TF FINANCIAL CORP
Form 10-Q
August 09, 2002

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 June 30, 2002

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 0-24168

TF FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	74-2705050
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
3 Penns Trail, Newtown, Pennsylvania	18940
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 215-579-4000

N/A
Former name, former address and former fiscal year, if changed since last report.

Indicate by check 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: July 24, 2002

Class	Outstanding
$.10 par value common stock	2,723,326 shares

TF FINANCIAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2002

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TF FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands)

Unaudited

	June 30, 2002
Assets	
Cash and cash equivalents	$72,627
Certificates of deposit in other financial institutions	194
Investment securities available for sale - at fair value	27,830
Investment securities held to maturity (fair value of $15,859 and $9,830, respectively)	15,597
Mortgage-backed securities available for sale - at fair value	148,281
Mortgage-backed securities held to maturity (fair value of $75,462 and $94,735, respectively)	73,066
Loans receivable, net	353,731
Federal Home Loan Bank stock - at cost	11,118
Accrued interest receivable	4,289
Core deposit intangible, net	659
Goodwill, net	4,102
Premises and equipment, net	7,039
Other assets	9,653
Total assets	$728,186
Liabilities and stockholders' equity	
Liabilities	
Deposits	$437,503
Advances from the Federal Home Loan Bank	222,359
Advances from borrowers for taxes and insurance	1,300
Accrued interest payable	3,313
Other liabilities	2,870
Total liabilities	667,345
Commitments and contingencies	
Stockholders' equity	
Preferred stock, no par value; 2,000,000 shares authorized and none issued.	
Common stock, $0.10 par value; 10,000,000 shares authorized, 5,290,000 issued; 2,477,102 and 2,465,986 shares outstanding at June 30, 2002 and December 31, 2001, net of treasury shares of 2,566,674 and 2,571,712, respectively.	529
Retained earnings	57,747
Additional paid-in capital	51,582
Unearned ESOP shares	(2,462)
Treasury stock - at cost	(48,794)
Accumulated other comprehensive income	2,239
Total stockholders' equity	60,841
Total liabilities and stockholders' equity	$728,186

See notes to consolidated financial statements

TF FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS
(in thousands, except per share data)

	For Three Months Ended June 30, 2002	2001
Interest income		
Loans	$6,429	$7,147
Mortgage-backed securities	3,188	3,568
Investment securities	565	671
Interest bearing deposits and other	271	431
Total interest income	10,453	11,817
Interest expense		
Deposits	2,707	3,577
Advances from the Federal Home Loan Bank and other borrowings	3,071	3,156
Total interest expense	5,778	6,733
Net interest income	4,675	5,084
Provision for loan losses	538	124
Net interest income after provision for loan losses	4,137	4,960
Non-interest income		
Service fees, charges and other operating income	329	355
Bank-owned life insurance	137	-
Gains on sale of real estate and other	-	454
Total non-interest income	466	809
Non-interest expense		
Compensation and benefits	1,916	1,899
Occupancy and equipment	576	580
Federal deposit insurance premium	19	18
Professional fees	105	88
Amortization of core deposit intangible	58	69
Amortization of goodwill	111	111
Advertising	110	126
Other operating	522	595
Total non-interest expense	3,417	3,486
Income before income taxes	1,186	2,283
Income taxes	273	595
Net income	$913	$1,688
Basic earnings per share	$0.37	$0.69

Diluted earnings per share	$0.33	$0.64
Weighted average number of shares outstanding - basic	2,470	2,454
Weighted average number of shares outstanding - diluted	2,744	2,647

