COMMERCIAL FEDERAL CORP
Form 10-Q
November 14, 2001

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

FORM 10-Q

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

For the Quarterly period ended September 30, 2001

OR

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

Commission file number 1-11515

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

Nebraska	47-0658852
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification Number)
13220 California Street, Omaha, Nebraska	68154
(Address of principal executive offices)	(Zip Code)

(402) 554-9200
(Registrant's telephone number, including area code)

Not Applicable

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

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

YES X NO ___

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Title of Each Class	Outstanding at November 5, 2001
Common Stock, Par Value $.01 Per Share	46,367,155

COMMERCIAL FEDERAL CORPORATION

FORM 10-Q

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COMMERCIAL FEDERAL CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

(Dollars in Thousands)	September 30, 2001
	(Unaudited)
ASSETS	
Cash (including short-term investments of $887 and $1,283)	$ 162,903
Investment securities available for sale, at fair value	1,075,632
Mortgage-backed securities available for sale, at fair value	1,780,174
Loans and leases held for sale, net	404,121
Loans receivable, net of allowances of $99,665 and $82,263	8,230,164
Federal Home Loan Bank stock	238,846
Real estate, net	59,624
Premises and equipment, net	158,433
Bank owned life insurance	211,100
Other assets	465,776
Intangible assets, net of accumulated amortization of $82,213 and $70,502	195,251
Total Assets	$12,982,024
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits	$ 6,696,718
Advances from Federal Home Loan Bank	4,728,515
Other borrowings	414,567
Other liabilities	396,565
Total Liabilities	12,236,365

Commitments and Contingencies	--
Stockholders' Equity:	
Preferred stock, $.01 par value; 10,000,000 shares authorized; none issued	--
Common stock, $.01 par value; 120,000,000 shares authorized; 48,027,251 and 53,208,628 shares issued and outstanding	480
Additional paid-in capital	133,652
Retained earnings	683,715
Accumulated other comprehensive loss, net	(72,188)
Total Stockholders' Equity	745,659
Total Liabilities and Stockholders' Equity	$12,982,024

See accompanying Notes to Consolidated Financial Statements.

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COMMERCIAL FEDERAL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

(Dollars in Thousands)	Three Months Ended September 30,	
	2001	2000
Interest Income:		
Loans receivable	$170,059	$208,50
Mortgage-backed securities	27,739	20,87
Investment securities	20,116	22,33
Total interest income	217,914	251,71
Interest Expense:		
Deposits	73,438	89,28
Advances from Federal Home Loan Bank	60,716	78,09
Other borrowings	5,533	3,78
Total interest expense	139,687	171,16

Net Interest Income	78,227	80,55
Provision for Loan Losses	(19,800)	(12,64
Net Interest Income After Provision for Loan Losses	58,427	67,90
Other Income (Loss):		
Retail fees and charges	13,428	12,74
Loan servicing fees, net	(12,636)	5,98
Gain (loss) on sales of securities and changes in fair value of derivatives, net	15,438	(3,26
Gain (loss) on sales of loans	3,395	(1
Real estate operations	(1,429)	(89
Other operating income	11,234	6,88
Total other income	29,430	21,43
Other Expense:		
General and administrative expenses -		
Compensation and benefits	26,763	27,04
Occupancy and equipment	9,331	9,36
Data processing	4,398	4,73
Advertising	2,793	3,52
Communication	3,436	3,72
Item processing	4,216	4,09
Outside services	2,129	2,46
Other operating expenses	7,534	5,46
Exit costs and termination benefits	(11,043)	22,96
Total general and administrative expenses	49,557	83,38
Amortization of core value of deposits	1,692	1,95
Amortization of goodwill	1,980	2,12
Total other expense	53,229	87,46
Income Before Income Taxes and Cumulative Effect		

of Change in Accounting Principle	34,628	1,8
Provision for Income Taxes	10,646	4,57
Income (Loss) Before Cumulative Effect of Change in Accounting Principle	23,982	(2,70
Cumulative Effect of Change in Accounting Principle, Net of Tax Benefit	--	(19,12
Net Income (Loss)	$ 23,982	$(21,82

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COMMERCIAL FEDERAL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS (Continued)
(Unaudited)

	Three Months Ended September 30,	
	2001	2000
Weighted Average Number of Common Shares Outstanding Used in Basic Earnings Per Share Calculation	49,692,109	55,454,067
Assumed Exercise of Outstanding Stock Options as Adjustments for Dilutive Securities	577,275	--(1
Weighted Average Number of Common Shares Outstanding Used in Diluted Earnings Per Share Calculation	50,269,384	55,454,067
Basic Earnings (Loss) Per Common Share:		
Income (loss) before cumulative effect of change in accounting principle	$ .48	$ (.04)
Cumulative effect of change in accounting principle, net	--	(.35)
Net income (loss)	$ .48	$ (.39)
Diluted Earnings (Loss) Per Common Share:		
Income (loss) before cumulative effect of change in accounting principle	$ .48	$ (.04)
Cumulative effect of change		

in accounting principle, net	--	(.35)
Net income (loss)	$ .48	$ (.39)
Dividends Declared Per Common Share	$ .08	$ .07

(1) The incremental shares from the assumed exercise of outstanding stock options are not included in computing the diluted loss per share for the three months ended September 30, 2000, since the effect of such stock options would have been antidilutive for this period.

See accompanying Notes to Consolidated Financial Statements.

COMMERCIAL FEDERAL CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

(Dollars in Thousands)	Three Months Ended September 30,	
	2001	
Net Income (Loss)	$ 23,982	$(2
Other Comprehensive Income (Loss):		
Unrealized holding gains on securities available for sale	54,724	2
Fair value adjustment on interest rate swap agreements	(126,556)	(3
Fair value change in interest only strips	(314)	
Reclassification of net losses (gains) included in net income (loss) pertaining to:		
Securities sold	(13,202)	
Amortization of interest only strips	277	
Amortization of fair value adjustments of interest rate swap agreements	509	
Other Comprehensive Loss Before Income Taxes and Cumulative		
Effect of Change in Accounting Principle	(84,562)	(
Income Tax Benefit	(29,775)	(

Other Comprehensive Loss Before Cumulative Effect of Change in Accounting Principle	(54,787)	(
Cumulative Effect of Change in Accounting Principle, Net of Tax Benefit	--	(3
Other Comprehensive Loss	(54,787)	(3
Comprehensive Income (Loss)	$ (30,805)	$(5

See accompanying Notes to Consolidated Financial Statements.

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COMMERCIAL FEDERAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(Dollars in Thousands)	Nine Months September
	2001
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 72,566
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Cumulative effect of change in accounting principle, net	--
Amortization of intangible assets	11,732
Provision for losses on loans and real estate	32,838
Depreciation and amortization	14,237
Amortization (accretion) of deferred discounts and fees, net	(1,301)
Amortization of mortgage servicing rights	11,963
Valuation adjustment of mortgage servicing rights	23,041
Gain on sales of real estate and loans, net	(2,129)
(Gain) loss on sales of securities	(22,926)
Gain on sale of branches	(15,556)

Proceeds from sales of mortgage-backed securities - trading	--
Proceeds from sales of investment securities - trading	--
Proceeds from sales of loans	2,026,843
Origination of loans for resale	(636,031)
Purchases of loans for resale	(1,582,984)
Increase in bank owned life insurance	(10,387)
Decrease (increase) in interest receivable	13,423
Increase in interest payable and other liabilities	155,179
Other items, net	(223,814)
Total adjustments	(205,872)
Net cash (used) provided by operating activities	(133,306)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of loans	(342,606)
Repayment of loans, net of originations	632,992
Proceeds from sales of mortgage-backed securities available for sale	102,131
Principal repayments of mortgage-backed securities available for sale	446,592
Purchases of mortgage-backed securities available for sale	(760,598)
Principal repayments of mortgage-backed securities held to maturity	--
Purchases of mortgage-backed securities held to maturity	--
Maturities and principal repayments of investment securities available for sale	112,259
Proceeds from sales of investment securities available for sale	840,589
Purchases of investment securities available for sale	(1,216,306)
Maturities and repayments of investment securities held to maturity	--
Purchases of investment securities held to maturity	--
Purchases of mortgage loan servicing rights	(19,686)
Purchases of Federal Home Loan Bank stock	(57,049)
Proceeds from sales of Federal Home Loan Bank stock	69,739
Proceeds from sales of real estate	19,442
Payments to acquire real estate	(782)

