TF FINANCIAL CORP
Form 10-Q
October 29, 2001

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 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: October 26, 2001

Class	Outstanding
$.10 par value common stock	2,723,538 shares

TF FINANCIAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2001

INDEX

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

Unaudited
September 30,
2001

Assets	
Cash and cash equivalents	$95,847
Certificates of deposit in other financial institutions	190
Investment securities available for sale - at fair value	10,760
Investment securities held to maturity (fair value of $8,870, $61,919 and $62,428, respectively)	8,741
Mortgage-backed securities available for sale - at fair value	89,195
Mortgage-backed securities held to maturity (fair value of $109,866 $133,458, and $137,933, respectively)	107,024
Loans receivable, net	355,225
Federal Home Loan Bank stock - at cost	11,368
Accrued interest receivable	3,876
Goodwill and other intangible assets	5,267
Premises and equipment, net	7,700
Bank-owned life insurance	9,043
Other assets	385
Total assets	$704,621
Liabilities and stockholders' equity	
Liabilities	
Deposits	$416,074
Advances from the Federal Home Loan Bank	222,359
Other borrowings	--
Advances from borrowers for taxes and insurance	771
Accrued interest payable	5,208
Other liabilities	3,063
Total liabilities	647,475
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; 2,468,197, 2,491,454, and 2,533,841 shares outstanding at September 30, 2001, December 31, 2000 and September 30, 2000, net treasury shares of 2,566,462, 2,534,088, and 2,488,662, respectively.	529
Retained earnings	54,447
Additional paid-in capital	52,244
Unearned ESOP shares	(2,553)
Shares acquired by MSBP	--
Treasury stock - at cost	(48,760)
Accumulated other comprehensive income (loss)	1,239
Total stockholders' equity	57,146
Total liabilities and stockholders' equity	$704,621

See notes to consolidated financial statements

3

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

	For the three months ended September 30, 2001	2000
Interest income		
Loans	$7,042	$5,918
Mortgage-backed securities	3,322	4,676
Investment securities	542	1,607
Interest bearing deposits and other	564	48
Total interest income	11,470	12,249
Interest expense		
Deposits	3,548	3,909
Advances from the Federal Home Loan Bank and other borrowings	3,105	3,385
Total interest expense	6,653	7,294
Net interest income	4,817	4,955
Provision for loan losses	124	100
Net interest income after provision for loan losses	4,693	4,855
Non-interest income		
Service fees, charges and other operating income	462	400
Gain on sale of premises and equipment	--	--
Gain (loss) on sale of loans and mortgage-backed securities available for sale	12	--
Total non-interest income	474	400
Non-interest expense		
Compensation and benefits	1,965	1,945
Occupancy and equipment	622	638
Federal deposit insurance premium	18	21
Professional fees	128	107
Amortization of goodwill and other intangible assets	180	195
Advertising	129	186
Other operating	585	678
Total non-interest expense	3,627	3,768
Income before income taxes	1,540	1,487
Income taxes	389	417
Net income	$1,151	$1,070
Basic earnings per share	$0.47	$0.42
Diluted earnings per share	$0.43	$0.41
Weighted average number of shares outstanding - basic	2,462	2,533
Weighted average number of shares outstanding - diluted	2,703	2,616

See notes to consolidated financial statements

4

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

	For t
	2
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 other intangible assets	
Provision for loan losses	
Depreciation of premises and equipment	
Increase in bank-owned life insurance	
Recognition of ESOP and MSBP expenses	
Gain on sale of loans receivable	
Loss on sale of mortgage backed securities available for sale	
Gain on sale of investment securities available for sale	
Gain on sale of premises and equipment	
Gain on sale of real estate acquired through foreclosure	
(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 origination and principal payments on loans, net	
Purchases of loans	(
Proceeds from loan sales	
Maturities of certificates of deposit in other financial institutions, net	
Purchases of investment securities available for sale	
Purchases of investment securities held to maturity	
Purchases of mortgage-backed securities available for sale	
Proceeds from sales of investment securities available for sale	
Proceeds from sales of mortgage backed securities available for sale	
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 redemption of Federal Home Loan Bank Stock, net	
Proceeds from sales of real estate acquired through foreclosure	
Proceeds from sales of premises and equipment	

