EFC BANCORP INC
Form 10-Q
November 13, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

/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**

For the transition period from ______ to ______

Commission File Number 1-13605

EFC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-4193304**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1695 Larkin Avenue, Elgin, Illinois	**60123**
(Address of principal executive offices)	(Zip Code)

(847) 741-3900

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changes 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: 4,611,161 shares of common stock, par value $0.01 per share, were outstanding as of November 10, 2001.

EFC Bancorp, Inc.
Form 10-Q
For the Quarter Ended September 30, 2001

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PART I. FINANCIAL INFORMATION
EFC BANCORP, INC.
SEPTEMBER 30, 2001

Item 1. Financial Statements.

EFC BANCORP, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets (unaudited)
September 30, 2001 and December 31, 2000

		September 30, 2001	December 31, 2000
Assets			
Cash and cash equivalents:			
On hand and in banks	$	2,047,254	2,668,094
Interest bearing deposits with financial institutions		39,682,726	24,354,577
Loans receivable, net		526,565,224	459,794,835
Mortgage-backed securities available-for-sale, at fair value		11,264,466	9,453,560
Investment securities available-for-sale, at fair value		57,473,866	64,070,927
Foreclosed real estate			539,792
Stock in Federal Home Loan Bank of Chicago, at cost		8,760,000	7,760,000

		September 30, 2001	December 31, 2000
Accrued interest receivable		3,695,506	3,723,849
Office properties and equipment, net		9,777,843	9,004,320
Other assets		1,253,934	1,831,034
Total assets	$	660,520,819	583,200,988
Liabilities and Stockholders' Equity			
Liabilities:			
Deposits	$	407,599,076	369,533,355
Borrowed money		175,200,000	140,200,000
Advance payments by borrowers for taxes and insurance		523,936	958,652
Income taxes payable		461,513	470,865
Accrued expenses and other liabilities		8,419,396	4,753,014
Total liabilities		592,203,921	515,915,886
Stockholders' Equity:			
Preferred stock, par value $.01 per share, authorized 2,000,000 shares; no shares issued			
Common stock, par value $.01 per share, authorized 25,000,000 shares; issued 7,491,434 shares		74,914	74,914
Additional paid-in capital		71,650,194	71,761,626
Treasury stock, at cost, 2,852,473 and 2,657,165 shares at September 30, 2001 and December 31, 2000, respectively		(33,180,050)	(30,987,317)
Unearned employee stock ownership plan (ESOP), 449,486 and 479,452 shares at September 30, 2001 and December 31, 2000, respectively		(6,720,967)	(7,169,039)
Unearned stock award plan, 122,107 and 164,896 shares at September 30, 2001 and December 31, 2000, respectively		(1,358,431)	(1,834,468)
Retained earnings, substantially restricted		36,949,990	35,483,689
Accumulated other comprehensive income (loss)		901,248	(44,303)
Total stockholders' equity		68,316,898	67,285,102
Commitments and contingencies			
Total liabilities and stockholders' equity	$	660,520,819	583,200,988

See accompanying notes to consolidated financial statements.

EFC BANCORP, INC.
AND SUBSIDIARIES

Consolidated Statements of Income (unaudited)
For the three and nine months ended September 30, 2001 and 2000