Disposition (purchase) of premises and equipment, net	10,096
Other items, net	(2,868)
Net cash provided (used) by investing activities	(166,055)

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COMMERCIAL FEDERAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
(Unaudited)

(Dollars in Thousands)	20
CASH FLOWS FROM FINANCING ACTIVITIES	
(Decrease) increase in deposits	$ (99
Proceeds from Federal Home Loan Bank advances	1,40
Repayments of Federal Home Loan Bank advances	(24
Proceeds from securities sold under agreements to repurchase	14
Repayments of securities sold under agreements to repurchase	(4
Proceeds from issuance of other borrowings	15
Repayments of other borrowings	(1
Payments of cash dividends on common stock	(1
Repurchases of common stock	(12
Issuance of common stock	
Other items, net	
Net cash provided by financing activities	26
CASH AND CASH EQUIVALENTS	
Increase (decrease) in net cash position	(2
Balance, beginning of year	19

Balance, end of period	$ 16
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid (received) during the period for:	
Interest expense	$ 44
Income taxes, net	
Non-cash investing and financing activities:	
Securities transferred from held-to-maturity to trading	
Securities transferred from held-to-maturity to available for sale	
Loans exchanged for mortgage-backed securities	3
Loans transferred to real estate	3
Loans to facilitate the sale of real estate	
Common stock received in connection with employee benefits plan, net	

See accompanying Notes to Consolidated Financial Statements.

COMMERCIAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001
(Unaudited)

(Columnar Dollars in Footnotes are in Thousands Except Per Share Amounts)

A. BASIS OF CONSOLIDATION AND PRESENTATION:

The unaudited consolidated financial statements are prepared on an accrual basis and include the accounts of Commercial Federal Corporation (the "Corporation"), its wholly-owned subsidiary, Commercial Federal Bank, a Federal Savings Bank (the "Bank"), and all majority-owned subsidiaries of the Corporation and Bank. All significant intercompany balances and transactions have been eliminated. Certain amounts in the prior year periods have been reclassified for comparative purposes.

The accompanying interim consolidated financial statements have not been audited by independent auditors. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to fairly present the financial statements have been included. The consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Corporation's Transition Report on Form 10-K for the six month transition period ended December 31, 2000. The results of operations for the three and nine months ended September 30, 2001, are not necessarily indicative of the results which may be expected for the entire calendar year 2001.

B. MORTGAGE BANKING ACTIVITIES:

The Corporation's mortgage banking subsidiary services real estate loans for investors that are not included in the accompanying consolidated financial statements. Mortgage servicing rights are established based on the cost of acquiring the right to service mortgage loans or the allocated fair value of servicing rights retained on originated loans sold. The mortgage banking subsidiary also services a substantial portion of the Corporation's real estate loan portfolio.

Mortgage servicing rights are included in the Consolidated Statement of Financial Condition under the caption "Other Assets." The activity of mortgage servicing rights, including related derivative activity, is summarized as follows for the following periods:

	Three Months Ended September 30,	
	2001	2000
Beginning balance	$117,647	$86,371
Purchases of mortgage servicing rights	6,401	3,808
Mortgage servicing rights retained through loan sales	3,672	1,293
Amortization expense	(5,000)	(2,094)
Valuation adjustment	(17,385)	--
Other items, net (principally derivative activity)	2,729	(302)
Ending balance	$108,064	$89,076

At September 30, 2001, the Corporation's mortgage servicing rights consist of the following:

Unamortized cost of mortgage servicing rights	
Valuation allowance for impairment losses	
Carrying value of mortgage servicing rights, net	
Fair value of related interest rate floor agreements	
Reported balance	

The fair value of the Corporation's mortgage servicing rights totaled approximately $106,697,000 at September 30, 2001 compared to $133,454,000 at December 31, 2000. The valuation allowance for impairment losses totaled $23,624,000 at September 30, 2001 compared to $583,000 at December 31, 2000.

B. MORTGAGE BANKING ACTIVITIES (Continued):

The following compares the key assumptions used in measuring the fair values and the sensitivity of the fair values of mortgage servicing rights at the periods presented:

	September 30, 2001	
	Conventional	Governmental
Fair value	$ 54,339	$ 52,358
Prepayment speed	8.3% - 77.2%	7.8% - 98.0%
Weighted average prepayment speed	19.8%	19.2%
Discount rate	9.4% - 14.0%	10.0% - 10.6%

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the table, the effect of a variation in a particular assumption on the fair value of the mortgage servicing rights is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses) which might magnify or counteract the sensitivities. Further, these sensitivities show only the change in the asset balances and do not show any expected changes in the fair value of instruments used to manage the prepayment risks associated with these assets or what actions management may take to offset any adverse valuation adjustments.

C. EXIT COSTS AND TERMINATION BENEFITS:

On August 14, 2000, the Board of Directors approved a series of strategic initiatives aimed at improving the overall operations of the Corporation. Key initiatives included a complete balance sheet review, a thorough assessment of the Bank's delivery and servicing systems, the sale of the underperforming leasing company, an acceleration of the disposition of other real estate owned and a management restructuring. The balance sheet restructuring was completed during the six months ended December 31, 2000.

The Corporation announced that 49 branches would either be sold or consolidated. As of September 30, 2001, twelve branches have been closed or consolidated and 26 branches sold. Purchase agreements on the remaining branches to be sold have been completed, and are scheduled to close in the fourth quarter of 2001, except for four branches in Minnesota with $20.6 million in total deposits which are being reoffered for sale. During the three and nine months ended September 30, 2001, the Corporation realized net gains totaling $11,483,000 and $15,556,000, respectively, relating to the branches sold. These gains were from the premiums received on the sales of deposits, loans and fixed assets and were recorded as a credit to the expense category "Exit Costs and Termination Benefits" during the three and nine months ended September 30, 2001. For the three and nine months ended September 30, 2001, the Corporation recorded net pre-tax credits totaling $11,043,000 and $13,040,000, respectively, to exit costs and termination benefits. This net credit is primarily due to the premiums received on the deposits sold partially offset by severance costs and expenses associated with right-sizing the branches and expenses to exit leasing operations.

A substantial portion of the leasing portfolio was sold on February 28, 2001 with the closing of the transaction on April 9, 2001. Additional expenses to finalize this transaction totaling $754,000 were recorded during the three months ended March 31, 2001.

Exit costs and termination benefits totaling $22,968,000 were recorded during the quarter ended September 30, 2000 pertaining to these August 2000 initiatives. During the three months ended September 30, 2000 the Corporation recorded a pre-tax charge of $16,992,000 related to exit costs and write-offs of intangible assets associated with the divestitures of the 49 branches to be sold or consolidated. The leasing portfolio was reclassified to held for sale during the September 30, 2000 quarter resulting in recording an adjustment to fair value and additional expenses totaling $4,983,000. In addition, the Corporation recorded $1,971,000 relating to the outplacement of personnel consisting of severance, benefits and related professional services. The Corporation also incurred fees totaling $1,546,000 for consulting services. These costs were related to the identification and implementation of the Corporation's key strategic initiatives.

