$2.4 million, which constitute allocations to bad debt reserves for federal income tax purposes for which no

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provision for taxes on income had been made.

Savings institutions such as Bank that meet certain definitional tests relating to the composition of assets and other prescribed by the Code are permitted to establish reserves for bad debts and to make annual additions which may, within specified formula limits, be taken as a deduction in computing taxable income for federal income tax purposes. The amount of the bad debt reserve deduction is computed under the experience method.

If a savings institution ceases to qualify as a "bank" (as defined in Code Section 581) for bad debt purposes or converts to a credit union, the pre-1988 reserves and the supplemental reserves are restored to income ratably over a six-year period, beginning in the tax year the savings institution no longer qualifies as a bank. The pre-1988 reserves are also subject to recapture in the case of certain excess distributions including distributions on liquidation and dissolution and redemptions of shareholders.

In addition to the regular income tax the Company is generally subject to a minimum tax calculation. An alternative minimum tax is imposed at a minimum tax rate of 20% on alternative minimum taxable income, which is the sum of a corporation's

28

regular taxable income (which certain adjustments) and tax preference items, less any available exemption. The alternative minimum tax is imposed to the extent it exceeds Company's regular income tax and net operating losses can offset no more than 90% of alternative minimum income.

The Company is accounting for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." The liability method accounts for deferred income taxes by applying the enacted statutory rates in effect at the balance sheet date to differences between the book cost and the tax cost of assets and liabilities. The resulting deferred tax liabilities and assets are adjusted to reflect changes in tax laws. SFAS 109 was implemented by the Company effective January 1, 1993.

The Company has not been audited by the Internal Revenue Service or the State of Iowa within the past five years.

IOWA TAXATION

The Company files an Iowa corporate tax return, the Bank files an Iowa franchise tax return, and the Bank's subsidiary files an Iowa corporation tax return on a calendar year basis. The Holding Company files an Iowa corporate tax return on a calendar year basis.

The State of Iowa imposes a tax on the Iowa franchise taxable income of savings institutions at the rate of 5%. Iowa franchise taxable income is generally similar to federal taxable income except that interest from state and municipal obligations is taxable, and no deduction is allowed for state franchise taxes. The state corporation income tax ranges from 6% to 12% depending upon Iowa corporation taxable income. Interest from federal securities is not taxable for purposes of the Iowa corporation income tax.

ITEM 2. PROPERTIES

(a) The Company conducts its business through two facilities located in Webster City, Hamilton County, Iowa. Webster City Federal Savings Bank is located at 820 Des Moines Street. Security Title and Abstract, Inc, is located at 730 Second Street. At December 31, 2002, the net book value of the Company's

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property and equipment was \$726,135.

(b) INVESTMENT POLICIES. For a description of the Company's policies (all of which may be changed without a vote of the Company's security holders) and the limitations on the percentage of assets which may be invested in any one investment, or type of investment with respect to: (1) investments in real estate or interests in real estate; (2) investments in real estate mortgages; and (3) securities of or interests in persons primarily engaged in real estate activities, reference is made hereunder to the information presented above under "Item 1. Description of Business."

(c) DESCRIPTION OF REAL ESTATE AND OPERATING DATA. Not Applicable; the book value of each of the Company's properties is less than 10% of the Company's total consolidated assets at December 31, 2002.

ITEM 3. LEGAL PROCEEDINGS

The Company is periodically involved in claims and lawsuits that are incident to the Company's business. As of December 31, 2002, the Company was not involved in any material claim or lawsuit.

29

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

No matters were submitted during the fourth quarter of the year ended December 31, 2002 to a vote of security holders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

For information concerning the market for the Company's common stock, the section captioned "Stockholder Information--Stock Listing" and "--Price Range of Common Stock and Dividends Paid" of the Company's Annual Report to Stockholders for the Year Ended December 31, 2002 (the "Annual Report to Stockholders") is incorporated herein by reference.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the Company's Annual Report to Stockholders is incorporated herein by reference.

ITEM 7. FINANCIAL STATEMENTS

Pages 14-40 of the Company's 2002 Annual Report to Stockholders are incorporated herein by reference.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in or disagreements with accountants in the Company's accounting and financial disclosure during 2002.

PART III

30

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Information concerning Directors of the Company and concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated herein by reference from the Company's definitive Proxy Statement dated March 14, 2003 (the "Proxy Statement"), specifically the section captioned "Proposal I--Election of Directors. The following table sets forth information as of December 31, 2002, with respect to the executive officers of the Company.