Purchase of premises and equipment	
Purchase of Bank-owned life insurance	
	-
Net cash provided by (used in) investing activities	1
	-

See notes to consolidated financial statements

5

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

	For t
	2
	-
Cash flows from financing activities	
Net increase in deposits	
Net decrease in advances from Federal Home Loan Bank	(
Net increase (decrease) in other borrowings	(
Net decrease in advances from borrowers for taxes and insurance	
Exercise of stock options	
Purchase of treasury stock, net	
Common stock cash dividend	
	--
Net cash used in financing activities	(
	--
Net increase (decrease) in cash and cash equivalents	
Cash and cash equivalents at beginning of period	
	--
Cash and cash equivalents at end of period	$
	==
Supplemental disclosure of cash flow information	
Cash paid for	
Interest on deposits and advances	$
Income taxes	$
Non-cash transactions	
Transfers from loans to real estate acquired through foreclosure	$

See notes to consolidated financial statements

6

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements as of September 30, 2001, December 31, 2000, September 30, 2000 and for the three-month and nine-month periods ended September 30, 2001 and 2000 include the accounts of TF Financial Corporation (the "Company") and its wholly owned subsidiaries Third Federal Savings Bank (the "Savings Bank"), TF Investments Corporation, Penns Trail Development Corporation and Teragon Financial Corporation. The Company's business is conducted principally through the Savings 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 period ended September 30, 2001 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, 2000.

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

The Company's other accumulated comprehensive income consists of net unrealized gains (losses) on investment securities and mortgage-backed securities available for sale. Total comprehensive income for the three-month periods ended September 30, 2001 and 2000 was $2,180,000 and $2,106,000, net of applicable income tax of $919,000 and $951,000, respectively.

Total comprehensive income for the nine-month periods ended September 30, 2001 and 2000 was $5,700,000 and $4,260,000, net of applicable income tax of $2,255,000 and $1,969,000, respectively.

NOTE 5- RECLASSIFICATIONS

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

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

NOTE 6- RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

On June 29, 2001, the Financial Accounting Standards Board (FASB) approved for issuance Statement of Financial Accounting Standards (SFAS) 141, Business Combinations, and SFAS 142, Goodwill and Intangible Assets. Major provisions of these Statements are as follows: all business combinations initiated after June 30, 2001 must use the purchase method of accounting; the pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001; intangible assets acquired in a business combination must recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability; goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment annually, except in certain circumstances, and whenever there is an impairment indicator; all acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting; effective January 1, 2002, goodwill will no longer be subject to amortization. Although it is still reviewing the provisions of these Statements, management's preliminary assessment is that these Statements will not have a material impact on the Company's financial position or results of operations.

8

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 September 30, 2001 and December 31, 2000 totaled $704.6 million and $723.3 million, respectively, a decrease of $18.7 million, or 2.3%, during the nine-month period. The decrease is mainly the result of a $66.7 million gross decrease in investment securities due to the maturity or exercise of the call feature associated with these securities. In addition, there was a $6.6 million decrease in loans receivable, net, a $36.8 million decrease in mortgage-backed securities, partly due to the sale of $4.3 million of such securities, and a $1.7 million decrease in premises and equipment due to the sale of vacant land that had originally been purchased by the Company during 1993 as a possible administrative location. Offsetting these decreases was a $85.2 million increase in cash and cash equivalents, and a $9 million increase in bank-owned life insurance.

Total liabilities decreased by $22.7 million during the first nine months of 2001 primarily as a result of the use of deposit growth, which totaled $15.2 million, and excess cash and cash equivalents to repay a total of $37.5 million in maturing advances from the Federal Home Loan Bank and other borrowings.