C. EXIT COSTS AND TERMINATION BENEFITS (Continued):

Total exit costs and termination benefits are summarized below for the following periods:

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000
Branch right-sizing costs	$ 440	$16,992
Exiting leasing operations	--	4,983
Management restructuring and personnel outplacement	--	1,971
Consulting services	--	1,546
Various other charges	--	--
	440	25,492
Less net gains on the sales of branches	(11,483)	(2,524)
Total exit costs and termination benefits	$(11,043)	$22,968

D. COMMON STOCK REPURCHASES:

On May 7, 2001, the Board of Directors authorized the Corporation's fourth stock repurchase program. This repurchase program consists of 5,000,000 shares of the Corporation's outstanding common stock to be completed no later than December 31, 2002. Repurchases can be made at any time and in any amount, depending upon market conditions and various other factors. Any repurchase generally will be on the open-market, although privately negotiated transactions are also possible. In compliance with Nebraska law, all repurchased shares will be cancelled. Repurchases under this program began August 9, 2001 after the Corporation's third repurchase program of 5,500,000 shares was completed on August 8, 2001. For the three months ended September 30, 2001, there were 2,694,000 shares repurchased at a cost of $65,437,000. For the nine months ended September 30, 2001, there were 5,516,600 shares repurchased at a cost of $127,729,000.

The following table details of the Corporation's common stock repurchases since April 1999:

	Shares of Common Stock	Cost
First authorization on April 28, 1999 (completed December 1999)	3,000,000	$ 66,007
Second authorization on December 27, 1999 (completed August 2000)	3,000,000	46,395
Third authorization on August 14, 2000 (completed August 8, 2001)	5,500,000	114,102
Fourth authorization on May 7, 2001 (through September 30, 2001)	2,055,500	50,291
Totals through September 30, 2001	13,555,500	$276,795

E. COMMITMENTS AND CONTINGENCIES:

At September 30, 2001, the Corporation's outstanding commitments, excluding undisbursed portions of loans in process, were as follows:

Originate residential mortgage loans	$161,277
Purchase residential mortgage loans	78,706
Originate commercial real estate loans	157,331
Originate consumer, commercial operating and agricultural loans	18,340
Unused lines of credit for commercial and consumer use	177,340
Purchase investment securities	101,980

Purchase mortgage-backed securities	3,039
	$698,013

Loan commitments, which are funded subject to certain limitations, extend over various periods of time. Generally, unused loan commitments are cancelled upon expiration of the commitment term as outlined in each individual contract. These outstanding loan commitments to extend credit do not necessarily represent future cash requirements since many of the commitments may expire without being drawn upon. At September 30, 2001, the Corporation had approximately $514,000,000 in mandatory forward delivery commitments to sell residential mortgage loans. At September 30, 2001, loans sold subject to recourse provisions totaled approximately $9,366,000 which represents the total potential credit risk associated with these particular loans. Any credit risk would, however, be offset by the value of the single-family residential properties that collateralize these loans.

The Corporation is subject to a number of lawsuits and claims for various amounts which arise out of the normal course of its business. In the opinion of management, the disposition of claims currently pending will not have a material adverse effect on the Corporation's financial position or results of operations.

On September 12, 1994, the Bank and the Corporation commenced litigation relating to supervisory goodwill against the United States in the United States Court of Federal Claims seeking to recover monetary relief for the government's refusal to honor certain contracts that it had entered into with the Bank. The suit alleges that such governmental action constitutes a breach of contract and an unlawful taking of property by the United States without just compensation or due process in violation of the Constitution of the United States. The Corporation and the Bank are pursuing alternative damage claims of up to approximately $230,000,000. The Bank also assumed a lawsuit in the merger with Mid Continent Bancshares, Inc. ("Mid Continent"), against the United States also relating to a supervisory goodwill claim filed by the former Mid Continent. The litigation status and process of these legal actions, as well as that of numerous actions brought by others alleging similar claims with respect to supervisory goodwill and regulatory capital credits, make the value of the claims asserted by the Bank (including the Mid Continent claim) uncertain as to their ultimate outcome, and contingent on a number of factors and future events which are beyond the control of the Bank, both as to substance, timing and the dollar amount of damages that may be awarded to the Bank and the Corporation if they finally prevail in this litigation.

F. SEGMENT INFORMATION:

The Corporation identifies two distinct lines of business operations for the purposes of management reporting: Community Banking and Mortgage Banking. These segments were determined based on the Corporation's financial accounting and reporting processes. Management makes operating decisions and assesses performance based on a continuous review of these two primary operations.

The Community Banking segment involves a variety of traditional banking and financial services. These services include retail banking services, consumer checking and savings accounts, and loans for consumer, commercial real estate, residential mortgage and business purposes. Also included in this segment is insurance and securities brokerage services. The Community Banking services are offered through the Bank's branch network, ATMs, 24-hour telephone centers and the Internet. Community Banking is also responsible for the Corporation's investment and mortgage-backed securities portfolios and the corresponding management of deposits, advances from the Federal Home Loan Bank ("FHLB") and certain other borrowings.

The Mortgage Banking segment involves the origination and purchase of residential mortgage loans, the sale of these mortgage loans in the secondary mortgage market, the servicing of mortgage loans and the purchase and origination of rights to service mortgage loans. Mortgage Banking operations are conducted through the Bank's branches, offices of a mortgage banking subsidiary and a nationwide correspondent network of mortgage loan originators. The Bank allocates expenses to the Mortgage Banking operation on terms that are not necessarily indicative of those which would be negotiated between unrelated parties. The Mortgage Banking segment also originates and sells loans to the Bank. Substantially all loans sold to the Bank from the Mortgage Banking operation are at net book value, resulting in no gains or losses.

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F. SEGMENT INFORMATION (Continued):

The parent company includes interest income earned on intercompany cash balances and intercompany transactions, interest expense on parent company debt and operating expenses for general corporate purposes. The contributions of the major business segments to the consolidated results for the three and nine months ended September 30, 2001 and 2000 are summarized in the following tables:

	Community Banking	Mortgage Banking	Parent Company	Eliminations Adjustments
Three Months Ended September 30, 2001:				
Net interest income (expense)	$ 72,741	$ 3,922	$(3,031)	$ 4,59
Provision for loan losses	(19,665)	(135)	--	-
Non-interest income	32,251	(2,076)	26,175	(26,92
Total other expense	43,991	9,192	76	(3
Net income	26,956	(4,663)	23,982	(22,29
Total revenue	242,185	1,846	26,175	(22,86
Intersegment revenue	(12,457)	11,858	26,100	(25,50
Three Months Ended September 30, 2000:				
Net interest income (expense)	$ 73,642	$ 3,616	$(3,644)	$ 6,93
Provision for loan losses	(12,402)	(246)	--	-
Non-interest income	17,727	12,792	(19,214)	10,13
Total other expense	80,403	6,875	217	(3
Net income (loss)	(22,394)	5,294	(21,826)	17,10
Total revenue	260,664	16,408	(19,095)	15,17
Intersegment revenue	5,295	6,387	(19,643)	7,96
Nine Months Ended September 30, 2001:				
Net interest income (expense)	$211,014	$ 9,416	$(9,875)	$ 14,78
Provision for loan losses	(30,210)	(470)	--	-
Non-interest income	95,140	12,433	80,010	(98,09
Total other expense	157,653	20,731	922	(9
Net income	82,673	544	72,566	(83,21
Total revenue	736,189	21,849	80,012	(85,70
Intersegment revenue	(21,198)	35,011	79,934	(93,74

Nine Months Ended September 30, 2000:				
Net interest income (expense)	$226,529	$13,653	$(11,040)	$ 19,60
Provision for loan losses	(19,360)	(288)	--	-
Non-interest income	70,572	47,120	36,564	(84,99
Total other expense	200,292	27,913	455	(9,05
Net income	35,150	21,190	28,985	(56,34
Total revenue	766,184	60,781	36,683	(70,86
Intersegment revenue	21,233	18,321	36,116	(75,67

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G. REGULATORY CAPITAL:

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Regulators can initiate certain mandatory, and possibly additional discretionary, actions if the Bank fails to meet minimum capital requirements. These actions could have a direct material effect on the Corporation's financial position and results of operations. The regulations require the Bank to meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as set forth in the following table. Prompt corrective action provisions pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") require specific supervisory actions as capital levels decrease. To be considered well-capitalized under the regulatory framework for prompt corrective action provisions under FDICIA, the Bank must maintain certain minimum capital ratios as set forth below. At September 30, 2001, the Bank exceeded the minimum requirements for the well-capitalized category.