See notes to consolidated financial statements

TF FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For
Cash flows from operating activities	
Net income	
Adjustments to reconcile net income to net cash provided by operating activities:	
Mortgage loan servicing rights	
Deferred loan origination fees	
Premiums and discounts on investment securities, net	
Premiums and discounts on mortgage-backed securities and loans, net	
Amortization of goodwill and core deposit intangible	
Provision for loan losses	
Depreciation of premises and equipment	
Gain on sale of premises and equipment	
Recognition of ESOP and MSBP expenses	
Gain on sales of real estate acquired through foreclosure	
Loss on sale of loans and mortgage-backed securities available for sale	
Increase in value of bank-owned life insurance	
(Increase) decrease in:	
Accrued interest receivable	
Other assets	
Increase (decrease) in:	
Accrued interest payable	
Other liabilities	(
	-
Net cash provided by operating activities	
Cash flows from investing activities	
Loan originations and principal payments on loans, net	
Purchases of loans	(1
Proceeds from loan sales	
Proceeds from sale of mortgage-backed securities available for sale	
Purchases of mortgage-backed securities available for sale	(6
Purchase of investment securities available for sale	(
Purchase of investment securities held to maturity	(
Proceeds from maturities of investment securities held to maturity	
Proceeds from maturities of investment securities available for sale	
Principal repayments from mortgage-backed securities held to maturity	
Principal repayments from mortgage-backed securities available for sale	
Purchases and redemptions of Federal Home Loan Bank stock, net	

Proceeds from sales of real estate acquired through foreclosure	
Proceeds from sale of premises and equipment	
Purchase of premises and equipment	
Net cash provided by (used in) investing activities	(1

See notes to consolidated financial statements

TF FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(in thousands)

	For the six month June 30,	
	2002	
Cash flows from financing activities		
Net increase in deposits	15,451	
Net decrease in advances from Federal Home Loan Bank	-	(2
Net decrease in other borrowings	-	(1
Net decrease in advances from borrowers for taxes and insurance	59	
Exercise of stock options	232	
Purchase of treasury stock, net	(337)	
Common stock cash dividend	(739)	
Net cash provided by (used in) financing activities	14,666	(3
Net increase in cash and cash equivalents	3,488	
Cash and cash equivalents at beginning of period	69,139	
Cash and cash equivalents at end of period	$72,627	$
Supplemental disclosure of cash flow information		
Cash paid for		
Interest on deposits and advances	$12,098	$
Income taxes	$1,000	
Non-cash transactions		
Transfers from loans to real estate acquired through foreclosure	$185	

See notes to consolidated financial statements

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements as of June 30, 2002 (unaudited) and December 31, 2001 and for the three-month and six-month periods ended June 30, 2002 and 2001 (unaudited) include the accounts of TF Financial Corporation (the "Company") and its wholly owned subsidiaries Third Federal Savings Bank (the "Bank"), TF Investments Corporation, Penns Trail Development Corporation and Teragon Financial Corporation. The Company's business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all of the disclosures or footnotes required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for fair presentation of the consolidated financial statements have been included. The results of operations for the periods ended June 30, 2002 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period. For further information, refer to consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

NOTE 3 - CONTINGENCIES

The Company, from time to time, is a party to routine litigation that arises in the normal course of business. In the opinion of management, the resolution of this litigation, if any, would not have a material adverse effect on the Company's consolidated financial condition or results of operations.

NOTE 4 - OTHER COMPREHENSIVE INCOME (LOSS)

The Company's other comprehensive income consists of net unrealized gains on investment securities and mortgage-backed securities available for sale. Total comprehensive income for the three-month periods ended June 30, 2002 and 2001 was $2,850,000 and $1,479,000, net of applicable income tax of $1,271,000 and $487,000, respectively. Total comprehensive income for the six-month periods ended June 30, 2002 and 2001 was $3,570,000 and $3,520,000, net of applicable income tax of $1,398,000 and $1,018,000, respectively.

NOTE 5- RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE 6- NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2002, the Company adopted Financial Accounting Standards Board Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations", SFAS No. 142, "Goodwill and Intangible Assets", and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The adoption of these statements did not have a material impact on the financial condition or results of operations of the Company.

On January 1, 2002, the Company also adopted Statement of Position (SOP) 01-6, "Accounting by Certain Entities That Lend to or Finance the

Activities of Others", which reconciles and conforms existing differences in the accounting and financial reporting guidance in the AICPA Audit and Accounting Guides, Banks and Savings Institutions, Audits of Credit Unions, and Audits of Finance Companies. It also carries forward accounting guidance for practices deemed to be unique to certain financial institutions. The adoption of this SOP had no impact on the Company's financial position or results of operations.