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000

	Three months ended September 30,		Nine months ended September 30,	
Interest income:				
Loans secured by real estate	$ 8,626,654	7,779,436	24,907,222	22,279,131
Other loans	1,126,235	767,443	3,095,326	2,001,012
Mortgage-backed securities available-for-sale	184,003	206,483	645,220	635,837
Investment securities available-for-sale and interest bearing deposits with financial institutions	1,201,799	1,411,957	3,921,678	4,175,277
Total interest income	11,138,691	10,165,319	32,569,446	29,091,257
Interest expense:				
Deposits	4,193,496	4,140,277	12,699,663	11,481,745
Borrowed money	2,243,800	1,990,650	6,615,046	5,335,542
Total interest expense	6,437,296	6,130,927	19,314,709	16,817,287
Net interest income before provision for loan losses	4,701,395	4,034,392	13,254,737	12,273,970
Provision for loan losses	135,000	111,258	330,000	267,000
Net interest income after provision for loan losses	4,566,395	3,923,134	12,924,737	12,006,970
Noninterest income:				
Service fees	308,739	249,032	829,784	699,335
Insurance and brokerage commissions	73,966	38,240	255,510	116,479
Gain (Loss) on sale of foreclosed real estate			8,014	(7,413)
Gain on sale of securities	32,812	81,309	32,812	150,057
Other	17,511	17,082	47,911	52,289
Total noninterest income	433,028	385,663	1,174,031	1,010,747
Noninterest expense:				
Compensation and benefits	1,785,674	1,616,189	5,233,749	4,735,733
Office building, net	98,693	86,019	279,090	272,402
Depreciation and repairs	306,975	235,179	900,935	703,519
Data processing	123,672	128,013	385,078	346,544
Federal insurance premium	17,354	17,268	52,638	50,412
NOW account operating expenses	153,208	121,160	414,944	348,753
Other	707,592	623,960	2,161,842	2,025,843
Total noninterest expense	3,193,168	2,827,788	9,428,276	8,483,206
Income before income taxes	1,806,255	1,481,009	4,670,492	4,534,511
Income tax expense	637,492	523,211	1,639,122	1,614,428
Net income	$ 1,168,763	957,798	3,031,370	2,920,083
Earnings per share (basic and diluted)	$ 0.27	0.22	0.71	0.66

See accompanying notes to consolidated financial statements.

EFC BANCORP, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows (unaudited)
For the nine months ended September 30, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Net income	$ 3,031,370	2,920,083
Adjustment to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and discounts, net	114,569	27,409
Provision for loan losses	330,000	267,000
Stock award plan shares allocated	476,037	478,263
ESOP shares committed to be released	448,071	448,071
Change in fair value of ESOP shares	(111,432)	(161,275)
Gain on sale of securities	(32,812)	(150,057)
(Gain)/Loss on sale of foreclosed real estate	(8,014)	7,413
Depreciation of office properties and equipment	553,559	507,268
(Increase)/Decrease in accrued interest receivable and other assets, net	6,753	(558,246)
Increase in income taxes payable, accrued expenses and other liabilities, net	3,222,568	599,177
Net cash provided by operating activities	8,030,669	4,385,106
Cash flows from investing activities:		
Net increase in loans receivable	(25,427,983)	(21,944,893)
Purchases of loans receivable	(45,229,516)	(34,162,550)
Purchases of mortgage-backed securities available-for-sale	(6,241,440)	
Principal payments on mortgage-backed securities available-for-sale	4,419,684	1,933,454
Maturities of investment securities available-for-sale	24,135,018	4,060,634
Proceeds from the sale of investment securities available for sale	4,032,812	7,063,076
Purchases of investment securities available-for-sale	(20,091,594)	(12,258,653)
Purchases of office properties and equipment	(1,327,081)	(924,464)
Purchases of stock in the Federal Home Loan Bank of Chicago	(1,000,000)	(1,650,000)
Proceeds from the sale of foreclosed real estate	4,104,916	160,298
Net cash used in investing activities	(62,625,184)	(57,723,098)
Cash flows from financing activities:		
Cash dividends paid	(1,571,164)	(1,394,801)
Purchase of treasury stock	(2,192,733)	(2,856,334)
Net increase in deposits	38,065,721	39,061,775
Proceeds from borrowed money	60,000,000	94,000,000
Repayments on borrowed money	(25,000,000)	(76,000,000)
Net cash provided by financing activities	69,301,824	52,810,640
Net increase/(decrease) in cash and cash equivalents	14,707,309	(527,352)

		2001	2000
Cash and cash equivalents at beginning of period		27,022,671	22,173,595
Cash and cash equivalents at end of period	$	41,729,980	21,646,243

See accompanying notes to consolidated financial statements.

EFC BANCORP, INC.

Notes to Consolidated Financial Statements

Note 1: BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of EFC Bancorp, Inc. (the Company) and its wholly-owned subsidiary, Elgin Financial Savings Bank (the Bank) and its wholly-owned subsidiary, Fox Valley Service Corporation of Elgin. Certain amounts for the prior year have been reclassified to conform to the current year presentation.