Total consolidated stockholders' equity of the Company was $57.1 million or 8.11% of assets at September 30, 2001, compared to $53.1 million or 7.34% of assets at December 31, 2000, and $51.1 million or 7.23% of assets at September 30, 2000. During the first nine months of 2001, the net increase in retained earnings, which is net income less dividends paid, plus the increase in accumulated other comprehensive income, was partially offset by the net cost of treasury shares purchased. During January of 2000 management announced that the Company's board of directors had authorized the purchase of up to 142,638 shares of the Company's stock in the open market. As of September 30, 2001, there were approximately 22,000 shares available for repurchase under this plan, and the Company will continue to repurchase shares as share availability and market conditions permit.

Asset Quality

Non-performing loans at September 30, 2001 increased due to two loans to one borrower totaling $1.671 million, which are secured by commercial real estate that had been appraised at $2.5 million during the fourth quarter of 1999. These loans became non-performing during the third quarter of 2001 when they became past due more than 90 days. The Bank is presently working to recover its loan balances or restore these loans to performing status, or, alternatively, to foreclose on these properties. While management of the Bank presently believes that it is adequately secured by the value of the collateral securing these loans, there can be no assurances that the ultimate resolution of this situation will not result in a charge to the Bank's allowance for loan losses or earnings, or both.

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

	September 30, 2001	December 31, 2000	Se
Non-performing loans	$3,145	$1,478	
Ratio of non-performing loans to gross loans	0.96%	0.41%	
Ratio of non-performing loans to total assets	0.48%	0.20%	
Foreclosed property	$51	$176	
Foreclosed property to total assets	0.01%	0.02%	
Ratio of total non-performing assets to total assets	0.49%	0.23%	

Management maintains an allowance for loan 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 portfolios will not exceed the allowance. The following table sets forth the activity in the allowance for loan losses during the periods indicated (in thousands):

	2001	2000
Beginning balance, January 1,	$1,714	$1,917
Provision	373	264
Less: charge-off's (recoveries), net	167	284
Ending balance, September 30,	$1,920	$1,897

11

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

Net Income. The Company recorded net income of $1,151,000, or $0.43 per diluted share, for the three months ended September 30, 2001 as compared to $1,070,000, or $0.41 per diluted share, for the three months ended September 30, 2000.

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 balance of interest-earning assets or interest-bearing liabilities, respectively for the periods indicated.

	Three months ended Septemb			
	2001			
	Average Balance	Interest	Average Yld/Cost	Averag Balanc
	(dollars in thousands			
Assets:				
Interest-earning assets:				
Loans receivable (4).......................	$361,960	$7,042	7.72%	$296,8
Mortgage-backed securities.................	205,605	3,322	6.41%	282,9
Investment securities......................	34,769	542	6.18%	102,2
Other interest-earning assets(1)...........	66,116	564	3.38%	2,8
Total interest-earning assets............	668,450	11,470	6.81%	684,9
Non interest-earning assets....................	28,862			27,3
Total assets............................	697,312			712,3
Liabilities and stockholders' equity:				
Interest-bearing liabilities				
Deposits..................................	411,985	3,548	3.42%	417,9
Advances from the FHLB and other borrowings.............................	222,368	3,105	5.54%	235,6
Total interest-bearing liabilities.......	634,353	6,653	4.16%	653,6
Non interest-bearing liabilities..............	7,414			9,9
Total liabilities.......................	641,767			663,5
Stockholders' equity..........................	55,545			48,7
Total liabilities and stockholders' equity..	$697,312			$712,3
Net interest income..........................		$4,817		
Interest rate spread (2)......................			2.65%	
Net yield on interest-earning assets (3).......			2.86%	
Ratio of average interest-earning assets to average interest bearing liabilities.....			105%	

(1) Includes interest-bearing deposits in other banks.
(2) Interest-rate spread represents the difference between the average yield on

interest-earning assets and the average cost of interest-bearing liabilities.