The following presents the Bank's regulatory capital levels and ratios relative to its respective minimum capital requirements as of September 30, 2001:

	Actual Capital	
	Amount	Ratio
OTS capital adequacy:		
Tangible capital	$753,914	5.92%
Core capital	757,607	5.95
Risk-based capital	845,990	11.10
FDICIA regulations to be classified well-capitalized:		
Tier 1 leverage capital	757,607	5.95

Tier 1 risk-based capital	757,607	9.94
Total risk-based capital	845,990	11.10

The most recent notification from the OTS categorized the Bank as "well-capitalized" under the regulatory framework for prompt corrective action provisions under FDICIA. There are no conditions or events since such notification that management believes have changed the Bank's classification.

H. CURRENT ACCOUNTING PRONOUNCEMENTS:

Effective April 1, 2001, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 140") which replaces SFAS No. 125. SFAS No. 140 revises the accounting standards for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but carries over most of the provisions of SFAS No. 125. Transfers of financial assets in which the transferor has some continuing involvement with the transferred assets or with the transferee raise the issues of whether transferred financial assets should be considered to be sold and a related gain or loss recorded, whether the assets should be considered to be collateral for borrowings, or whether the transfer should be accounted for at all. SFAS No. 125 addressed those issues, but further issues arose in implementation. SFAS No. 140 resolved those implementation issues. SFAS No. 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Those standards are based on consistent application of a financial-components approach that focuses on control. Under that approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. SFAS No. 140 provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. A transfer of financial assets in which the transferor surrenders control over the assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets if and only if all of certain specified conditions are met. The adoption of the provisions of this statement did not have any material effect on the Corporation's financial position, liquidity or results of operations.

H. CURRENT ACCOUNTING PRONOUNCEMENTS (Continued):

On July 20, 2001, Statement of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS No. 141") was issued. This statement supercedes APB Opinion No. 16 "Business Combinations." SFAS No. 141 requires that the purchase method of accounting be applied to all business combinations initiated after June 30, 2001. The use of the pooling-of-interests method is prohibited under this statement. Management of the Corporation does not believe that this statement will have any material effect on the Corporation's financial position, liquidity or results of operations.

Also on July 20, 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142 "Goodwill and Other

Intangible Assets" ("SFAS No. 142") which supercedes APB Opinion No. 17 "Intangible Assets." The provisions of SFAS No. 142 require that upon initial adoption, amortization of goodwill will cease, and the carrying value of goodwill will be evaluated for impairment on an annual basis. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed for impairment under SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, or as of January 1, 2002 for the Corporation. At September 30, 2001, goodwill and core value of deposits totaled $164,857,000 and $30,394,000, respectively. Beginning January 1, 2002, goodwill will no longer be subject to amortization but will be evaluated at least annually for impairment. For the three and nine months ended September 30, 2001, amortization expense of goodwill totaled $1,980,000 and $6,183,000, respectively, and amortization expense of core value of deposits totaled $1,692,000 and $5,549,000, respectively. Management of the Corporation is currently evaluating the provisions of SFAS No. 142 and has not determined the total effect that the initial adoption of this statement will have on the Corporation's financial position, liquidity or results of operations.

On August 16, 2001, the FASB issued Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). The provisions of this statement require entities to record the fair value of a liability for an asset retirement obligation in the period that it is incurred. When the liability is initially recorded, the entity will capitalize a cost by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the entity either settles the obligation for its recorded amount or incurs a gain or loss. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, or as of January 1, 2003 for the Corporation. Management of the Corporation does not believe that this statement will have any material effect on the Corporation's financial position, liquidity or results of operations.

On October 3, 2001, the FASB issued Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") that replaces SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long- Lived Assets to be Disposed of." This statement developed one accounting model, based on the provisions of SFAS No. 121, for long-lived assets to be disposed of by sale and addressed implementation issues arising from SFAS No. 121. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30 "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business," for the disposal of segments of a business. SFAS. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less costs to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, or as of January 1, 2002 for the Corporation. Provisions of this statement are generally to be applied prospectively. Management of the Corporation is currently evaluating the provisions of SFAS No. 144 but does not believe that this statement will have any material effect on the Corporation's financial position, liquidity or results of operations.

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

The statements in this management's discussion and analysis of financial condition and results of operations that are not historical fact are forward-looking statements that involve inherent risks and uncertainties. Management cautions readers that a number of important factors could cause actual results to differ materially from those in the forward-looking statements. Factors that might cause a difference include, but are not limited to: fluctuations in interest rates, inflation, the effect of regulatory or government legislative changes, expected cost savings and revenue growth not fully realized, the progress of strategic initiatives and whether realized within expected time frames, general economic conditions, adequacy of allowance for credit losses, costs or difficulties associated with restructuring initiatives, technology changes and competitive pressures in the geographic and business areas where the Corporation conducts its operations. These forward-looking statements are based on management's current expectations. Actual results in future periods may differ materially from those currently expected because of various risks and uncertainties.

CHANGE IN FISCAL YEAR END:

On August 14, 2000, the Board of Directors approved a change in the Corporation's year end to December 31 from June 30. This change was effective beginning December 31, 2000. A December 31 year end allows the Corporation to be aligned with the financial industry from a reporting perspective and facilitates comparisons with industry norms.

KEY STRATEGIC INITIATIVES - AUGUST 2000:

On August 14, 2000, the Board of Directors approved a series of key strategic initiatives aimed at improving the overall operations of the Corporation, strengthening earnings and enhancing shareholder value. These key initiatives included a complete balance sheet review, a thorough assessment of the Bank's delivery and servicing systems, the sale of the underperforming leasing company, an acceleration of the disposition of other real estate owned and a management restructuring. For the three and nine months ended September 30, 2001, the Corporation realized pre-tax net gains (net of expenses) totaling approximately $11.0 million and $13.0 million, respectively, relating to these strategic initiatives. These net gains are primarily the result of the Corporation realizing pre-tax gains on the sales of 18 branches that were sold during the third quarter (26 branches sold year to date). These net gains for the three and nine months ended September 30, 2001 are classified in the general and administrative category "Exit Costs and Termination Benefits." For the three and nine months ended September 30, 2000 the Corporation recorded costs totaling $23.0 million and $22.6 million, respectively, primarily relating to these initiatives. See Note C "Exit Costs and Termination Benefits" in the Notes to Consolidated Financial Statements for additional information.

LIQUIDITY AND CAPITAL RESOURCES:

The Corporation's principal asset is its investment in the capital stock of the Bank. Since the Corporation does not generate any significant revenues independent of the Bank, the Corporation's liquidity is dependent on the extent to which it receives dividends from the Bank. The Bank's ability to pay dividends to the Corporation is dependent on its ability to generate earnings and is subject to a number of regulatory restrictions and tax considerations. Under the capital distribution regulations of the Office of Thrift Supervision ("OTS"), the Bank is permitted to pay capital distributions during a calendar year up to 100% of its retained net income (net income determined in accordance with generally accepted accounting principles less total capital distributions declared) for the current calendar year combined with the Bank's retained net income for the preceding two calendar years without requiring an application to be filed with the OTS. At September 30, 2001, the Bank's total distributions exceeded its retained income by $177.1 million under this regulation thereby requiring the Bank to file an application with the OTS for any capital distributions.

LIQUIDITY AND CAPITAL RESOURCES (Continued):

The Corporation manages its liquidity at both the parent company and subsidiary levels. At September 30, 2001, the cash of Commercial Federal Corporation (the "parent company") totaled $5.1 million. Due to the parent company's limited independent operations, management believes that its cash balance at September 30, 2001, is currently sufficient to meet operational needs excluding funds necessary for interest and principal payments and the Board authorized repurchases of common stock. The parent company's ability to make future interest and principal payments on its $50.0 million of 7.95% fixed-rate subordinated extendible notes due December 1, 2006, on its $46.4 million of 9.375% fixed-rate junior subordinated debentures due May 15, 2027, and on its $63.0 million term note and revolving line of credit is dependent upon its receipt of dividends from the Bank. During the three and nine months ended September 30, 2001, the parent company received cash dividends totaling $17.0 million and $138.0 million, respectively, from the Bank. These dividends from the Bank were allocated for:

- interest payments totaling $7.6 million on the parent company's debt,
- principal payments of $13.6 million on the parent company's five-year term note ($3.6 million) and revolving credit note ($10.0 million paid in full),
- common stock cash dividends totaling $11.5 million paid by the parent company to its common stock shareholders, and
- the financing of common stock repurchases totaling approximately $105.3 million.