In the opinion of the management of the Company, the accompanying consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for the periods presented. All significant intercompany transactions have been eliminated in consolidation. These interim financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission and therefore certain information and footnote disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. It is suggested that the accompanying unaudited consolidated financial statements be read in conjunction with the Company's 2000 Annual Report on Form 10-K. Currently, other than investing in various securities, the Company does not directly transact any material business other than through the Bank. Accordingly, the discussion herein addresses the operations of the Company as they are conducted through the Bank.

Note 2: COMPREHENSIVE INCOME

The Company's comprehensive income for the three and nine month periods ended September 30, 2001 and 2000 are as follows:

	Three months ended September 30,			Nine months ended September 30,		
		2001	2000		2001	2000
Net income	$	1,168,763	957,798	$	3,031,370	2,920,083
Other comprehensive income, net of tax:						
Unrealized holding gains on securities arising during the period		453,582	516,141		966,223	216,235
Reclassification adjustment for net gain on sales of securities realized in net income		(20,672)	(51,225)		(20,672)	(94,536)
Comprehensive income	$	1,601,673	1,422,714	$	3,976,921	3,041,782

For both the three and nine month periods ended September 30, 2001 the sale of securities resulted in a gain of $32,812 ($20,672 net of tax effect). For the three and nine month periods ended September 30, 2000 the sale of securities resulted in a gain of $81,309 and $150,057 ($51,225 and $94,536 net of tax effect), respectively.

Note 3: COMPUTATION OF PER SHARE EARNINGS

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding adjusted for the dilutive effect of outstanding stock options. ESOP shares are only considered outstanding for earnings per share calculations when they are released or committed to be released.

Presented below are the calculations for the basic and diluted earnings per share:

		Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Basic:					
Net income	$	1,168,763	957,798	3,031,370	2,920,083
Weighted average shares outstanding		4,241,304	4,387,365	4,276,511	4,432,461
Basic earnings per share	$	0.27	0.22	0.71	0.66
Diluted:					
Net income	$	1,168,763	957,798	3,031,370	2,920,083
Weighted average shares outstanding		4,241,304	4,387,365	4,276,511	4,432,461
Effect of dilutive stock options outstanding		66,248	82	14,394	163
Diluted weighted average shares outstanding		4,307,552	4,387,447	4,290,905	4,432,624
Diluted earnings per share	$	0.27	0.22	0.71	0.66

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

The following analysis discusses changes in the financial condition at September 30, 2001 and results of operations for the three and nine months ended September 30, 2001, and should be read in conjunction with the Company's Unaudited Consolidated Financial Statements and the notes thereto, appearing in Part I, Item 1 of this document.

Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and the subsidiaries include, but are not limited to, changes in: interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning the Company and its business, including additional factors that could materially affect the Company's financial results, is included in the Company's filings with the SEC, including its 2000 Annual Report on Form 10-K.

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

Comparison of Financial Condition at September 30, 2001 and December 31, 2000

Total assets at September 30, 2001 were $660.5 million, which represented an increase of $77.3 million, or 13.3%, compared to $583.2 million at December 31, 2000. The increase in total assets was primarily as a result of an increase in loans receivable of $66.8 million, or 14.5%, to $526.6 million at September 30, 2001 from $459.8 million at December 31, 2000. Of the $66.8 million increase, $45.2 million represents loans purchased. The remaining increase in loans receivable was primarily attributable to strong loan demand during the period. In addition, cash and cash equivalents increased $14.7 million, or 54.4%, to $41.7 million at September 30, 2001 from $27.0 million at December 31, 2000. These increases were partially offset by a decrease in investment securities of $6.6 million, or 10.3%, to $57.5 million at September 30, 2001 from $64.1 million at December 31, 2000. The growth in total assets was funded by increases in borrowed money and deposits. Borrowed money, representing FHLB advances, increased by $35.0 million to $175.2 million at September 30, 2001 from $140.2 million at December 31, 2000. Deposits increased $38.1 million to $407.6 million at September 30, 2001 from $369.5 million at December 31, 2000. Stockholders' equity increased by $1.0 million to $68.3 million at September 30, 2001 from $67.3 million at December 31, 2000. The increase in stockholders' equity was primarily the result of the Company's net income during the period and a $946,000 increase in the

Company's accumulated other comprehensive income relating to its available-for-sale investment portfolio, the effect of which was partially offset by stock repurchases and dividends paid.

