COMMERCIAL FEDERAL CORP
Form 10-Q
May 15, 2002

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 March 31, 2002

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 May 6, 2002
Common Stock, Par Value $.01 Per Share	45,305,746

COMMERCIAL FEDERAL CORPORATION

FORM 10-Q

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COMMERCIAL FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

(Dollars in Thousands) ASSETS	Marc 20
	(Unau
Cash (including short-term investments of $392 and $590)	$ 1
Investment securities available for sale, at fair value	1,0
Mortgage-backed securities available for sale, at fair value	1,8
Loans and leases held for sale, net	4
Loans receivable, net of allowances of $102,287 and $102,359	7,8
Federal Home Loan Bank stock	2
Real estate, net	
Premises and equipment, net	1
Bank owned life insurance	2
Other assets	5
Core value of deposits, net of accumulated amortization of $56,533 and $54,900	
Goodwill	1
Total Assets	$ 12,7
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits	$ 6,2
Advances from Federal Home Loan Bank	4,9
Other borrowings	5
Other liabilities	2
Total Liabilities	12,0
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; 45,258,495 and 45,974,648 shares issued and outstanding	
Additional paid-in capital	
Retained earnings	7
Accumulated other comprehensive loss, net	(
Total Stockholders' Equity	7
Total Liabilities and Stockholders' Equity	$ 12,7

See accompanying Notes to Condensed Consolidated Financial Statements.

COMMERCIAL FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

(Dollars in Thousands Except Per Share Data)	Three Months End March 31	
	2002	
Interest Income:		
Loans receivable	$ 152,039	$
Mortgage-backed securities	26,858	
Investment securities	19,119	
Total interest income	198,016	
Interest Expense:		
Deposits	48,804	
Advances from Federal Home Loan Bank	58,894	
Other borrowings	5,735	
Total interest expense	113,433	
Net Interest Income	84,583	
Provision for Loan Losses	(6,589)	
Net Interest Income After Provision for Loan Losses	77,994	
Other Income (Loss):		
Retail fees and charges	12,408	
Loan servicing fees, net	3,365	
Gain (loss) on sales of securities and changes in fair values of derivatives, net	(4,843)	
Gain (loss) on sales of loans	3,439	
Bank owned life insurance	3,601	
Real estate operations	(1,397)	
Other operating income	7,675	
Total other income	24,248	
Other Expense:		
General and administrative expenses -		
Compensation and benefits	28,495	
Occupancy and equipment	9,326	
Data processing	4,434	
Advertising	2,915	
Communication	3,056	
Item processing	3,461	
Outside services	2,982	
Other operating expenses	6,555	

Exit costs and termination benefits	--	
Total general and administrative expenses	61,224	
Amortization of core value of deposits	1,633	
Amortization of goodwill	-	
Total other expense	62,857	
Income Before Income Taxes	39,385	
Provision for Income Taxes	11,402	
Net Income	$ 27,983	$

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

(Dollars in Thousands Except Per Share Data)	Three Months Ended March 31,	
	2002	2001
Weighted Average Number of Common Shares Outstanding Used in Basic Earnings Per Share Calculation	45,355,667	52,495,634
Add Assumed Exercise of Outstanding Stock Options as Adjustments for Dilutive Securities	554,935	437,137
Weighted Average Number of Common Shares Outstanding Used in Diluted Earnings Per Share Calculation	45,910,602	52,932,771
Basic Earnings Per Common Share	$ .62	$ .42
Diluted Earnings Per Common Share	$ .61	$ .42
Dividends Declared Per Common Share	$ .08	$ .07

See accompanying Notes to Condensed Consolidated Financial Statements.

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COMMERCIAL FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

(Dollars in Thousands)	Three Months En March 31,	
	2002	2
Net Income	$ 27,983	$
Other Comprehensive Income (Loss):		
Unrealized holding gains (losses) on securities available for sale	(29,894)	
Fair value adjustment on interest rate swap agreements	31,987	(
Fair value change in interest only strips	(144)	
Reclassification of net losses (gains) included in net income pertaining to:		
Securities sold	3,150	
Amortization of fair value adjustments of interest rate swap agreements	509	
Other Comprehensive Income (Loss) Before Income Taxes	5,608	(
Income Tax Provision (Benefit)	1,766	
Other Comprehensive Income (Loss)	3,842	(
Comprehensive Income	$ 31,825	$

See accompanying Notes to Condensed Consolidated Financial Statements.

COMMERCIAL FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(Dollars in Thousands)	Three
CASH FLOWS FROM OPERATING ACTIVITIES	2002
Net income	$ 27,983
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Amortization of core value of deposits	1,633
Amortization of goodwill	-
Provision for losses on loans	6,589
Depreciation and amortization	4,495
Amortization of deferred discounts and fees, net	2,486
Amortization of mortgage servicing rights	6,668
Valuation adjustment of mortgage servicing rights	(529)
(Gain) loss on sales of real estate and loans, net	(3,386)
(Gain) loss on sales of securities and change in fair value of derivative	4,843
Proceeds from sales of loans	624,553
Origination of loans for resale	(233,006)
Purchases of loans for resale	(544,340)
Increase in bank owned life insurance, net	(3,352)
Decrease in interest receivable	2,032
Decrease in interest payable and other liabilities	(38,480)