NAME	AGE	OCCUPATION
Phyllis A. Murphy	52	President and Chief Executive Officer
Stephen L. Mourlam	50	Executive Vice President and Chief Financial Officer
Kyle R. Swon	41	Senior Vice President and Chief Lending Officer

ITEM 10. EXECUTIVE COMPENSATION

Information concerning executive compensation is incorporated herein by reference from the Company's Proxy Statement, specifically the sections captioned "Proposal I--Election of Directors--Executive Compensation," "--Directors' Compensation," and "--Benefits."

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information concerning security ownership of certain owners and management is incorporated herein by reference from the Company's Proxy Statement, specifically the section captioned "Voting Securities and Principal Holders Thereof."

ITEM 12. CERTAIN TRANSACTIONS

Information concerning relationships and transactions is incorporated herein by reference from page 9 of the Company's Proxy Statement.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3.1 Federal Stock Charter of Webster City Federal Bancorp (Incorporated by reference to Exhibit 3.1 of the Company's Form 8-KSB as filed on July 1, 1999.

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- 3.2 Bylaws of Webster City Federal Bancorp (Incorporated by reference to Exhibit 3.2 of the Company's Form 8-KSB as filed on July 1, 1999.

31

- 4 Common Stock Certificate of the Company (Incorporated by reference to Exhibit 4 of the Company's Form 8-KSB, as filed on July 1, 1999.
- 10.1.A Severance Agreement, as amended between the Company, the Bank and Phyllis A. Murphy, President and Chief Executive Officer as originally filed with the December 2000, 10-KSB.
- 10.1.B Severance Agreement, as amended between the Company, the Bank and Stephen L. Mourlam, Executive Vice President and Chief Financial Officer as originally filed with the December 2000, 10-KSB.
- 10.1.C Severance Agreement, as amended between the Company, the Bank and Kyle R. Swon, Senior Vice President and Chief Lending Officer as originally filed with the December 2000, 10-KSB..
- 13 2002 Annual Report to Stockholders
- 21 Subsidiaries of the Registrant
- 99.1 Certification of Chief Executive Officer and Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (b) REPORTS ON FORM 8-K:
- The Registrant filed no Current Report on Form 8-K during the fourth quarter of 2002.

ITEM 14. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14(c) under the Exchange Act) as of a date (the "Evaluation Date") within 90days prior to the filling of this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic SEC filings.

(b) Change in internal controls.

There were no significant changes made in our internal controls during the period covered by this report or, to our knowledge, in other factors that could significantly affect these controls subsequent to the date of the evaluation.

See the Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, which immediately precedes the signature page.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Phyllis A. Murphy, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of Webster City Federal Bancorp;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal

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controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date

Phyllis A. Murphy
President and Chief Executive Officer

33

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen L. Mourlam, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of Webster City Federal Bancorp;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

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- a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date

Stephen L. Mourlam
Executive Vice President and
Chief Financial Officer

34

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WEBSTER CITY FEDERAL BANCORP

Date: March 21, 2003

By: /s/

Phyllis A. Murphy
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/

Phyllis A. Murphy, President, Chief
Executive Officer and Director
(Principal Executive Officer)

By: /s/

Stephen L. Mourlam,
Executive Vice President and Director
(Principal Financial and Accounting
Officer)

Date: March 21, 2003

Date: March 21, 2003

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By: /s/ _____ Dr. Carroll E. Haynes, Chairman of the Board Date: March 21, 2003	By: /s/ _____ Donald I. Newman, Director Date: March 21, 2003
By: /s/ _____ Dennis J. Tasler, Director Date: March 21, 2003	By: /s/ _____ Dr. Leo Moriarty, Director Date: March 21, 2003
By: /s/ _____ Kyle R. Swon, Senior Vice President and Director Date: March 21, 2003	

35

EXHIBIT 13

2002 ANNUAL REPORT TO STOCKHOLDERS

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

PARENT COMPANY -----	SUBSIDIARY COMPANY -----	STATE OF INCORPORATION -----
Webster City Federal	Bancorp Webster City Federal Savings Bank	Federal
Webster City Federal Savings	WCF Service Corporation	Iowa
Webster City Federal Bancorp	Security Title & Abstract	Iowa

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EXHIBIT 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Phyllis A. Murphy, President and Chief Executive Officer and Stephen L. Mourlam, Executive Vice President and Chief Financial Officer of Webster City Federal Bancorp ("the Company") each certify in their capacity as an officer of the Company that they have reviewed the annual report of the Company on Form 10-KSB for the fiscal year ended December 31, 2002 and that to the best of their knowledge:

(1) the report fully complies with the requirements of Sections 13(a) of the Securities Exchange Act of 1934; and

(2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

Date

Phyllis A. Murphy
President and Chief Executive Officer

Date

Stephen L. Mourlam
Executive Vice President,
Chief Financial Officer