The Bank will continue to pay dividends to the parent company, subject to regulatory restrictions, to cover future principal and interest payments on the parent company's debt and quarterly cash dividends on common stock when and as declared by the parent company. The parent company also receives cash from the exercise of stock options and the sale of common stock under its employee benefit plans, as well as from the Bank for income tax benefits from operating losses generated by the parent company as provided in the corporate tax sharing agreement.

The Corporation owes $50.0 million of 7.95% fixed-rate subordinated extendible notes due December 1, 2006 (the "Notes"). The contractual interest rate on the Notes is reset at the Corporation's option on December 1, 2001, to a rate and for a term of one, two, three or five years as determined by the Corporation. On October 30, 2001, the Corporation announced that effective December 1, 2001, the interest rate will remain the same at 7.95% on these Notes. This interest rate will remain in effect until December 1, 2004. The Notes are redeemable by the holders with at least five business days notice prior to December 1, 2001, or on the next interest reset date (December 1, 2004) at par plus accrued interest to the date fixed for redemption. The Corporation may elect to redeem the Notes in whole on December 1, 2004, at par plus accrued interest to the date fixed for redemption. The Notes are unsecured general obligations of the Corporation.

During the three and nine months ended September 30, 2001, the Corporation purchased 2,694,000 shares and 5,516,600 shares, respectively, of its common stock at a cost of $65.4 million and $127.7 million, respectively. These repurchases were pursuant to the August 2000 Board authorization to repurchase 5,500,000 shares, which was completed on August 8, 2001, and to the Board authorization on May 7, 2001 to repurchase an additional 5,000,000 shares by December 31, 2002. Repurchase activity on the 5,000,000 shares began in August 2001 and is expected to be completed by December 31, 2001.

The Corporation's primary sources of funds are (i) deposits, (ii) principal repayments on loans, mortgage-backed and investment securities, (iii) advances from the FHLB and (iv) cash generated from operations. Net cash flows used by operating activities totaled $133.3 million for the nine months ended September 30, 2001, and net cash flows provided by operating activities totaled $551.3 million for the nine months ended September 30, 2000. Amounts fluctuate from period to period primarily as a result of mortgage banking activity relating to the purchase and origination of loans for resale and the subsequent sale of such loans.

Net cash flows used by investing activities totaled $166.1 million and $791.1 million, respectively, for the nine months ended September 30, 2001 and 2000. Amounts fluctuate from period to period primarily as a result of (i) principal repayments on loans and mortgage-backed securities and (ii) the purchase and origination of loans, mortgage-backed and investment securities. During the first nine months of 2001, the Corporation sold investment and mortgage-backed securities totaling $919.8 million resulting in a pre-tax gain of $22.9 million. These gains on the sales of investment and mortgage-backed securities were recognized in part to offset the valuation adjustment loss of $23.0 million in the mortgage servicing rights portfolio. A substantial portion of the leasing portfolio was sold in February 2001 for cash and a secured note for $9.5 million. The cash proceeds totaling $34.8 million from the sale were received in April 2001.

Net cash flows provided by financing activities totaled $269.9 million and $452.6 million, respectively, for the nine months ended September 30, 2001 and 2000. Deposits and advances from the FHLB have been the primary sources to balance the Corporation's funding needs during each of the periods presented. The Corporation experienced a net decrease in deposits of $997.8 million for the nine months ended September 30, 2001. The net decrease in deposits for the current period is primarily due to deposits sold pursuant to the branch divestiture initiative, the Corporation's reduction of brokered deposits for funding needs and run-off in the higher costing certificates of deposit portfolio as part of the Corporation's business plan. At September 30, 2001, brokered certificates of deposits totaled $116.0 million compared to $322.2 million at December 31, 2000. As part of the Corporation's key strategic initiatives, it was announced that 49 branches would be closed or sold in 2001. During the first nine months ended September 30, 2001, twelve branches were closed and 26 branches were sold. Deposits associated with the 26 sold branches totaled approximately $353.1 million. Management anticipates that the remaining branches, except for the four in Minnesota, will be sold in the fourth quarter of 2001. Deposits associated with these remaining branches approximated $122.3 million at September 30, 2001. During the nine months ended September 30, 2001, the Corporation continued to borrow long-term FHLB advances totaling $4.7 billion at September 30, 2001 compared to $3.6 billion at December 31, 2000. At September 30, 2001, the Corporation had borrowed $130.0 million of Federal funds and $20.0 million from the Treasury Tax and Loan program. During the nine months ended September 30, 2001 and 2000 the Corporation repurchased shares of its common stock totaling $127.7 million and $56.2 million, respectively.

At September 30, 2001, the Corporation issued commitments totaling approximately $698.0 million to fund and purchase loans and securities as follows: $38.6 million of single-family adjustable-rate mortgage loans, $201.4 million of single-family fixed-rate mortgage loans, $157.3 million of commercial real estate loans, $18.4 million of consumer, commercial operating and agricultural loans, $102.0 million of investments, $3.0 million of mortgage-backed securities and approximately $177.3 million of unused lines of credit for commercial and consumer use. These outstanding loan commitments to extend credit in order to originate loans or fund commercial and consumer loans lines of credit do not necessarily represent future cash requirements since many of the commitments may expire without being drawn. The Corporation expects to fund these commitments, as necessary, from the sources of funds previously described. In addition, at September 30, 2001, the Corporation had approximately $514.0 million in mandatory forward delivery commitments to sell residential mortgage loans.

The maintenance of an appropriate level of liquid resources to meet not only regulatory requirements but also to provide funding necessary to meet the Corporation's current business activities and obligations is an integral element in the management of the Corporation's assets. The OTS issued a final rule effective July 18, 2001 whereby savings institutions are only required to maintain sufficient liquidity to ensure their safe and sound operation. The Bank's liquidity ratio was 16.66% at September 30, 2001. Liquidity levels will vary depending upon savings flows, future loan fundings, cash operating needs, collateral requirements and general prevailing economic conditions. The Bank does not foresee any difficulty in meeting its liquidity requirements.

RESULTS OF OPERATIONS:

Net income for the three months ended September 30, 2001, was $24.0 million, or $.48 per basic and diluted share, compared to a net loss of $21.8 million, or $.39 per basic and diluted share, for the three months ended September 30, 2000. The net increase in net income comparing the respective quarters is primarily due to a net decrease of $34.2 million in total other expense, a net increase of $8.0 million in total other income and the cumulative effect of change in accounting principle totaling a loss of $19.1 million (net of income taxes) recorded in the quarter ended September 30, 2000. These net increases to net income were partially offset by a net decrease of $9.5 million in net interest income after provision for loan losses and an increase of $6.1 million in the provision for income taxes. The cumulative effect of the change in accounting principle is the result of the adoption effective July 1, 2000 of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133").

Net income for the nine months ended September 30, 2001 was $72.6 million, or $1.41 per diluted share ($1.42 per basic share), compared to net income of $29.0 million, or $.51 per basic and diluted share, for the nine months ended September 30, 2000. The net increase in net income comparing the respective periods is primarily due to a net decrease of $40.4 million in total other expense, a net increase of $20.2 million in total other income and the $19.1

million cumulative effect of change in accounting principle. These net increases to net income were partially offset by a net decrease of $34.4 million in net interest income after provision for loan losses and an increase of $1.7 million in the provision for income taxes.