Other items, net	(36,179)
Total adjustments	(205,973)
Net cash used by operating activities	(177,990)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of loans	(112,336)
Repayment of loans, net of originations	366,781
Proceeds from sales of mortgage-backed securities available for sale	18,147
Principal repayments of mortgage-backed securities available for sale	276,835
Purchases of mortgage-backed securities available for sale	(306,092)
Maturities and principal repayments of investment securities available for sale	8,490
Proceeds from sales of investment securities available for sale	122,838
Purchases of investment securities available for sale	(88,576)
Purchases of Federal Home Loan Bank stock	(2,942)
Proceeds from sales of Federal Home Loan Bank stock	6,334
Proceeds from sales of real estate	13,093
Payments to acquire real estate	(9,490)
Dispositions (purchases) of premises and equipment, net	1,035
Other items, net	(2,731)
Net cash provided by investing activities	291,386

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

(Dollars in Thousands)	Three
CASH FLOWS FROM FINANCING ACTIVITIES	2002
Decrease in deposits	$ (114,042)
Proceeds from Federal Home Loan Bank advances	--
Repayments of Federal Home Loan Bank advances	(37,025)
Proceeds from securities sold under agreements to repurchase	108,075
Repayments of securities sold under agreements to repurchase	(8,118)
Repayments of other borrowings	(79,761)
Purchases of swaption agreements	(18,175)
Payments of cash dividends on common stock	(3,671)
Repurchases of common stock	(19,474)
Issuance of common stock	1,727
Net cash (used) provided by financing activities	(170,464)
CASH AND CASH EQUIVALENTS	
Decrease in net cash position	(57,068)

Balance, beginning of year	206,765
Balance, end of period	$ 149,697

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the period for:	
Interest expense	$ 111,784
Income taxes, net	12,654
Non-cash investing and financing activities:	
Loans exchanged for mortgage-backed securities	--
Loans transferred to real estate	2,496
Loans to facilitate the sale of real estate	--

See accompanying Notes to Condensed Consolidated Financial Statements.

COMMERCIAL FEDERAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2002
(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 period 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 Annual Report on Form 10-K for the year ended December 31, 2001. The results of operations for the three months ended March 31, 2002, are not necessarily indicative of the results which may be expected for the entire calendar year 2002.

B. IMPLEMENTATION OF SFAS NO. 142 "GOODWILL AND OTHER INTANGIBLE ASSETS:"

Effective January 1, 2002, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142") which superceded APB Opinion No. 17 "Intangible Assets." The provisions of SFAS No. 142 require a change in accounting for goodwill such that upon initial adoption, amortization of goodwill ceases, and that goodwill will

be evaluated for impairment as of January 1, 2002, at the reporting unit level. Identifiable intangible assets continue to be amortized over their useful lives and reviewed for impairment under SFAS No. 142. Beginning January 1, 2002, goodwill totaling $162,717,000 is no longer amortized; instead it will be evaluated for impairment initially and then at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

During the quarter ended June 30, 2002, the Corporation will have completed its initial evaluation for potential impairment of goodwill. If the Corporation finds any goodwill is impaired pursuant to the initial adoption of this statement, the loss from that transitional impairment will be reported as a change in accounting principle as of the beginning of the calendar year 2002. Management of the Corporation has not determined the total effect that the initial adoption of this statement will have on Corporation's financial position, liquidity or results of operations.

Core value of deposits is the only intangible asset of the Corporation subject to amortization effective January 1, 2002. The following table sets forth the estimated amortization expense for core value of deposits for 2002 and thereafter:

For the year ended December 31:	Amortization Expense
2002	$ 6,368
2003	5,533
2004	4,402
2005	3,875
2006	3,233
2007	2,719
2008 and thereafter	2,603

B. IMPLEMENTATION OF SFAS NO. 142 "GOODWILL AND OTHER INTANGIBLE ASSETS" (Continued):

The following table reflects consolidated results adjusted as though the adoption of SFAS No. 142 was as of the beginning of the three-month period ended March 31, 2001:

	Three Months Ended March 31,	
	2002	2001
Reported net income	$ 27,983	$ 22,234
Amortization of goodwill (net of income tax benefit of $33 in 2001)	-	2,087
Adjusted net income	$ 27,983	$ 24,321
Basic earnings per common share:		
Reported net income	$ .62	$ .42
Amortization of goodwill, net of taxes	-	.04

Adjusted net income per basic share	$ .62	$ .46
Diluted earnings per common share:		
Reported net income	$ .61	$ .42
Amortization of goodwill, net of taxes	-	.04
Adjusted net income per diluted share	$ .61	$ .46

C. 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 is summarized as follows for the following periods:

	Three Month March	
	2002	
Beginning balance	$ 117,217	$
Mortgage servicing rights retained through loan sales	9,614	
Amortization expense	(6,668)	
Other items, net (principally hedge activity)	(1,379)	
	118,784	
Valuation adjustments	529	
Ending balance	$ 119,313	$

The activity of the valuation allowances on mortgage servicing rights is summarized as follows for the following periods:

	Three Months March 3
	2002

Beginning balance	$ 19,641	$
Amounts charged (credited) to operations	(529)	
Ending balance	$ 19,112	$

The fair value of the Corporation's mortgage servicing rights totaled approximately $124,841,000 at March 31, 2002 compared to $116,695,000 at March 31, 2001.

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

	March 31, 2002		December 31,	
	Conventional	Governmental	Conventional	Go
Fair value	$ 66,806	$ 58,035	$ 63,006	$
Prepayment speed	6.9% - 62.2%	6.4% - 53.2%	7.1% - 63.2%	
Weighted average prepayment speed	15.7%	16.2%	16.1%	
Discount rate	9.6% - 11.9%	11.4% - 11.9%	9.6% - 13.2%	11.