Comparison of Operating Results For the Three Months Ended September 30, 2001 and 2000

General. The Company's net income increased $211,000, or 22.0%, to $1.2 million for the three months ended September 30, 2001, from $958,000 for the three months ended September 30, 2000.

Interest Income. Interest income increased $973,000, or 9.6%, to $11.1 million for the three months ended September 30, 2001, compared with $10.2 million for the same period in 2000. The increase in interest income was primarily due to an increase in average interest-earning assets, which increased by $82.0 million, or 15.0%, to $627.4 million for the three months ended September 30, 2001 from $545.4 million for the comparable period in 2000, offset by a decrease in the average yield on interest-earning assets by 35 basis points to 7.10% for the three months ended September 30, 2001 from 7.45% for the three months ended September 30, 2000.

Mortgage loan interest income increased by $847,000 for the three months ended September 30, 2001 compared with the same period in 2000. The average balance of mortgage loans increased $44.0 million, while the loan yield increased by 2 basis points from 7.53% to 7.55%. Interest income from investment securities, mortgage-backed securities and short-term deposits decreased by $227,000 for the three months ended September 30, 2001, compared with the same period in 2000. This decrease resulted from a combination of an increase in average balance of $10.5 million and offset by a 155 basis point decrease in yield from 6.45% for the three months ended September 30, 2000 to 4.90% for the three months ended September 30, 2001. The decrease in yield is largely attributed to the effect of the lower interest rate environment reducing yields on short-term deposits.

Interest Expense. Interest expense increased by $306,000, or 5.0%, to $6.4 million for the three months ended September 30, 2001 from $6.1 million for the three months ended September 30, 2000. This increase resulted from an increase in the average balance of interest-bearing liabilities, offset by a decrease in the average rate paid on those interest-bearing liabilities. The average balance of interest-bearing liabilities increased by $70.8 million, or 15.0%, to $543.2 million at September 30, 2001 from $472.4 million at September 30, 2000. This change reflects a $37.5 million increase in the deposit accounts, which represents a $53.0 million increase in money market accounts, partially offset by a decrease of $15.8 million in certificates of deposits. The remaining $33.3 million increase is attributable to advances from the FHLB-Chicago. The average rate paid on combined deposits and borrowed money decreased by 45 basis points to 4.74% for the three months ended September 30, 2001 from 5.19% for the three months ended September 30, 2000.

Net Interest Income Before Provision for Loan Losses. Net interest income before provision for loan losses increased $667,000, or 16.5%, to $4.7 million for the three months ended September 30, 2001 from $4.0 million for the comparable period in 2000. The net interest margin as a percent of interest-earning assets increased by 4 basis points to 3.00% for the three months ended September 30, 2001 from 2.96% for the comparable period in 2000.

Provision for Loan Losses. The provision for loan losses increased by $24,000, to $135,000 for the three months ended September 30, 2001 from $111,000 in 2000. At September 30, 2001, December 31, 2000 and September 30, 2000, non-performing loans totaled $1.2 million,

$4.5 million and $5.0 million, respectively. The $3.3 million decrease in non-performing loans from December 31, 2000 to September 30, 2001 is largely the result of the pay-off of a $3.5 million loan, which was secured by a commercial office building located in St. Charles, Illinois. At September 30, 2001, the ratio of the allowance for loan losses to non-performing loans was 175.4% compared to 41.5% at December 31, 2000 and 36.2% at September 30, 2000. The ratio of the allowance to total loans was 0.40%, 0.41% and 0.40%, at September 30, 2001, December 31, 2000 and September 30, 2000, respectively. Charge-offs

totaled $16,000 for the three months ended September 30, 2001. There were no charge-offs for the three months ended September 30, 2000. Management periodically calculates an allowance sufficiency analysis based upon the portfolio composition, asset classifications, loan-to-value ratios, potential impairments in the loan portfolio, and other factors.