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

(4) 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.

12

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 September 2001 vs. 2	
	Increase (dec due to	
	Volume	Rate
Interest income:		
Loans receivable, net	$2,121	
Mortgage-backed securities	(1,243)	
Investment securities	(1,048)	
Other interest-earning assets	693	
Total interest-earning assets	523	
Interest expense:		
Deposits	(54)	
Advances from the FHLB and other borrowings	(183)	
Total interest-bearing liabilities	(237)	
Net change in net interest income	$760	

Total interest income. Total interest income decreased by $779,000 or 6.4% to $11.5 million for the three months ended September 30, 2001 compared with the third quarter of 2000. Average earning assets decreased by $16.5 million during the same periods. However, because of the change in the mix of the Company's interest-earning assets the Company's interest income experienced a positive $523,000 volume-based improvement. During the third quarter of 2001, loans receivable, which carried higher yields than other earning assets, were 54.1% of total interest-earning assets compared to 43.3% during the third quarter of 2000. The increase in loans is the direct result of the Company's successful efforts to increase its purchases of seasoned, single-family residential loans. Offsetting the volume-based interest income increase was a $1,302,000 rate-based decrease in interest income, primarily the direct result of generally lower market interest rates and the lowering by the Federal Reserve Board of the fed funds rate during 2001 by 400 basis points. A lower fed funds rate resulted in a lowering of the prime rate, and thus the interest income earned on the Company's prime rate-based loans. In addition, the Corporation's cash and cash equivalents earn approximately the federal funds rate of 2.50% at September 30, 2001.

Total Interest Expense. Total interest expense decreased to $6.7 million for the three-month period ended September 30, 2001 from $7.3 million for the same period in 2000 primarily due to generally lower market interest rates which resulted in a lowering of the Company's deposit interest expense. In addition, decreased advances from the Federal Home Loan Bank and other borrowings resulted in an overall decrease in average interest-bearing liabilities.

Non-interest income. Total non-interest income was $474,000 for the three-month period ended September 30, 2001 compared with $400,000 for the same period in 2000. The increase is due to a $62,000 increase in service fees.

13

Non-interest expense. Total non-interest expense decreased by $141,000 to $3.6 million for the three months ended September 30, 2001 compared to the same period in 2000. Operating expenses decreased in part due to the consolidation of one branch during the first quarter of 2001, thus enabling the Company to avoid the personnel, occupancy, and other costs associated with operating that branch. In addition, the Company spent less for its marketing and sales personnel, and reduced its expenditures for direct advertising.

14

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

Net Income. The Company recorded net income of $4,097,000, or $1.54 per diluted share, for the nine months ended September 30, 2001 as compared to $3,156,000, or $1.20 per diluted share, for the nine months ended September 30, 2000.

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 balance of interest-earning assets or interest-bearing liabilities, respectively for the periods indicated.

	Nine months ended Septemb			
	2001			
	Average Balance	Interest	Average Yld/Cost	Avera Balan
	(dollars in thousands			

Assets:				
Interest-earning assets:				
Loans receivable (4)......................	$360,781	$21,355	7.91%	$293,6
Mortgage-backed securities................	218,401	10,670	6.53%	288,8
Investment securities.....................	54,614	2,452	6.00%	101,2
Other interest-earning assets(1)..........	39,088	1,140	3.90%	4,7
Total interest-earning assets...........	672,884	35,617	7.08%	688,4
Non interest-earning assets...................	27,432			29,1
Total assets...........................	700,316			717,5
Liabilities and stockholders' equity:				
Interest-bearing liabilities				
Deposits..................................	405,332	10,716	3.53%	412,3
Advances from the FHLB and other borrowings.............................	232,679	9,761	5.61%	247,8
Total interest-bearing liabilities.......	638,011	20,477	4.29%	660,2
Non interest-bearing liabilities..............	7,986			9,1
Total liabilities........................	645,997			669,4
Stockholders' equity.........................	54,319			48,1
Total liabilities and stockholders' equity....	$700,316			$717,5
Net interest income...........................		$15,140		
Interest rate spread (2)......................			2.79%	
Net yield on interest-earning assets (3).......			3.01%	
Ratio of average interest-earning assets to average interest bearing liabilities.....			105%	

(1) Includes interest-bearing deposits in other banks.
(2) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(3) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.
(4) 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.