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D. COMMITMENTS AND CONTINGENCIES:

At March 31, 2002, the Corporation's outstanding commitments, excluding undisbursed portions of loans in process, were as follows:

Originate residential mortgage loans	$ 168,024
Purchase residential mortgage loans	114,251
Originate commercial real estate loans	141,652
Originate consumer, commercial operating and agricultural loans	16,041
Unused lines of credit for commercial and consumer use	192,288
Purchase investment securities	57,850
Purchase mortgage-backed securities	5,978
	$ 696,084

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. The Corporation evaluates each customer's credit worthiness on a

separate basis and requires collateral based on this evaluation. Collateral consists mainly of residential family units and personal property.

At March 31, 2002, the Corporation had approximately $339,015,000 in mandatory forward delivery commitments to sell residential mortgage loans. At March 31, 2002, loans sold subject to recourse provisions totaled approximately $6,385,000 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.

E. SEGMENT INFORMATION:

Effective January 1, 2002, the Corporation's operations were realigned into four lines of business operations for management reporting purposes. These lines of business units are Commercial Banking, Mortgage Banking, Retail Banking and Treasury. Before this realignment, the Corporation identified and utilized two lines of business: Community Banking and Mortgage Banking. The segment information for March 31, 2001, was restated to reflect these changes. This realignment was made to allow management to make more well-informed operating decisions, to focus resources to benefit both the Corporation and its customers, and to assess performance and products on a continuous basis.

The financial information presented does not necessarily represent the business unit's results of operations or financial condition as if they were independent companies. This information in the following tables is derived from management's internal reporting system used to measure the performance of the segments and the Corporation in total. This management reporting system and the results of operations and financial condition by reported business unit are not in accordance with accounting principles generally accepted in the United States.

The Commercial Banking segment involves the origination of commercial operating, agricultural, commercial real estate, and small business loans, as well as

indirect lending and commercial and residential construction loans. Also included in this segment is commercial demand and time deposits and cash management products. The Commercial Banking services are offered through the Bank's branch network and the Internet.

The Mortgage Banking segment involves the origination 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, mortgage loan offices and a nationwide correspondent network of mortgage loan originators.

The Retail Banking segment involves a variety of traditional banking and financial services. These services include consumer checking, savings and certificates of deposit accounts (regular and retirement); consumer loans for home equity, autos, secured and unsecured purposes, as well as credit cards; and all retail banking services including overdraft protection, electronic and telephone bill-paying and cash advances. Also included in this segment is insurance and securities brokerage services. The Retail Banking services are offered through the Bank's branch network, automated teller machines, customer support telephone centers and the Internet.

The Treasury segment is responsible for corporate asset and liability management including the Corporation's investment and mortgage-backed securities, single-family residential mortgage loans, wholesale deposits, advances from the Federal Home Loan Bank ("FHLB") and all other borrowings. The Treasury segment also manages the interest rate risk of the Corporation.

Net interest income is determined by the Corporation's internal funds transfer pricing system which calculates each segment's net interest income contribution based on the type, maturity or repricing characteristics of certain assets and liabilities. The provision for loan losses by segment is based upon the current and historical business cycle loss rates. Total other income consists of revenue directly attributable to each segment, allocations based on segment ownership of certain assets and liabilities, and bank owned life insurance allocated to segments net of associated expenses and income taxes. Total other expense consists of direct expenses attributable to each segment and indirect expenses allocated by an activity-based costing system using full absorption. Income taxes are calculated separately for each segment with the "other" column used to reconcile net income by segment to the external reported consolidated net income. In addition the "other" column includes the net impact of transfer pricing loan and deposit balances, the reconciliation of provision for loan losses and income taxes to external reported balances, and any residual effects of unallocated systems and other support functions.

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E. SEGMENT INFORMATION (Continued):

The contributions of the major business segments to the consolidated results for the three months ended March 31, 2002 and 2001 are summarized in the following tables:

	Commercial	Mortgage	Retail

Three Months Ended:	Banking	Banking	Banking	Treasury
March 31, 2002:				
Net interest income	$ 22,620	$ 5,827	$ 27,437	$ 28,699
Provision (credit) for loan losses	3,047	71	2,208	1,900
Total other income (loss)	1,252	9,312	27,258	(11,757)
Total other expense (income)	8,437	8,228	46,278	(107)
Income (loss) before income taxes	12,388	6,840	6,209	15,149
Income tax provision (benefit)	4,249	2,456	2,229	3,669
Net income	8,139	4,384	3,980	11,480
Total revenue	23,872	15,139	54,695	16,942
Intersegment revenue	-	3,407	4,467	645
Depreciation and amortization	278	378	3,796	43
Total assets	2,956,866	724,883	1,609,359	7,455,465

March 31, 2001:				
Net interest income	$ 16,931	$ 2,198	$ 31,342	$ 21,358
Provision (credit) for loan losses	1,204	10	1,992	1,436
Total other income (loss)	2,267	6,994	24,810	(2,641)
Total other expense (income)	9,300	7,748	48,480	(1,011)
Income (loss) before income taxes	8,694	1,434	5,680	18,292
Income tax provision (benefit)	3,162	532	2,107	6,065
Net income	5,532	902	3,573	12,227
Total revenue	19,198	9,192	56,152	18,743
Intersegment revenue	-	2,343	2,437	165
Depreciation and amortization	212	385	4,178	52
Total assets	2,681,609	660,610	1,746,555	7,654,287

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F. 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 March 31, 2002, 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 March 31, 2002:

	Actual Capital		Required Capital	
	Amount	Ratio	Amount	Ratio
OTS capital adequacy:				
Tangible capital	$702,648	5.60%	$188,151	1.50%
Core capital	705,428	5.62	376,385	3.00
Risk-based capital	847,013	11.37	595,851	8.00
FDICIA regulations to be classified well-capitalized:				
Tier 1 leverage capital	705,428	5.62	627,308	5.00
Tier 1 risk-based capital	705,428	9.47	446,889	6.00
Total risk-based capital	847,013	11.37	744,814	10.00

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.