Noninterest Income. Noninterest income totaled $433,000 and $386,000 for the three months ended September 30, 2001 and 2000, respectively. The increase in noninterest income is primarily attributable to an increase in service fees of $60,000 and insurance and brokerage commission income of $36,000, partially offset by a decrease in gain on sale of securities of $48,000.

Noninterest Expense. Noninterest expense increased $365,000, to $3.2 million for the three months ended September 30, 2001 from $2.8 million for the comparable period in 2000. Compensation and benefits increased by $169,000. This increase was primarily due to a combination of annual salary increases and the addition of staff. The additional staff expenses are primarily attributed to the opening of the Bank's new East Dundee, Illinois branch. All other operating expenses, including advertising, marketing, postage, communications, data processing and other office expense increased by a combined $196,000, or 16.2%, to $1.4 million for the three months ended September 30, 2001 from $1.2 million for the three months ended September 30, 2000. Management continues to emphasize the importance of expense management and control while continuing to provide expanded banking services to a growing market base.

Income Tax Expense. Income tax expense totaled $637,000 and $523,000 for the three months ended September 30, 2001 and 2000, respectively. The increase was due to a $325,000 increase in earnings before income taxes to $1.8 million for the three months ended September 30, 2001 from $1.5 million for the prior year period. The effective tax rate was 35.3% for both the three months ended September 30, 2001 and 2000.

Comparison of Operating Results For the Nine Months Ended September 30, 2001 and 2000

General. The Company's net income increased $111,000, to $3.0 million for the nine months ended September 30, 2001, from $2.9 million for the nine months ended September 30, 2000.

Interest Income. Interest income increased $3.5 million, or 12.0%, to $32.6 million for the nine months ended September 30, 2001, compared with $29.1 million for the same period in 2000. The increase in interest income was primarily due to an increase in average interest-earning assets, which increased by $75.5 million, or 14.4%, to $599.8 million for the nine months ended September 30, 2001 from $524.3 million for the comparable period in 2000, offset by a decrease in the average yield on interest-earning assets by 16 basis points to 7.24% for the nine months ended September 30, 2001 from 7.40% for the nine months ended September 30, 2000.

Mortgage loan interest income increased by $2.6 million for the nine months ended September 30, 2001 compared with the same period in 2000. The average balance of mortgage loans increased $42.4 million, while the loan yield increased by 7 basis points from 7.49% to 7.56%. Interest income from investment securities, mortgage-backed securities and short-term deposits decreased by $302,000 for the nine months ended September 30, 2001, compared with the same period in 2000. This decrease resulted from a combination of an increase in average balance of $9.7 million and offset by a 103 basis point decrease in yield from 6.52% for the nine months ended September 30, 2000 to 5.49% for the nine months ended September 30, 2001. The decrease in yield is largely attributed to the effect of the lower interest rate environment reducing yields on short-term deposits.

Interest Expense. Interest expense increased by $2.5 million, or 14.9%, to $19.3 million for the nine months ended September 30, 2001 from $16.8 million for the nine months ended September 30, 2000. This increase resulted from an increase in the average balance of interest-bearing liabilities. The average balance of interest-bearing liabilities increased by $66.7 million, or 14.8%, to $519.0 million at

September 30, 2001 from $452.3 million at September 30, 2000. This change reflects a $30.1 million increase in the deposit accounts, which is largely attributed to a $35.6 million increase in money market accounts. The remaining $36.6 million increase is attributable to advances from the FHLB-Chicago. The average rate paid on combined deposits and borrowed money was 4.96% for both the nine months ended September 30, 2001 and 2000.

Net Interest Income Before Provision for Loan Losses. Net interest income before provision for loan losses increased $981,000, or 8.0%, to $13.3 million for the nine months ended September 30, 2001 from $12.3 million for the comparable period in 2000. The net interest margin as a percent of interest-earning assets decreased by 17 basis points to 2.95% for the nine months ended September 30, 2001 from 3.12% for the comparable period in 2000.