Net Interest Income:

Net interest income totaled $78.2 million for the three months ended September 30, 2001, compared to $80.6 million for the three months ended September 30, 2000, a decrease of approximately $2.3 million, or 2.9%. During the three months ended September 30, 2001 and 2000, interest rate spreads were 2.70% and 2.45%, respectively, an increase of 25 basis points; and the net yield on interest-earning assets was 2.65% and 2.49%, an increase of 16 basis points. Net interest income decreased for the three months ended September 30, 2001 compared to 2000 due to the decrease of approximately $241.5 million in the net-earnings balance (the difference between average interest-bearing liabilities and average interest-earning assets). The increase in the interest rate spread is due primarily to a 66 basis point decrease in the rate paid on interest-bearing liabilities attributable mainly to decreases in the rates on FHLB advances and deposits, partially offset by a 41 basis point decrease in the yield received on interest-earning assets. Total interest expense decreased $31.5 million comparing the three months ended September 30, 2001 to 2000 due to lower costs of funds and a net decrease of $878.7 million in average interest-bearing liabilities. Total interest income decreased $33.8 million over the same three-month periods primarily due to a net decrease of $1.1 billion in average interest-earning assets ($1.7 billion in real estate loans). The decreases in these average balances is due to the balance sheet restructuring completed during the six months ended December 31, 2000.

Net interest income totaled $225.3 million for the nine months ended September 30, 2001 compared to $248.7 million for the nine months ended September 30, 2000, a decrease of $23.4 million, or 9.4%. During the nine months ended September 30, 2001 and 2000, interest rate spreads were 2.58% and 2.51%, respectively, an increase of seven basis points; while the net yield on interest-earning assets was 2.57% and 2.63%, a decrease of six basis points. Net interest income decreased for the nine months ended September 30, 2001 compared to 2000 due to the generally higher interest rate environment experienced during calendar year 2000 and the decrease of $264.1 million in the net-earnings balance. The increase in the interest rate spread is due primarily to a 14 basis point decrease in the rate paid on interest-bearing liabilities. Total interest expense decreased $37.3 million, and the average interest-bearing liabilities decreased $673.8 million, comparing the respective nine-month periods. However, total interest income decreased $60.7 million over the same nine-month periods primarily due to a net decrease of $937.9 million in average interest-earning assets ($1.3 billion in real estate loans). The decreases in these average balances is due to the balance sheet restructuring completed during the six months ended December 31, 2000.

Based on the completion of the balance sheet restructuring and the current interest rate environment, management anticipates a relatively stable margin for the remainder of 2001. However, the future trend in interest rate spreads and net interest income will be dependent upon such factors as the composition and size of the Corporation's interest-earning assets and interest-bearing liabilities, the interest rate risk exposure of the Corporation and the maturity and repricing activity of interest-sensitive assets and liabilities, as influenced by changes in and levels of both short-term and long-term market interest rates.

The following table presents certain information concerning yields earned on interest-earning assets and rates paid on interest-bearing liabilities during and at the end of each of the periods presented:

	For the Three Months Ended September 30,		For the Nine Nine Months Ended September 30,		At September 30,	
	2001	2000	2001	2000	2001	2000
Weighted average yield on:						
Loans	7.76%	7.91%	7.91%	7.82%	7.67%	7.95%
Mortgage-backed securities	6.37	6.75	6.57	6.53	6.57	6.75
Investments	6.10	7.69	6.35	7.19	5.21	7.14
Interest-earning assets	7.37	7.78	7.56	7.63	7.22	7.76
Weighted average rate paid on:						
Savings deposits	3.06	3.50	3.23	3.24	2.83	3.56
Other time deposits	5.34	5.81	5.69	5.54	5.12	5.94
Advances from FHLB	5.29	5.97	5.64	5.83	5.10	6.12
Securities sold under agreements to repurchase	5.17	4.99	5.68	5.00	5.17	4.91
Other borrowings	5.91	7.91	7.06	7.98	5.32	8.70
Interest-bearing liabilities	4.67	5.33	4.98	5.12	4.47	5.46
Net interest rate spread	2.70%	2.45%	2.58%	2.51%	2.75%	2.30%
Net annualized yield on interest-earning assets	2.65%	2.49%	2.57%	2.63%	2.73%	2.42%

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Net Interest Income (Continued):

The following table presents average interest-earning assets and average interest-bearing liabilities, interest income and interest expens-e, and average yields and rates during the three and nine months ended September 30, 2001. This table includes nonaccruing loans averaging $94.2 million and $96.9 million, respectively, for the three and nine months ended September 30, 2001, as interest-earning assets at a yield of zero percent:

	Three Months Ended September 30, 2001			
	Average Balance	Interest	Annualized Yield/ Rate	Average Balance

Interest-earning assets:				
Loans	$ 8,747,301	$170,059	7.76%	$ 8,85
Mortgage-backed securities	1,741,497	27,739	6.37	1,64
Investments	1,318,887	20,116	6.10	1,19
Interest-earning assets	11,807,685	217,914	7.37	11,69
Interest-bearing liabilities:				
Savings deposits	3,402,094	26,215	3.06	3,40
Other time deposits	3,505,841	47,223	5.34	3,90
Advances from FHLB	4,492,384	60,716	5.29	4,07
Securities sold under agreements to repurchase	106,084	1,402	5.17	7
Other borrowings	279,636	4,131	5.91	21
Interest-bearing liabilities	11,786,039	139,687	4.67	11,67
Net earnings balance	$ 21,646			$ 2
Net interest income		$ 78,227		
Net interest rate spread			2.70%	
Net annualized yield on interest-earnings assets			2.65%	

The Corporation's net earnings balance decreased by $264.1 million during the nine months ended September 30, 2001, compared to the nine months ended September 30, 2000. This decrease in the net earnings balance comparing these periods is primarily due to the restructuring of the balance sheet, the repurchases of common stock totaling $154.3 million over the last twelve months and the funding of the $200.0 million bank owned life insurance ("BOLI") program. The BOLI asset is excluded from the average balance of interest-earning assets and the BOLI related income is recorded in other income.

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Net Interest Income (Continued):

The following table presents the dollar amount of changes in interest income and expense for each major component of interest-earning assets and interest-bearing liabilities, and the amount of change in each attributable to: (i) changes in volume (change in volume multiplied by prior year rate), and (ii) changes in rate (change in rate multiplied by prior year volume). The net change attributable to change in both volume and rate, which cannot be segregated, has been allocated proportionately to the change due to volume and the change due to rate. This table demonstrates the effect of the decreased volume of interest-earning assets and interest-bearing liabilities, the changes in interest rates and the effect on the interest rate spreads previously discussed:

	Three Months Ended September 30, 2001 Compared to September 30, 2000			
	Increase (Decrease) Due to			Inc
	Volume	Rate	Total	Vol
Interest income:				
Loans	$(33,983)	$ (4,464)	$(38,447)	$(7
Mortgage-backed securities	8,100	(1,232)	6,868	1
Investments	2,770	(4,992)	(2,222)	
Interest income	(23,113)	(10,688)	(33,801)	(5
Interest expense:				
Savings deposits	2,889	(4,348)	(1,459)	
Other time deposits	(9,743)	(4,647)	(14,390)	(1
Advances from FHLB	(9,009)	(8,366)	(17,375)	(2
Securities sold under agreements to repurchase	1,017	14	1,031	
Other borrowings	1,736	(1,018)	718	
Interest expense	(13,110)	(18,365)	(31,475)	(2
Effect on net interest income	$(10,003)	$ 7,677	$ (2,326)	$(2

Provision for Loan Losses:

The Corporation recorded loan loss provisions totaling $19.8 million and $30.7 million, respectively, for the three and nine months ended September 30, 2001 compared to $12.6 million and $19.6 million, respectively, for the same periods ended September 30, 2000. Net loans charged-off totaled $4.9 million and $14.2 million for the three and nine months ended September 30, 2001, compared to $9.6 million and $21.4 million for the three and nine months ended September 30, 2000. The net charge-offs are lower for the current quarter and nine month period compared to the respective year-ago periods due to decreases in charge-offs for leases and commercial real estate loans, partially offset by increases in charge-offs for consumer, construction and credit card loans for the three month period and decreases in charge-offs for leases, commercial operating loans and commercial real estate loans partially offset by increases in charge-offs for consumer, agricultural and construction loans for the nine month period. The Corporation's provision for loan losses increased in the current year periods compared to the year-ago periods. A significant reason for these increases is primarily due to the potentially negative impact on the ability of borrowers to pay their loans attributable to the recessionary economic conditions present in the third quarter of 2001, and the continued deterioration in the economy. The allowance for loan losses is based upon management's continuous evaluation of the collectibility of outstanding loans, which takes into consideration such factors as changes in the composition of the loan portfolio and economic conditions that may affect the borrower's ability to pay, regular examinations by the Corporation's credit review group of specific problem loans and of the overall portfolio quality and real estate market conditions in the Corporation's lending areas. The allowance for credit losses totaled $99.8 million at September 30, 2001, or 108.1% of total nonperforming loans, compared to $83.4 million, or 87.0% at December 31, 2000.