15

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.

	Nine months Septemb 2001 vs.
	Increase (d due
	Volume
Interest income:	
Loans receivable, net	$3,956
Mortgage-backed securities	(3,465)
Investment securities	(2,096)
Other interest-earning assets	1,075
Total interest-earning assets	(530)
Interest expense:	
Deposits	(193)
Advances from the FHLB and other borrowings	(652)
Total interest-bearing liabilities	(845)
Net change in net interest income	$315

Total Interest Income. Total interest income decreased by $987,000 or 2.7% to $35.6 million for the nine months ended September 30, 2001 compared with the first nine months of 2000. Average earning assets decreased by $15.6 million during the same periods. However, there was a substantial change in the mix of the Company's interest-earning assets. During the first nine months of 2001, loans receivable, which carried higher yields than other earning assets, were 53.6% of total interest-earning assets compared to 42.7% during the first nine months of 2000. The increase in loans is the direct result of the Company's successful efforts to increase its purchases of seasoned, single-family residential loans.

Total Interest Expense. Total interest expense decreased to $20.5 million for the nine-month period ended September 30, 2001 from $21.8 million for the same period in 2000 primarily due to decreased advances from the Federal Home Loan Bank and other borrowings, which resulted in an overall decrease in average interest-bearing liabilities. In addition, generally lower market interest rates resulted in a lowering of the Company's deposit interest expense, and the Company's average deposits decreased by $7.0 million due mainly to lower balances in certificates of deposit.

Non-interest income. Total non-interest income was $1,683,000 for the nine-month period ended September 30, 2001 compared with $1,150,000 for the same period in 2000. The increase is mainly due to a $444,000 gain on the sale of vacant land that the Company had purchased during 1993 for potential use as an administrative location.

Non-interest expense. Total non-interest expense decreased by $185,000 to $10.9 million for the nine months ended September 30, 2001 compared to the same period in 2000. Operating expenses decreased in part due to the consolidation of one branch during the first quarter of 2001, thus enabling the Company to

avoid the personnel, occupancy, and other costs associated with operating that branch. In addition, the Company reduced its expenditures for direct advertising by $143,000 during the first nine months of 2001 compared with the same period in 2000.

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 nine-month period ended September 30, 2001 in the ability of the Company and its subsidiaries to fund their operations.

At September 30, 2001, the Company had commitments outstanding under letters of credit of $1.6 million, commitments to originate loans of $13.1 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of $25.7 million.

Capital Requirements

The Savings Bank is in compliance with all of its capital requirements as of September 30, 2001.

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 nine months ended September 30, 2001.

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
On October 22, 2001 TF Financial Corporation announced that its subsidiary Third Federal Savings Bank had entered into a definitive purchase and assumption agreement with First County Bank, Doylestown, Pennsylvania for the sale of Third Federal's Warminster, Pennsylvania branch office. The transaction is expected to close in 2001 and is subject to banking regulatory approval. At September 30, 2001 the deposits at Third Federal's Warminster branch totaled approximately $12.9 million. No loans are to be sold as part of this transaction. The branch is a leased location and the lease is scheduled to expire at December 31, 2001.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K
(a) Exhibits
Exhibit 99--Press Release dated October 26, 2001
(b) Reports on Form 8-K
None

19

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

John R. Stranford

Date: October 26, 2001

President and CEO
(Principal Executive Officer)

/s/ Dennis R. Stewart

Date: October 26, 2001

Dennis R. Stewart

Senior Vice President and
Chief Financial Officer
(Principal Financial &
Accounting Officer)