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G. SUBSEQUENT EVENTS:

On May 13, 2002, the Corporation's Board of Directors approved an increase to the Corporation's quarterly cash dividend to $.09 per common share from $.08 per common share. The new dividend rate of $.09 per common share will be paid on July 11, 2002, to stockholders of record as of June 27, 2002.

Effective May 14, 2002, stockholders approved the Corporation's 2002 Stock Option and Incentive Plan (the "2002 Option Plan"). The 2002 Option Plan reserves 2,100,000 shares of the Corporation's common stock for issuance upon the exercise of stock options or stock appreciation rights or the grant of restricted stock. All employees and directors of the Corporation and its affiliates are eligible to participate in the 2002 Option Plan.

H. CURRENT ACCOUNTING PRONOUNCEMENTS:

Effective January 1, 2002, the Corporation adopted the provisions of Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or

Disposal of Long-Lived Assets" ("SFAS No. 144") that replaced 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. Provisions of this statement are generally to be applied prospectively. 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.

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

The statements in this Form 10-Q 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.

CRITICAL ACCOUNTING POLICIES:

The Corporation's critical accounting policies involving the more significant judgments and assumptions used in the preparation of the consolidated financial statements as of March 31, 2002, have remained unchanged from December 31, 2001. These policies are allowance for losses on loans, mortgage servicing rights and derivative financial instruments. Disclosure on these critical accounting policies is incorporated by reference under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Corporation's Annual Report on Form 10-K for the Corporation's year ended December 31, 2001.

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 for approval to be filed with the OTS. At March 31, 2002, the Bank's total distributions exceeded its retained income by $255.3 million under this regulation thereby requiring the Bank to file an application with the OTS for any capital distributions.

The Corporation manages its liquidity at both the parent company and subsidiary levels. At March 31, 2002, the cash of Commercial Federal Corporation (the "parent company") totaled $20.3 million. Due to the parent company's limited independent operations, the parent company's ability to make future interest and principal payments on its $21.7 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 term and revolving credit notes is dependent upon its receipt of dividends from the Bank. During the three months ended March 31, 2002, the parent company received cash dividends totaling $35.0 million from the Bank for:

- interest payments totaling $4.8 million on the parent company's debt,
- principal payments of $10.3 million on the parent company's five-year term note and revolving credit note,
- common stock cash dividends totaling $11.7 million paid by the parent company to its common stock shareholders, and
- the financing of common stock repurchases totaling $8.2 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.

During the three months ended March 31, 2002, the Corporation repurchased 798,500 shares of its common stock at a cost of $19.5 million completing the Board authorization on May 7, 2001 to repurchase an additional 5,000,000 shares by December 31, 2002. On February 28, 2002, the Board of Directors authorized an additional stock repurchase for 500,000 shares to be completed no later than December 31, 2003. As of March 31, 2002, no common stock had been repurchased pursuant to this authorization.

LIQUIDITY AND CAPITAL RESOURCES (Continued):

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 $178.0 million and $224.8 million, respectively, for the three months ended March 31, 2002 and 2001. 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 provided by investing activities totaled $291.4 million and $48.1 million, respectively, for the three months ended March 31, 2002 and 2001. Amounts fluctuate from period to period primarily as a result of (i) principal repayments on loans and mortgage-backed securities, (ii) the purchases and origination of loans and (iii) the purchases and sales of mortgage-backed and investment securities.

Net cash flows used by financing activities totaled $170.5 million for the three months ended March 31, 2002, and net cash flows provided by financing activities totaled $160.6 million for the three months ended March 31, 2001. Advances from the FHLB and deposits 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 $114.0 million for the three months ended March 31, 2002. The net decrease in deposits for the current period is primarily due to the run-off in the higher costing certificates of deposit portfolio and the reduction in brokered deposits used for funding needs as part of the Corporation's business plan. For the three months ended March 31, 2002, certificates of deposits decreased $117.0 million. During the three months ended March 31, 2002, the Corporation purchased $300.0 million notional amount of swaptions at a cost of $18.2 million to hedge the call option on $300.0 million of fixed-rate FHLB advances that are convertible into adjustable-rate advances at the option of the Federal Home Loan Bank. During the three months ended March 31, 2002 and 2001, the Corporation repurchased shares of its common stock totaling $19.5 million and $35.4 million, respectively.

Contractual Obligations and Other Commitments:

Through the normal course of operations, the Corporation enters into certain contractual obligations and other commitments. These obligations generally relate to funding of operations through debt issuances as well as leases for premises and equipment. As a financial institution, the Corporation routinely enters into commitments to extend credit, including loan commitments, standby letters of credit and financial guarantees. At March 31, 2002, the Corporation issued commitments totaling approximately $696.1 million to fund and purchase loans and securities as follows: $91.7 million of single-family adjustable-rate mortgage loans, $190.6 million of single-family fixed-rate mortgage loans, $141.7 million of commercial real estate loans, $16.0 million of consumer, commercial operating and agricultural loans, $57.9 million of investments, $6.0 million of mortgage-backed securities and approximately $192.3 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 March 31, 2002, the Corporation had approximately $339.0 million in mandatory forward delivery commitments to sell residential mortgage loans. The following table represents the Corporation's significant contractual obligations at March 31, 2002, for the next five years:

Due March 31:	Long-Term Debt	Lease Obligations	Total

2003	$ 73,559	$ 6,073	$ 79,632
2004	7,250	5,394	12,644
2005	42,875	3,691	46,566
2006	-	2,444	2,444
2007	121,725	1,752	123,477
2008 and thereafter	295,000	12,064	307,064
Totals	$ 540,409	$ 31,418	$ 571,827

The maintenance of an appropriate level of liquid resources 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 Bank's liquidity ratio was 15.26% at March 31, 2002. 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.