Provision for Loan Losses. The provision for loan losses increased by $63,000, to $330,000 for the nine months ended September 30, 2001 from $267,000 in 2000. At September 30, 2001, December 31, 2000 and September 30, 2000, non-performing loans totaled $1.2 million, $4.5 million and $5.0 million, respectively. The $3.3 million decrease in non-performing loans from December 31, 2000 to September 30, 2001 is largely the result of the pay-off of a $3.5 million loan, which was secured by a commercial office building located in St. Charles, Illinois. At September 30, 2001, the ratio of the allowance for loan losses to non-performing loans was 175.4% compared to 41.5% at December 31, 2000 and 36.2% at September 30, 2000. The ratio of the allowance to total loans was 0.40%, 0.41% and 0.40%, at September 30, 2001, December 31, 2000 and September 30, 2000, respectively. Charge-offs totaled $101,000 and $3,000 for the nine months ended September 30, 2001 and 2000, respectively. Management periodically calculates an allowance sufficiency analysis based upon the portfolio composition, asset classifications, loan-to-value ratios, potential impairments in the loan portfolio, and other factors.

Noninterest Income. Noninterest income totaled $1.2 million and $1.0 million for the nine months ended September 30, 2001 and 2000, respectively. The increase in noninterest income is primarily attributable to an increase in insurance and brokerage commission income of $139,000 and an increase in service fees of $130,000, partially offset by a decrease in gain on sale of securities of $117,000.

Noninterest Expense. Noninterest expense increased $945,000, to $9.4 million for the nine months ended September 30, 2001 from $8.5 million for the comparable period in 2000. Compensation and benefits increased by $498,000. This increase was primarily due to a combination of annual salary increases and the addition of staff. The additional staff expenses are primarily attributed to the opening of the Bank's new East Dundee, Illinois branch and the hiring of human resource personnel. All other operating expenses, including advertising, marketing, postage, communications, data processing and other office expense increased by a combined $447,000, or 11.9%, to $4.2 million for the nine months ended September 30, 2001 from $3.7 million for the nine months ended September 30, 2000. Management continues to emphasize the importance of expense management and control while continuing to provide expanded banking services to a growing market base.

Income Tax Expense. Income tax expense totaled $1.6 million for both the nine months ended September 30, 2001 and 2000. The effective tax rate was 35.1% and 35.6% for the nine months ended September 30, 2001 and 2000, respectively.

Liquidity and Capital Resources

The Bank's primary sources of funds are savings deposits, proceeds from the principal and interest payments on loans and proceeds from the maturity of securities and borrowings from the FHLB-Chicago. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

The primary investing activities of the Bank are the origination of residential one-to-four-family loans and, to a lesser extent multi-family and commercial real estate, construction and land, commercial and consumer loans and the purchase of mortgage-backed and mortgage-related securities. In addition, the Bank purchases loans, consisting of single-family, multi-family and commercial real estate. Deposit flows are affected by the level of interest rates, the interest rates and products offered by the local competitors, the Bank and other factors.

In addition to the primary investing activities of the Bank, the Company has repurchased shares of its common stock from time to time in the open market. The Company is in the process of its sixth stock repurchase program, which was previously announced on September 27, 2001. Under this program the Company is authorized to repurchase up to 231,808, or 5.0% of its outstanding common stock.

The Bank's most liquid assets are cash and interest-bearing demand accounts. The levels of these assets are dependent on the Bank's operating, financing, lending and investing activities during any given period. At September 30, 2001, cash and interest-bearing demand accounts totaled $41.7 million, or 6.3% of total assets.

See the "Consolidated Statements of Cash Flows" in the Unaudited Consolidated Financial Statements included in this Form 10-Q for the sources and uses of cash flows for operating, investing and financing activities for the nine months ended September 30, 2001 and 2000.

At September 30, 2001, the Bank exceeded all of its regulatory capital requirements. The following is a summary of the Bank's regulatory capital ratios at September 30, 2001:

Total Capital to Total Assets	9.68%
Total Capital to Risk-Weighted Assets	14.96%
Tier I Leverage Ratio	9.74%
Tier I to Risk-Weighted Assets	14.75%

At September 30, 2001, the Company had a Total Capital to Total Assets ratio of 10.34%.