TF FINANCIAL CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

TF Financial Corporation may from time to time make written or oral "forward-looking statements", including statements contained in the Company's filings with the Securities and Exchange Commission (including this Quarterly Report on Form 10-Q and the exhibits thereto), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rate, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the willingness of users to substitute competitors' products and services for the Company's products and services; the success of the Company in gaining regulatory approval of its products and services, when required; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes, acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Financial Condition

The Company's total assets at June 30, 2002 and December 31, 2001 were $728.2

million and $711.2 million, respectively, an increase of $17.0 million, or 2.4%, during the six-month period. The increase in total assets was primarily the result of the deployment of deposit growth into various earning asset categories. Cash and cash equivalents increased by $3.5 million. Investment securities increased by $10.9 million due to the purchase of $12.8 million of such securities. Mortgage-backed securities available for sale increased by $48.5 million as $62.8 million in purchases of such securities more than off-set the principal paydowns received from these securities. Mortgage-backed securities held to maturity decreased by $20.3 million due to the high rate of prepayments of the mortgages underlying these pass-through securities. Similarly, high prepayments of existing mortgages in the loans receivable portfolio more than off-set new loans closed and purchased, causing a net decrease of $23.9 million in loans receivable.

Total liabilities increased by $14.1 million due to $15.4 million in deposit growth. Non-interest bearing demand deposits grew by $1.1 million while savings and money market accounts grew by $12.2 million and

interest-bearing checking accounts increased by $3.7 million. Certificates of deposit decreased by $1.7 million.

Total consolidated stockholders' equity of the Company was $60.8 million or 8.36% of assets at June 30, 2002, compared to $58.0 million or 8.15% of assets at December 31, 2001. During the first half of 2002 the Company repurchased 15,000 shares of its common stock and issued 20,038 shares pursuant to the exercise of stock options. As of June 30, 2002, there were approximately 116,000 shares available for repurchase under the previously announced share repurchase plan, and the Company will continue to repurchase shares as share availability and market conditions permit.

Asset Quality

During the second quarter of 2002, the Company's provision for loan and lease losses was $538,000 compared with $124,000 during 2001, an increase of $414,000 that is due to a default by the servicer of the Company's $2.8 million purchased lease portfolio. The servicer of the Company's purchased lease portfolio failed to remit to the Company all of the money collected on the Company's behalf. The Company has since removed the servicer and begun servicing these leases directly. During the second quarter of 2002 the Company charged-off what is believed to be its maximum exposure of approximately $625,000 related to this matter and is pursuing recovery. However, there can be no assurance that additional charges to the Company's earnings or allowance for loan and lease losses may not be necessary. Other than the foregoing, the Company has not experienced any significant deterioration in its asset quality during the first half of 2002, nor has the Company experienced any significant change in the composition of its non-performing assets.

The following table sets forth information regarding the Company's asset quality (dollars in thousands):

	June 30, 2002	December 31, 2001

Non-performing loans	$3,925	$3,776
Ratio of non-performing loans to gross loans	1.10%	0.99%
Ratio of non-performing loans to total assets	0.54%	0.53%
Foreclosed property	$ -	$40
Foreclosed property to total assets	0.00%	0.01%
Ratio of total non-performing assets to total assets	0.54%	0.54%

Management maintains an allowance for loan and lease losses at levels that are believed to be adequate; however, there can be no assurances that further additions will not be necessary or that losses inherent in the existing loan and lease portfolios will not exceed the allowance. The following table sets forth the activity in the allowance for loan and lease losses during the periods indicated (in thousands):

	2002	2001
Beginning balance, January 1,	$1,972	$1,714
Provision	688	249
Less: charge-off's (recoveries), net	765	155
Ending balance, June 30,	$1,895	$1,808

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RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2002 AND 2001

Net Income. The Company recorded net income of $913,000, or $0.33 per diluted share, for the three months ended June 30, 2002 as compared to $1,688,000, or $0.64 per diluted share, for the three months ended June 30, 2001.

Average Balance Sheet

The following table sets forth information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated. The yields and costs are computed by dividing income or expense by the average daily balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods indicated.