OPERATING RESULTS BY SEGMENT:

Commercial Banking

The Commercial Banking segment reported net income of $8.1 million for the three months ended March 31, 2002, compared to $5.5 million for the three months ended March 31, 2001. Net interest income increased $5.7 million to $22.6 million for the quarter ended March 31, 2002, compared to $16.9 million for the 2001 first quarter. This increase is due primarily to the growth in the average balance of the commercial loan portfolio over last year. The provision for loan losses increased $1.8 million to $3.0 million for the current quarter compared to $1.2 million for the 2001 first quarter. This increase is due to a larger commercial loan portfolio comparing the respective periods since the loss rate applied remained unchanged. Total other income decreased $1.0 million to $1.3 million for the three months ended March 31, 2002, compared to $2.3 million for the 2001 first quarter. Total other income decreased comparing the respective periods due to net losses totaling $435,000 in commercial real estate operations incurred during the 2002 first quarter compared to net gains totaling $485,000 recorded in 2001. Total other expense was down $863,000 to $8.4 million for the three months ended March 31, 2002, compared to $9.3 million for the 2001 first quarter. Total other expense is lower primarily due to $754,000 in additional expenses recorded in the 2001 first quarter to finalize the sale for the leasing portfolio in February 2001.

Mortgage Banking

The Mortgage Banking segment reported net income of $4.4 million for the first three months ended March 31, 2002, compared to $902,000 for the three months ended March 31, 2001. Net interest income increased $3.6 million to $5.8 million for the quarter ended March 31, 2002, compared to $2.2 million for the three months ended March 31, 2001. This increase is due primarily to an increase in the credit the Mortgage Banking segment received in the 2002 first quarter compared to 2001 from an increase in its custodial earnings computed using an internal cost of funds rate. The custodial earnings increased comparing the respective periods due to increases in escrow balances primarily from mortgage refinancing activity. The other significant increase was in total other income amounting to $9.3 million for the three months ended March 31, 2002, compared to $7.0 million for the three months ended March 31, 2001. Total other income

increased due to net gains on the sales of loans totaling $3.4 million for the 2002 first quarter compared to $2.5 million in net losses on the sales of loans incurred in the 2001 first quarter.

Retail Banking

The Retail Banking segment reported net income of $4.0 million for the three months ended March 31, 2002, compared to $3.6 million for the three months ended March 31, 2001. Net interest income decreased $3.9 million from the 2001 first quarter to $27.4 million for the quarter ended March 31, 2002. This decrease in net interest income is primarily due to a lower average balance of interest-earning loans and a lower rate on such loans comparing the first quarter of 2002 to 2001. The provision for loan losses increased $216,000 to $2.2 million comparing the first quarter of 2002 to 2001. This increase is due to the change in the Retail Banking segment's loan portfolio mix. Total other income increased to $27.3 million for the three months ended March 31, 2002, compared to $24.8 million for the three months ended March 31, 2001. The net increase in total other income comparing the respective periods is primarily due to the increased retail fee pricing structure effective September 1, 2001, partially offset by decreases in commission revenues from brokerage and insurance operations. Total other expense decreased $2.2 million to $46.3 million for the three months ended March 31, 2002, from $48.5 million for the three months ended March 31, 2001. This decrease is primarily due to lower operating costs in 2002 compared to 2001 since most of the branches pursuant to the August 2000 key initiatives had not been sold as of March 31, 2001.

Treasury

The Treasury segment reported net income of $11.5 million for the three months ended March 31, 2002, compared to $12.2 million for the three months ended March 31, 2001. Net interest income increased $7.3 million to $28.7 million for the quarter ended March 31, 2002, compared to $21.4 million for the quarter ended March 31, 2001. This increase is due primarily to the lower cost of borrowed funds and the higher average balance of investment and mortgage-backed securities for the first quarter of 2002 compared to 2001. The provision for loan losses increased $464,000 to $1.9 million for the 2002 first quarter compared to $1.4 million for the 2001 first quarter due to a higher balance of loans held in the Treasury segment comparing the respective periods. Total other income is a loss of $11.8 million for the quarter ended March 31, 2002, compared to a loss of $2.6 million for 2001. This decrease of $9.2 million is due to losses of $4.8 million recorded in the 2002 quarter on the sales of securities compared to net gains totaling $9.1 million on the sales of securities for the 2001 quarter, partially offset by higher amounts of intersegment revenues allocated from Treasury to the Mortgage and Retail Banking segments in 2001 compared to 2002. Total other expense for the three months ended March 31, 2002, is a credit of $107,000 compared to a credit of $1.0 million for the three months ended March 31, 2001. This net change is primarily due to higher loan production cost allocations in 2002 compared to 2001.