On September 7, 2001, the Company announced its third quarter dividend of $0.1250 per share. The dividend was paid on October 9, 2001 to stockholders of record on September 28, 2001.

Recent Accounting Pronouncements

"SFAS" No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", was issued by the "FASB" in September 2000. SFAS No. 140 supercedes and replaces FASB SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". Accordingly, SFAS No. 140 is now the authoritative accounting literature for transfers and servicing of financial assets and extinguishments of liabilities. SFAS No. 140 also includes several additional disclosure requirements in the area of securitized financial assets and collateral arrangements. The provisions of SFAS No. 140 related to transfers of financial assets are to be applied to all transfers of assets occurring after March 31, 2001. The collateral recognition and disclosure provisions in SFAS No. 140 were effective for fiscal years ending December 31, 2000. The adoption of SFAS No. 140 did not have a material impact on the Company's results of operations or financial condition.

In July 2001, the FASB issued SFAS No. 141, "*Business Combinations"* (SFAS No. 141) and SFAS No. 142, "*Goodwill and Other Intangible Assets"* (SFAS No. 142). SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible

assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives will not be amortized, but will rather be tested at least annually for impairment. SFAS No. 142 is effective January 1, 2002 for calendar year companies, however, any acquired goodwill or intangible assets recorded in transactions closed subsequent to June 30, 2001 will be subject immediately to the nonamortization and amortization provisions of SFAS No. 142. The Company anticipates that the adoption of SFAS No. 141 and No. 142 will not have a material impact on the Company's results of operations or financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Bank's interest rate sensitivity is monitored by management through the use of a Net Portfolio Value Model which generates estimates of the change in the Bank's net portfolio value ("NPV") over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The model assumes estimated prepayment rates, reinvestment rates and deposit decay rates. The Sensitivity Measure is the decline in the NPV ratio, in basis points, caused by a 2% increase or decrease in rates, whichever produces a larger decline. The higher the institution's Sensitivity Ratio, the greater its exposure to interest rate risk is considered to be. The following NPV Table sets forth the Bank's NPV as of September 30, 2001.

(In thousands)

Change in Interest Rates in Basis Points (Rate Shock)	Net Portfolio Value	NPV as % of Portfolio Value of Assets
		NPV Ratio

				NPV as % of Portfolio Value of Assets	
	Amount	$ Change	% Change		% Change
+300	$ 43,813	$ (40,169)	(47.83)%	6.89%	(44.12)%
+200	55,950	(28,032)	(33.38)	8.61	(30.17)
+100	70,041	(13,941)	(16.60)	10.52	(14.68)
Static	83,982			12.33	
-100	98,524	14,542	17.32	14.13	14.60
-200	104,511	20,529	24.44	14.82	20.19
-300	110,074	26,092	31.07	15.45	25.30

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Such routine legal proceedings, in the aggregate, are believed by management to be immaterial to the Company's financial condition, results of operations and cash flows.

Item 2. Changes in Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a)

Exhibits

3.1 Certificate of Incorporation of EFC Bancorp, Inc. *
3.2 Bylaws of EFC Bancorp, Inc. *
11.0 Statement re: Computation of Per Share Earnings Incorporated herein by reference to Footnote 3 on page 5 of this document.

(b)

Reports on Form 8-K

None.

*

Incorporated herein by reference from the Exhibits filed with the Registration Statement on Form S-1 and any amendments thereto. Registration Statement No. 333-38637 filed with the Securities and Exchange Commission ("SEC") on October 24, 1997.

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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 hereunto duly authorized.

EFC BANCORP, INC.

Dated: November 13, 2001 By: /s/ BARRETT J. O'CONNOR

Barrett J. O'Connor
President and Chief Executive Officer
(Principal executive officer)

Dated: November 13, 2001 By: /s/ JAMES J. KOVAC

James J. Kovac
Executive Vice President and Chief
Financial Officer
(Principal financial and accounting officer)

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QuickLinks