Provision for Loan Losses (Continued):

Management of the Corporation believes that the present level of the allowance for loan losses is adequate to reflect the risks inherent in its portfolios. However, there can be no assurance that the Corporation will not experience increases in its nonperforming assets, that it will not increase the level of its allowance in the future or that significant provisions for losses will not be required based on factors such as deterioration in market conditions, changes in borrowers' financial conditions, delinquencies and defaults.

Nonperforming assets are monitored on a regular basis by the Corporation's internal credit review and problem asset groups. Nonperforming assets are summarized as of the dates indicated:

	Septem 2
Nonperforming loans:	
Residential real estate	$
Commercial real estate	
Consumer	
Leases and other loans	
Total	
Real estate:	
Commercial	
Residential	
Total	
Troubled debt restructurings:	
Commercial	
Residential	
Total	
Total nonperforming assets	$
Nonperforming loans to total loans	
Nonperforming assets to total assets	
Total allowance for loan losses (1)	$
Allowance for loan losses to total loans	
Allowance for loan losses to total nonperforming assets	

(1) Includes $90,000 and $1,176,000 at September 30, 2001 and December 31, 2000, respectively, in allowance for losses established on loans and leases held for sale.

Nonperforming loans at September 30, 2001, decreased by $3.5 million compared to December 31, 2000, primarily due to the foreclosure of a residential construction loan totaling $22.7 million and the decrease in the leasing portfolio partially offset by two commercial real estate groups of loans totaling $20.8 million becoming 90 days past due and general increases in the residential real estate loan portfolio. The $2.6 million net decrease in leases and other loans reflects the Corporation's sale of a substantial portion of the leasing portfolio during the first quarter of 2001. The net increase in real estate of $21.3 million at September 30, 2001, compared to December 31, 2000, is due primarily to the addition of the residential construction property discussed above with a total cost basis of $23.2 million as of September 30, 2001.

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Retail Fees and Charges:

Retail fees and charges totaled $13.4 million and $39.1 million, respectively, for the three and nine months ended September 30, 2001, compared to $12.7 million and $35.2 million, respectively, for the three and nine months ended September 30, 2000. Increases in the volume of certain checking accounts and an increased pricing structure effective September 1, 2001, related ancillary fees for overdraft and insufficient funds charges and increased transaction usage relating to debit cards are the primary reasons for the increases over the respective periods.

Loan Servicing Fees:

The major components of loan servicing fees for the periods indicated are as follows:

	Three Months Ended September 30,	
	2001	2000
Revenue from loan servicing fees and late loan payment fees	$ 9,749	$ 8,081
Amortization of mortgage servicing rights	(5,000)	(2,094)
Valuation adjustments for impairment losses	(17,385)	--
Loan servicing fees, net	$(12,636)	$ 5,987

The amount of revenue generated from loan servicing fees, and changes in comparing periods, is primarily due to the average size of the Corporation's portfolio of mortgage loans serviced for other institutions and the level of rates for service fees collected, partially offset by the amortization expense of mortgage servicing rights and valuation allowances. The loan servicing fees category also includes fees collected for late loan payments. The net increases in revenue comparing the three and nine month periods of 2001 to 2000 were due to a higher average balance of mortgage loans serviced slightly offset by a lower level of service fee rates comparing the respective periods. The increases in amortization expense of mortgage servicing rights reflect an increase in prepayments due to the lower interest rate environment comparing the respective periods. The amount of amortization expense of mortgage servicing rights is determined, in part, by mortgage loan pay-downs in the servicing portfolio that are influenced by changes in interest rates. In addition, valuation adjustments totaling $17.4 million and $23.0 million in impairment losses were recorded during the three and nine months ended September 30, 2001, as reductions of loan servicing fees and of the carrying amount of the mortgage servicing rights portfolio. The valuation allowances are due to an increase in loan prepayment speeds resulting from a decrease in interest rates during the nine months ended September 30, 2001 compared to December 31, 2000. At September 30, 2001 and 2000, the Corporation's portfolio of mortgage loans serviced for other institutions approximated $9.6 billion and $7.3 billion, respectively. The mortgage loans serviced balance at September 30, 2001, includes the $1.6 billion of residential loans securitized and sold in November 2000 with servicing retained.

The fair value of the Corporation's loan servicing portfolio increases as interest rates rise and loan prepayments decrease. It is expected that income generated from the Corporation's loan servicing portfolio will increase in such an environment. However, this positive effect on the Corporation's income is offset, in part, by a decrease in additional servicing fee income attributable to new loan originations, which historically decrease in periods of higher, or increasing, mortgage interest rates, and by an increase in expenses from loan production costs since a portion of such costs cannot be deferred due to lower loan originations. Conversely, the value of the Corporation's loan servicing portfolio will decrease as mortgage interest rates decline.

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Gain (Loss) on Sales of Securities and Changes in Fair Value of Derivatives:

During the three and nine months ended September 30, 2001 and 2000, the following transactions were recorded:

	Three Months Ended September 30,	
	2001	2000
Gain (loss) on the sales of available-for-sale securities:		
Investment securities	$13,202	$ 1,022
Mortgages-backed securities	--	(4,288
Net gain (loss) on sales	13,202	(3,266

Changes in the fair value of interest rate floor agreements not qualifying for hedge accounting	2,729	14
Amortization expense on the deferred loss ($8,601) on terminated interest rate swap agreements	(509)	--
Other activity	16	(11
Gain (loss) on sales of securities and changes in fair value of derivatives	$15,438	$(3,263

During the three and nine months ended September 30, 2001, the Corporation realized pre-tax gains on the sales of available-for-sale investment and mortgage-backed securities totaling $13.2 million and $22.9 million, respectively. These net gains were recognized primarily to offset the valuation adjustment loss of $23.0 million in the mortgage servicing rights portfolio as of September 30, 2001. Effective July 1, 2000, the Corporation adopted the provisions of SFAS No. 133. The Corporation has interest rate floor agreements that under SFAS No. 133 are recorded at fair value with the changes in fair value reported in current earnings for the three and nine months ended September 30, 2001, totaling $2.7 million and $1.3 million, respectively. In addition, in December 2000, the Corporation incurred losses totaling $8.6 million on terminated interest rate swap agreements. Since the related hedged FHLB advances and deposit liabilities were not paid this loss is included in other comprehensive income (loss) with $509,000 and $1.5 million, respectively, amortized to operations during the three and nine months ended September 30, 2001. The unamortized balance totaled $6.9 million at September 30, 2001.

Gain (Loss) on Sales of Loans:

During the three and nine months ended September 30, 2001 and 2000, the following transactions were recorded:

	Three Months Ended September 30,	
	2001	2000
Net gain (loss) on sales of loans	$ 3,259	$ (93)
Changes in the fair value of derivative financial instruments and certain hedged items:		
Forward loan sales commitments	(8,529)	460
Conforming loan commitments	3,599	(381)
Loan warehouse fair value hedge	5,066	--
Net changes in fair value	136	79
Gain (loss) on sales of loans, net	$ 3,395	$ (14)

Loans are typically originated by the mortgage banking operations and sold in the secondary market with loan servicing retained and without recourse to the Corporation. The Corporation has derivative financial instruments and certain hedged items that under SFAS No. 133 are recorded at fair value with the changes in fair value reported in current earnings for the three and nine months ended September 30, 2001, totaling $136,000 and $2.5 million, respectively.