CONSOLIDATED RESULTS OF OPERATIONS:

Net income for the three months ended March 31, 2002, was $28.0 million, or $.61 per diluted share ($.62 per basic share), compared to net income of $22.2 million, or $.42 per basic and diluted share, for the three months ended March 31, 2001. The net increase in net income comparing the respective quarters is

primarily due to an increase of $12.8 million in net interest income and net decreases of $2.4 million in the amortization of intangible assets and $620,000 in general and administrative expenses. These net increases to net income were partially offset by a decrease of $6.5 million in total other income and increases of $2.1 million and $1.4 million, respectively, in the provision for loan losses and provision for income taxes.

Net Interest Income:

Net interest income totaled $84.6 million for the three months ended March 31, 2002, compared to $71.8 million for the three months ended March 31, 2001, an increase of approximately $12.8 million, or 17.8%. During the three months ended March 31, 2002 and 2001, interest rate spreads were 2.94% and 2.45%, respectively, an increase of 49 basis points; and the net yield on interest-earning assets was 2.91% and 2.49%, respectively, an increase of 42 basis points. Net interest income increased for the three months ended March 31, 2002 compared to 2001 due to (i) the lower interest rate environment in which costing liabilities have been repricing downward at a faster rate than earning assets have been repricing, (ii) the continued shift in the asset mix toward higher yielding commercial and consumer loans and (iii) a shift in funding from certificates of deposit to checking and savings (core deposits). The increase in the interest rate spread is due primarily to a 144 basis point decrease in the rate paid on interest-bearing liabilities partially offset by a 95 basis point decrease in the yield received on interest-earning assets. Total interest expense decreased $38.8 million comparing the three months ended March 31, 2002 to 2001 due to the lower costs of funds. Total interest income decreased $26.1 million over the same three-month periods due to lower yields on interest-earning assets.

Based on the current interest rate environment and the Corporation's gap position, management anticipates a favorable margin for the second quarter ended June 30, 2002, with a decline to a more sustainable level in the margin during the last six months of calendar year 2002 as earning-assets reprice. However, the future trend in interest rate spreads and net interest income will be dependent upon and influenced by changes in and levels of both short-term and long-term market interest rates, and such other 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.

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 March 31,		Mar
	2002	2001	2002
Weighted average yield on:			
Loans	7.28%	8.06%	7.30%
Mortgage-backed securities	5.86	6.75	6.27
Investments	5.42	6.89	5.24
Interest-earning assets	6.83	7.78	6.89

Weighted average rate paid on:			
Savings and checking acounts (core deposits)	2.54	3.16	2.50
Certificates of deposit	3.85	6.22	3.46
Advances from FHLB	4.81	6.12	4.87
Securities sold under agreements to repurchase	4.23	5.29	4.01
Other borrowings	4.39	8.55	5.11
Interest-bearing liabilities	3.89	5.33	3.81
Net interest rate spread	2.94%	2.45%	3.08%
Net annualized yield on interest-earning assets	2.91%	2.49%	3.01%

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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 expense, and average yields and rates during the three months ended March 31, 2002. This table includes nonaccruing loans averaging $88.9 million for the three months ended March 31, 2002, as interest-earning assets at a yield of zero percent:

	Three Months Ended March 31, 2002		
	Average Balance	Interest	Annua Yie Rat
Interest-earning assets:			
Loans	$ 8,381,332	$ 152,039	
Mortgage-backed securities	1,832,143	26,858	
Investments	1,411,911	19,119	
Interest-earning assets	11,625,386	198,016	
Interest-bearing liabilities:			
Savings and checking accounts (core deposits)	3,455,916	21,673	
Certificates of deposit	2,857,592	27,131	
Advances from FHLB	4,897,628	58,894	
Securities sold under agreements to repurchase	209,797	2,218	
Other borrowings	320,813	3,517	
Interest-bearing liabilities	11,741,746	113,433	

Net earnings balance	$ (116,360)	
Net interest income		$ 84,583
Net interest rate spread		
Net annualized yield on interest-earnings assets		

The Corporation's net earnings balance decreased by $143.1 million during the three months ended March 31, 2002, compared to the three months ended March 31, 2001. This decrease in the net earnings balance comparing these periods is primarily due to the repurchases of common stock totaling $165.0 million over the last twelve months.

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 change in the 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 March 31, 2002 Compared to March 31, 2001 — Increase (Decrease) Due to		
	Volume	Rate	Total
Interest income:			
Loans	$ (11,384)	$ (17,276)	$ (28,660)
Mortgage-backed securities	4,314	(3,698)	616
Investments	5,923	(3,941)	1,982
Interest income	(1,147)	(24,915)	(26,062)
Interest expense:			
Savings and checking accounts (core deposits)	676	(5,085)	(4,409)
Certificates of deposit	(18,585)	(20,781)	(39,366)
Advances from FHLB	16,511	(13,599)	2,912
Securities sold under agreements to repurchase	2,121	(30)	2,091

Other borrowings	2,244	(2,288)	(44)
Interezt expense	2,967	(41,783)	(38,816)
Effect on net interest income	$ (4,114)	$ 16,868	$ 12,754

Provision for Loan Losses:

The Corporation recorded loan loss provisions totaling $6.6 million for the three months ended March 31, 2002, compared to $4.4 million for the three months ended March 31, 2001. The provision for loan losses increased in the current quarter compared to the 2001 first quarter to cover net loans charged-off. Net loans charged-off totaled $6.4 million for the three months ended March 31, 2002, compared to $4.0 million for the three months ended March 31, 2001. The net charge-offs are higher for the current quarter compared to the year-ago quarter due to increases in charge-offs for construction loans, consumer loans and credit cards. 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 $102.6 million at March 31, 2002, or 132.3% of total nonperforming loans, compared to $102.5 million, or 109.2% at December 31, 2001.