	Three months ended June			
	2002			
	Average Balance	Interest	Average Yld/Cost	Avera Balan
	(dollars in thousands			
Assets:				
Interest-earning assets:				
Loans receivable (1)......................	$360,448	$6,429	7.15%	$362,2
Mortgage-backed securities................	212,146	3,188	6.03%	220,1
Investment securities.....................	49,845	565	4.55%	46,7
Other interest-earning assets(2)..........	64,617	271	1.68%	39,9
Total interest-earning assets...........	687,056	10,453	6.10%	669,0
Non interest-earning assets...................	34,544			25,2

Total assets...........................	$721,600			$694,3
Liabilities and stockholders' equity:				
Interest-bearing liabilities				
Deposits..................................	$432,918	2,707	2.51%	$403,8
Advances from the FHLB and other Borrowings.....................	222,359	3,071	5.54%	227,3
Total interest-bearing liabilities.......	655,277	5,778	3.54%	631,1
Non interest-bearing liabilities..............	7,674			8,7
Total liabilities.........................	662,951			639,9
Stockholders' equity..........................	58,649			54,3
Total liabilities and stockholders' equity....	$721,600			$694,3
Net interest income...........................		$4,675		
Interest rate spread (3)......................			2.57%	
Net yield on interest-earning assets (4).......			2.73%	
Ratio of average interest-earning assets to average interest bearing liabilities...........			105%	

(1) Nonaccrual loans have been included in the appropriate average loan balance category, but interest on nonaccrual loans has not been included for purposes of determining interest income.

(2) Includes interest-bearing deposits in other banks.

(3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(4) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

Rate/Volume Analysis

The following table presents, for the periods indicated, the change in interest income and interest expense (in thousands) attributed to (i) changes in volume (changes in the weighted average balance of the total interest earning asset and interest bearing liability portfolios multiplied by the prior year rate), and (ii) changes in rate (changes in rate multiplied by prior year volume). Changes attributable to the combined impact of volume and rate have been allocated proportionately based on the absolute value of changes due to volume and changes due to rate.

Three months ended
June 30,
2002 vs. 2001

	Increase (decrease) due to	
	Volume	Rate
Interest income:		
Loans receivable, net	$(36)	$(682)
Mortgage-backed securities	(126)	(254)
Investment securities	242	(348)
Other interest-earning assets	984	(1,144)
Total interest-earning assets	1,064	(2,428)
Interest expense:		
Deposits	1,490	(2,360)
Advances from the FHLB and other borrowings	(69)	(16)
Total interest-bearing liabilities	1,421	(2,376)
Net change in net interest income	$(357)	$(52)

Total Interest Income. Total interest income decreased by $1.4 million or 11.5% to $10.5 million for the three months ended June 30, 2002 compared with the second quarter of 2001 primarily because of the consequences of a substantial decrease in market interest rates. Since the beginning of the first quarter of 2001, the Federal Reserve Board lowered the federal funds rate eleven times from 6.50% to 1.75%. Longer term market interest rates also decreased significantly. As a result, the Company's callable investment securities were called, higher coupon mortgage-related securities were paid down at an accelerated rate, and loans receivable were refinanced by borrowers at lower rates, or away from the Bank, resulting in large paydowns of higher yielding loans. In addition, the interest rates on the Company's adjustable rate loans adjusted downward. Thus, each component of the Company's earning assets produced less interest income because of declining market interest rates. In addition, the Company's cash and cash equivalents were significantly higher during the 2002 period, while the rate earned on these assets, the federal funds rate minus 25 basis points, was substantially lower during the 2002 period. At June 30, 2002 cash and cash equivalents totaled $72.6 million.

Total Interest Expense. Total interest expense decreased by $1.0 million or 14.2% to $5.8 million for the three-month period ended June 30, 2002. An increase in deposit interest expense due to an increase in the average balance of deposits was more than offset by lower market interest rates during the period and the lower rates paid on the Company's renewing certificates of deposit that had been originated when market interest rates were higher. In addition, during the fourth quarter of 2001 and the first half of 2002, the Company lowered the interest rates paid on several of its other deposit products in order to keep them in line with short term market interest rates, mainly the federal funds rate.

Non-interest income. Total non-interest income was $466,000 for the three-month period ended June 30, 2002 compared with $809,000 for the same period in 2001. The decrease is due to a $444,000 non-recurring gain on the sale of real estate which occurred during the second quarter of 2001, off-set in part by a $137,000 increase in the cash surrender value of bank-owned life insurance which was purchased during the third quarter of 2001.