Real Estate Operations:

The Corporation recorded net losses from real estate operations totaling $1.4 million and $3.2 million for the three and nine months ended September 30, 2001 compared to $898,000 and $1.1 million for the three and nine months ended September 30, 2000. Real estate operations reflect impairment losses for real estate, net real estate operating activity, and gains and losses on dispositions of real estate. The net increases in the losses for real estate operations compared to the respective 2000 periods are due primarily to increases in impairment losses, primarily three commercial properties which have been sold, and decreases in the gains on properties sold.

Other Operating Income:

Other operating income totaled $11.2 million and $34.6 million, respectively, for the three and nine months ended September 30, 2001, compared to $6.9 million and $19.8 million, respectively, for the three and nine months ended September 30, 2000. In December 2000, the Corporation invested in a BOLI program with a contract value of $200.0 million. During the three and nine months ended September 30, 2001, revenue from the BOLI program totaled $3.7 million and $11.0 million, respectively. The net increases for the three and nine months ended September 30, 2001, compared to the prior year periods are primarily attributable to the revenue from the BOLI program and to increased revenues from rental income and insurance commissions.

General and Administrative Expenses:

Total general and administrative expenses approximated $49.6 million and $167.5 million, respectively, for the three and nine months ended September 30, 2001, compared to $83.4 million and $207.6 million, respectively, for the three and nine months ended September 30, 2000. Excluding exit costs and termination benefits, general and administrative expenses totaled $60.6 million for the three months ended September 30, 2001 compared to $60.4 million for the 2000 quarter, and $180.5 million for the nine months ended September 30, 2001 compared to $184.9 million for the nine months ended September 30, 2000. The net decrease compared to the prior year nine month period is primarily due to a reduction in the number of full-time equivalent employees comparing the respective periods, management's emphasis on tighter cost controls and the effect of certain initiatives beginning with the November 1999 branch divestitures and employee force reduction and the August 2000 key strategic initiatives.

Exit Costs and Termination Benefits:

The Corporation realized net gains for the three and nine months ended September 30, 2001, totaling $11.0 million and $13.0 million, respectively, compared to expenses totaling $23.0 million and $22.6 million, respectively, for the three and nine months ended September 30, 2000. The net gains for 2001 are due to premiums received on the sale of branches partially offset by severance costs associated with branch right-sizing and expenses to exit leasing operations. The expenses for 2000 are due to costs associated with the August 2000 key strategic initiatives, primarily the exit costs and write-offs of intangible assets associated with the branch divestitures. See Note C "Exit Costs and Termination Benefits" in the Notes to Consolidated Financial Statements for additional information.

Amortization of Core Value of Deposits and Goodwill:

For the three and nine months ended September 30, 2001 amortization of core value of deposits and goodwill totaled $3.7 million and $11.7 million, respectively, compared to $4.1 million and $12.0 million, respectively, for the three and nine months ended September 30, 2000. The net decreases in amortization expense for the three and nine months ended September 30, 2001 compared to 2000 are primarily due to the discontinuation of amortization expense associated with the write-off of a portion of intangible assets from the August 2000 branch divestiture initiatives.

Provision for Income Taxes:

The provision for income taxes totaled $10.6 million and $32.4 million, respectively, for the three and nine months ended September 30, 2001, compared to $4.6 million and $30.6 million, respectively, for the three and nine months ended September 30, 2000. The effective income tax rates for the three and nine months ended September 30, 2001 were 30.7% and 30.8%, respectively, compared to 244.0% and 38.9%, respectively, for the three and nine months ended September 30, 2000. The effective income tax rates are lower for the quarter and nine months ended September 30, 2001 compared to the respective 2000 periods due to increases in tax-exempt interest income and the tax benefits from the BOLI program. The effective tax rate for the three and nine months ended September 30, 2001 varies from the statutory rate primarily due to tax benefits from the BOLI, tax-exempt interest income and tax credits.

Provision for Income Taxes (Continued):

The disproportionate effective tax rate of 244.0% for the quarter ended September 30, 2000 is high primarily due to the nonrecurring charge recorded in that quarter for nondeductible goodwill totaling $12.6 million in relation to the amount of income before taxes. Excluding nonrecurring charges, the effective tax rates were 33.2% and 33.7%, respectively, for the three and nine months ended September 30, 2000, both of which differ from the 35.0% statutory rate due to tax exempt interest income, low income housing tax credits and increase in cash surrender value on life insurance.

Cumulative Effect of Change in Accounting Principle:

Effective July 1, 2000, the Corporation adopted the provisions of SFAS No. 133 that requires the recognition of all derivative financial instruments as either assets or liabilities in the statement of financial condition and measurement of those instruments at fair value. The Corporation's interest rate floor agreements, forward loan sales commitments and conforming loan commitments do not qualify for hedge accounting. Since these derivatives do not qualify for hedge accounting, this statement required that upon initial adoption, the fair value of these derivatives be recorded as a charge to operations on July 1, 2000, as a cumulative effect of change in accounting principle. The fair value of these derivatives totaling $1.0 million was recorded as a charge to operations on July 1, 2000, as part of a cumulative effect of a change in accounting principle.

Also under the provisions of SFAS No. 133 the Corporation transferred approximately $1.8 billion of held-to-maturity securities to the available-for-sale and trading portfolios on July 1, 2000. The transfer of these securities resulted in an after-tax loss of $18.5 million ($28.4 million pre-tax) recorded against current operations on July 1, 2000 as a cumulative adjustment of a change in accounting principle, net of income tax benefits.

Adopting the provisions of SFAS No. 133 on July 1, 2000, which included the transfer of securities and recording the fair value of the derivative instruments, had the following effect on operations and other comprehensive income (loss) for the three and nine months ended September 30, 2000:

	Pre-tax Gain (Loss)
Recorded to current operations as a cumulative effect of a change in accounting principle:	
Transfer of securities from held-to-maturity to trading	$(28,435
Fair value of interest rate floor agreements	(316
Fair value of forward loan sales commitments	(1,420
Fair value of conforming loan commitments	734
	$(29,437
Recorded to other comprehensive income (loss) as a cumulative effect of a change in accounting principle:	
Transfer of securities from held-to-maturity to available for sale	$(59,192
Fair value of interest rate swap agreements	8,686
	$(50,506

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information as of September 30, 2001, concerning the Corporation's exposure to market risk, which has remained relatively unchanged from December 31, 2000, is incorporated by reference under Item 7A "Quantitative and Qualitative Disclosures About Market Risk" in the Form 10-K Transition Report for the Corporation's six month transition period ended December 31, 2000.

PART II. OTHER INFORMATION

Item 5. Other Information

The Corporation owes $50.0 million of 7.95% fixed-rate subordinated extendible notes due December 1, 2006. The contractual interest rate on the Notes is reset at the Corporation's option on December 1, 2001, to a rate and for a term of one, two, three or five years as determined by the Corporation. On October 30, 2001, the Corporation announced that effective December 1, 2001, the interest rate will remain the same at 7.95% on these Notes. This interest rate will remain in effect until December 1, 2004. The Notes are redeemable by the holders with at least five business days notice prior to December 1, 2001, or on the next interest reset date (December 1, 2004) at par plus accrued interest to the date fixed for redemption. The Corporation may elect to redeem the Notes in whole on December 1, 2004, at par plus accrued interest to the date fixed for redemption. The Notes are unsecured general obligations of the Corporation.

Item 6. Exhibits and Reports on Form 8-K

(a). Exhibits:

None

(b). Reports on Form 8-K:

No reports on Form 8-K were filed during the quarter ended September 30, 2001.

SIGNATURES

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

COMMERCIAL FEDERAL CORPORATION
(Registrant)

Date: November 14, 2001

/s/ David S. Fisher
David S. Fisher, Executive Vice President
and Chief Financial Officer

(Principal Financial Officer)

Date: November 14, 2001

/s/ Gary L. Matter

Gary L. Matter, Senior Vice President,
Controller and Secretary
(Principal Accounting Officer)