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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:

	March 31, 2002	Dece
Nonperforming loans:		
Residential real estate	$ 58,069	$
Commercial real estate	14,335	
Consumer and other loans	5,139	
Total	77,543	

Real estate:		
Commercial	7,961	
Residential (includes the Nevada residential development property)	37,498	
Total	45,459	
Troubled debt restructurings:		
Commercial	3,021	
Residential	82	
Total	3,103	
Total nonperforming assets	$ 126,105	$
Nonperforming loans to total loans	.90%	
Nonperforming assets to total assets	.99%	
Total allowance for loan losses (1)	$ 102,581	$
Allowance for loan losses to total loans	1.19%	
Allowance for loan losses to total nonperforming assets	81.35%	
Allowance for loan losses to nonresidential nonperforming assets	336.82%	

(1) Includes $294,000 and $92,000 at March 31, 2002 and December 31, 2001, respectively, in allowance for losses established on loans and leases held for sale.

Nonperforming loans at March 31, 2002, decreased by $16.3 million compared to December 31, 2001, primarily due to the foreclosure and subsequent sale of a commercial real estate loan totaling $9.1 million, a decrease in the residential portfolio totaling $5.4 million and a decrease in the consumer portfolio totaling $1.6 million. The $251,000 net increase in real estate at March 31, 2002, compared to December 31, 2001, is primarily due to capitalized expenses on the Nevada residential master planned community development property totaling $1.4 million partially offset by a net decrease in commercial real estate totaling $801,000 primarily from impairment losses.

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Retail Fees and Charges:

Retail fees and charges totaled $12.4 million for the three months ended March 31, 2002, compared to $12.1 million for the three months ended March 31, 2001. The primary reasons for the increase over the prior year first quarter is due to an increased retail fee pricing structure effective September 1, 2001, and increases in the volume of checking accounts.

Loan Servicing Fees, Net:

The major components of loan servicing fees for the periods indicated and the amount of loans serviced for other institutions are as follows:

	Three Months Ended March 31,	
	2002	2001
Revenue from loan servicing fees	$ 7,902	$ 8,291
Revenue from late loan payment fees	1,602	1,649
Amortization of mortgage servicing rights	(6,668)	(3,388)
Valuation adjustments for impairment	529	(5,484)
Loan servicing fees, net	$ 3,365	$ 1,068
Loans serviced for other institutions at March 31	$ 9,524,493	$ 9,240,315

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 adjustments to the valuation allowances. The loan servicing fees category also includes fees collected for late loan payments. The net decrease in revenue from loan servicing fees comparing the three months of 2002 to 2001 are due to a lower level of service fee rates comparing the respective periods slightly offset by a higher average balance of mortgage loans serviced for others. The increase in amortization expense of mortgage servicing rights reflects an increase in loan 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. At March 31, 2002, a credit of $529,000 was recorded reducing the Corporation's valuation allowance on mortgage servicing rights to a balance of $19,112,000 as of March 31, 2002. A valuation adjustment totaling $5.5 million in impairment losses was recorded during the three months ended March 31, 2001, as a reduction of loan servicing fees and of the carrying amount of the mortgage servicing rights portfolio. Changes in the valuation allowance are due to increases or decreases in loan prepayments resulting from changes in interest rates.

The fair value of the Corporation's loan servicing portfolio increases as mortgage 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.

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

During the three months ended March 31, 2002 and 2001, the following transactions were recorded:

	Three M
	2002
Gain (loss) on the sales of available-for-sale securities:	
Investment securities	$(2,778
Mortgages-backed securities	(371
Net gain (loss) on sales	(3,149
Changes in the fair value of interest rate floor agreements not qualifying for hedge accounting	(1,222
Amortization expense on the deferred loss on terminated interest rate swap agreements	(509
Other items	37
Gain (loss) on the sales of securities and changes in fair value of derivatives, net	$(4,843

During the three months ended March 31, 2002, the Corporation incurred pre-tax losses on the sales of available-for-sale investment and mortgage-backed securities totaling $3.1 million. The proceeds from the sale of these securities were reinvested into higher yielding securities. During the three months ended March 31, 2001, the Corporation realized pre-tax gains on the sales of available-for-sale investment and mortgage-backed securities totaling $8.1 million. These net gains were recognized primarily to offset the valuation adjustment loss of $5.5 million in the mortgage servicing rights portfolio as of March 31, 2001.

Gain (Loss) on Sales of Loans:

During the three months ended March 31, 2002, the Corporation recorded a $3.4 million gain on sales of loans and changes in the fair value of derivative financial instruments and certain hedged items. During the current quarter, loans were sold totaling $620.0 million resulting in a pre-tax gain of $4.5 million. During the three months ended March 31, 2001, loans were sold totaling $580.2 million resulting in a pre-tax loss of $2.5 million.

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 also has derivative financial instruments (forward loan sales commitments and conforming loan commitments) and certain hedged items (loan warehouse fair value hedge) that under SFAS No. 133 are recorded at fair value with the changes in fair value reported in current earnings. For the three months ended March 31, 2002, the net changes in the fair value of these derivative financial instruments and certain hedged items totaled $1.1 million and were recorded as a net loss in this category.

Real Estate Operations:

The Corporation recorded net losses from real estate operations totaling $1.4

million for the three months ended March 31, 2002 compared to net losses of $515,000 for the three months ended March 31, 2001. 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 increase in the loss for real estate operations for the three months ended March 31, 2002, compared to the 2001 first quarter is primarily due to increased operating expenses ($303,000 attributable to the Nevada residential master planned community development), increases in impairment losses and decreases in the net gains on properties sold.