Non-interest expense. Total non-interest expense decreased by $69,000 to $3.4 million for the three months ended June 30, 2002 compared to the same period in 2001. The decrease in non-interest expenses is largely attributable to a decrease in the other operating expense category in which loan servicing fees decreased by $24,000 due to a decrease in the amount of loans serviced by others, and service charges on bank accounts decreased by $35,000 because the Company began servicing customer accounts in-house using item processing and statement rendering capabilities installed during the first quarter of 2001. The Company's effective tax rate during the second quarter of 2002 was 23.0% compared with 26.1% during the second quarter of 2001. The decrease is due to the purchase of bank-owned life insurance during the third quarter of 2001.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001

Net Income. The Company recorded net income of $2,116,000, or $0.78 per diluted share, for the six months ended June 30, 2002 as compared to $2,946,000, or $1.12 per diluted share, for the six months ended June 30, 2001.

Average Balance Sheet

The following table sets forth information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated. The yields and costs are computed by dividing income or expense by the average daily balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods indicated.

	Six months ended June			
	2002			
	Average Balance	Interest	Average Yld/Cost	Average Balance
			(dollars in thousands	
Assets:				
Interest-earning assets:				
Loans receivable (1)......................	$366,435	$13,160	7.24%	$360,1
Mortgage-backed securities................	206,999	6,248	6.09%	224,9
Investment securities.....................	48,921	1,152	4.75%	64,8
Other interest-earning assets(2)..........	59,225	480	1.63%	25,2
Total interest-earning assets............	681,580	21,040	6.23%	675,1
Non interest-earning assets..................	34,922			26,7
Total assets............................	$716,502			$701,9

Liabilities and stockholders' equity:				
Interest-bearing liabilities				
Deposits..................................	$428,105	5,537	2.61%	$401,9
Advances from the FHLB and other Borrowings.....................	222,359	6,108	5.54%	237,9
Total interest-bearing liabilities.......	650,464	11,645	3.61%	639,9
Non interest-bearing liabilities..............	7,536			8,2
Total liabilities.........................	658,000			648,2
Stockholders' equity..........................	58,502			53,6
Total liabilities and stockholders' equity....	$716,502			$701,9
Net interest income...........................		$9,395		
Interest rate spread (3)......................			2.61%	
Net yield on interest-earning assets (4).......			2.78%	
Ratio of average interest-earning assets to average interest bearing liabilities...........			105%	

(1) Nonaccrual loans have been included in the appropriate average loan balance category, but interest on nonaccrual loans has not been included for purposes of determining interest income.
(2) Includes interest-bearing deposits in other banks.
(3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(4) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

Rate/Volume Analysis

The following table presents, for the periods indicated, the change in interest income and interest expense (in thousands) attributed to (i) changes in volume (changes in the weighted average balance of the total interest earning asset and interest bearing liability portfolios multiplied by the prior year rate), and (ii) changes in rate (changes in rate multiplied by prior year volume). Changes attributable to the combined impact of volume and rate have been allocated proportionately based on the absolute value of changes due to volume and changes due to rate.

	Six months ended June 30, 2002 vs. 2001	
	Increase (decrease) due to	
	Volume	Rate

Interest income:		
Loans receivable, net	$674	$(1,827)
Mortgage-backed securities	(563)	(537)
Investment securities	(417)	(341)
Other interest-earning assets	948	(1,044)
Total interest-earning assets	642	(3,749)
Interest expense:		
Deposits	1,209	(2,840)
Advances from the FHLB and other borrowings	(431)	(117)
Total interest-bearing liabilities	778	(2,957)
Net change in net interest income	$(136)	$(792)

Total Interest Income. Total interest income decreased by $3.1 million or 12.9% to $21.0 million for the six months ended June 30, 2002 compared with the first half of 2001 primarily because of the consequences of a substantial decrease in market interest rates. Since the beginning of the first quarter of 2001, the Federal Reserve Board lowered the federal funds rate eleven times from 6.50% to 1.75%. Longer term market interest rates also decreased significantly. As a result the Company's callable investment securities were called, higher coupon mortgage-related securities were paid down at an accelerated rate, and loans receivable were refinanced by borrowers at lower rates, or away from the Bank, resulting in large paydowns of higher yielding loans. In addition, the interest rates on the Company's adjustable rate loans adjusted downward. Thus, each component of the Company's earning assets produced less interest income because of declining market interest rates. In addition, the Company's cash and cash equivalents were significantly higher during the 2002 period, while the rate earned on these assets, the federal funds rate minus 25 basis points, was substantially lower during the 2002 period. At June 30, 2002 cash and cash equivalents totaled $72.6 million.