Other Operating Income:

Other operating income totaled $7.7 million for the three months ended March 31, 2002, compared to $7.9 million for the three months ended March 31, 2001. The major components of other operating income are brokerage commissions, credit life and disability commissions and insurance commissions. These components totaled $4.5 million for the three months ended March 31, 2002, compared to $5.2 million for the 2001 first quarter with brokerage commissions decreasing $659,000 over the respective periods primarily accounting for the decrease in other operating income.

General and Administrative Expenses:

Total general and administrative expenses approximated $61.2 million for the three months ended March 31, 2002, compared to $61.8 million for the three months ended March 31, 2001. Excluding exit costs and termination benefits, general and administrative expenses totaled $59.9 million for the three months ended March 31, 2001. The net increase in the current quarter compared to the prior year 2001 first quarter is primarily due to an increase in compensation and benefits partially offset by lower expenses resulting from the reduction in branches and management's emphasis on tighter cost controls. Compensation and benefits increased $2.0 million over the 2001 quarter to $28.5 million for the three months ended March 31, 2002. This increase is primarily due to the employer social security taxes and federal and state unemployment taxes paid in the current quarter on the management incentive plan bonuses paid on March 1, 2002, to annual merit increases to all executives and managers and to other incentive production bonuses.

Exit Costs and Termination Benefits:

The Corporation incurred a net loss for the three months ended March 31, 2001, totaling $2.0 million in branch-related closing costs and exiting leasing operations. This loss is due to $1.2 million incurred in severance costs associated with right-sizing branch personnel and expenses to close branches, as well as additional expenses totaling $754,000 to finalize the sale of the leasing portfolio. No similar gain or loss was recorded for the three months ended March 31, 2002.

Amortization of Core Value of Deposits and Goodwill:

For the three months ended March 31, 2002, amortization of core value of deposits totaled $1.6 million compared to $1.9 million for the three months ended March 31, 2001. The net decrease in amortization expense for the three months ended March 31, 2002, compared to 2001 is primarily due to core value of

deposits amortizing on an accelerated basis in earlier years.

Effective January 1, 2002, the Corporation adopted SFAS No. 142. Therefore, beginning in 2002, goodwill is no longer subject to amortization, but will be evaluated for impairment at least on an annual basis. For calendar year 2002, goodwill totaling $7,791,000, or approximately $.16 per share, will not be amortized pursuant to SFAS No. 142. For the three months ended March 31, 2001, amortization of goodwill totaled $2.1 million. See Note B "Goodwill and Intangible Assets" in the Notes to Condensed Financial Statements for additional information.

Provision for Income Taxes:

The provision for income taxes totaled $11.4 million for the three months ended March 31, 2002, compared to $10.0 million for the three months ended March 31, 2001. The effective income tax rate for the three months ended March 31, 2002, was 29.0% compared to 30.9% for the three months ended March 31, 2001. The effective income tax rate is lower for the current quarter compared to the respective 2001 quarter due to the cessation of deductible goodwill amortization effective January 1, 2002, and to an increase in tax-exempt interest income. The effective tax rates for the three months ended March 31, 2002 and 2001, vary from the statutory rate primarily due to tax benefits from the bank owned life insurance, tax-exempt interest income and tax credits.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information as of March 31, 2002, concerning the Corporation's exposure to market risk, which has remained relatively unchanged from December 31, 2001, is incorporated by reference under Item 7A "Quantitative and Qualitative Disclosures About Market Risk" in the Corporation's Annual Report on Form 10-K for the Corporation's year ended December 31, 2001.

PART II. OTHER INFORMATION

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

(a). The Corporation held its Annual Meeting of Stockholders on May 14, 2002, in Omaha, Nebraska. The inspector of election issued his certified final report on May 14, 2002, for the election of directors and approval of the 2002 Stock Option and Incentive Plan voted upon at such Annual Meeting.

(b). Not applicable.

(c). The proposals voted upon at the Annual Meeting were for the election of one individual as director for a two year term and three individuals as directors for three year terms and the approval of the Corporation's 2002 Stock Option and Incentive Plan. The results of voting were as follows:

Proposal I - Election of Directors:	Votes For	V
Nominees:		
For term to expire in 2004 -		
Robert J. Hutchinson	39,909,951	
For terms to expire in 2005 -		
William A. Fitzgerald	39,846,448	
Robert D. Taylor	39,871,192	
Also J. Tesi	39,666,691	

Proposal II - Approval of 2002 Stock Option and Incentive Plan:

Votes For	Votes Against	Abstentions
35,569,283	5,173,564	289,094

(d). Not applicable.

Item 5. Other Information

On May 13, 2002, the Corporation's Board of Directors approved an increase to the Corporation's quarterly cash dividend to $.09 per common share from $.08 per common share. The new dividend rate of $.09 per common share will be paid on July 11, 2002, to stockholders of record as of June 27, 2002.

Item 6. Exhibits and Reports on Form 8-K

(a). Exhibits:

None

(b). Reports on Form 8-K:

On March 7, 2002, the Corporation filed a Form 8-K regarding the authorization by the Board of Directors on February 28, 2002, for the Corporation to repurchase up to 500,000 shares of its common stock. This repurchase of the Corporation's outstanding common stock is to be completed no later than December 31, 2003.

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: May 15, 2002

/s/ David S. Fisher

David S. Fisher, Executive Vice President
and Chief Financial Officer
(Principal Financial Officer)

Date: May 15, 2002

/s/ Gary L. Matter

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