Total Interest Expense. Total interest expense decreased by $2.2 million or 15.8% to $11.6 million for the six-month period ended June 30, 2002. An increase in deposit interest expense due to an increase in the average balance of deposits was more than offset by lower market interest rates during the period and the lower rates paid on the Company's renewing certificates of deposit that had been originated when market interest rates were higher. In addition, during the fourth quarter of 2001 and the first half of 2002, the Company lowered the interest rates paid on several of its other deposit products in order to keep them in line with short term market interest rates, mainly the federal funds rate.

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Non-interest income. Total non-interest income was $1,006,000 for the six-month period ended June 30, 2002 compared with $1,209,000 for the same period in 2001. The decrease is due to a $444,000 non-recurring gain on the sale of real estate which occurred during the second quarter of 2001, off-set in part by a $270,000 increase in the cash surrender value of bank-owned life insurance which was purchased during the third quarter of 2001.

Non-interest expense. Total non-interest expense decreased by $349,000 to $6.9 million for the six months ended June 30, 2002 compared to the same period in 2001. Compensation and benefits expense was reduced by a $93,000 reduction in pension expense caused by participants who had very high balances leaving the plan. Occupancy and equipment expense decreased in part because the Company sold one of its branch offices during the fourth quarter of 2001, and also because maintenance expenses were unusually high during the first quarter of 2001 due to inclement weather. Professional fees were lower during the first half of 2002 compared to the year earlier period mainly due to $60,000 of costs incurred during the first quarter of 2001 associated with the implementation of in-house item processing and statement rendering capabilities. The decrease in the other operating expense category is caused by decreased loan servicing fees which were lower by $48,000 due to a decrease in the amount of loans serviced by others, and decreased service charges on bank accounts which were lower by $99,000 because the Company began servicing customer accounts using the in-house item processing and statement rendering capabilities installed during the first quarter of 2001. The Company's effective tax rate during the first half of 2002 was 23.5% compared with 26.1% during the first half of 2001. The decrease is due to the purchase of bank-owned life insurance during the third quarter of 2001.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company's liquidity is a measure of its ability to fund loans, pay withdrawals of deposits, and other cash outflows in an efficient, cost-effective manner. The Company's short-term sources of liquidity include maturity, repayment and sales of assets, excess cash and cash equivalents, new deposits, broker deposits, other borrowings, and new advances from the Federal Home Loan Bank. There has been no material adverse change during six-month period ended June 30, 2002 in the ability of the Company and its subsidiaries to fund their operations.

At June 30, 2002, the Company had commitments outstanding under letters of credit of $1.0 million, commitments to originate loans of $5.7 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of $25.7 million.

Capital Requirements

The Bank is in compliance with all of its capital requirements as of June 30, 2002.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset and Liability Management

The Company's market risk exposure is predominately caused by interest rate risk, which is defined as the sensitivity of the Company's current and future earnings, the values of its assets and liabilities, and the value of its capital to changes in the level of market interest rates. Management of the Company believes that there has not been a material adverse change in market risk during the six months ended June 30, 2002.

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

PART II

ITEM 1. LEGAL PROCEEDINGS
Not applicable.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS
Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
Not applicable.

ITEM 5. OTHER INFORMATION
None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

99.1 Certification pursuant to 18 U.S.C.ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K
None

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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, thereunto duly authorized.

TF FINANCIAL CORPORATION

	/s/ John R. Stranford
Date: August 9, 2002	John R. Stranford
	President and CEO (Principal Executive Officer)
	/s/ Dennis R. Stewart
Date: August 9, 2002	Dennis R. Stewart
	Senior Vice President and Chief Financial Officer (Principal Financial & Accounting Officer)