TF FINANCIAL CORP
Form 10-Q
November 14, 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 September 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: October 28, 2002

Class	Outstanding
$.10 par value common stock	2,722,732 shares

TF FINANCIAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2002

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

	Unaudited September 30, 2002
Assets	
Cash and cash equivalents	$101,968
Certificates of deposit in other financial institutions	199
Investment securities available for sale - at fair value	27,529
Investment securities held to maturity (fair value of $15,210 and $9,830, respectively)	14,581
Mortgage-backed securities available for sale - at fair value	129,898
Mortgage-backed securities held to maturity (fair value of $67,435 and $94,735, respectively)	64,552
Loans receivable, net	349,611
Federal Home Loan Bank stock - at cost	11,118
Accrued interest receivable	3,935
Core deposit intangible, net	601
Goodwill, net	4,324
Premises and equipment, net	6,882
Other assets	10,948
Total assets	$726,146
Liabilities and stockholders' equity	
Liabilities	
Deposits	$438,122
Advances from the Federal Home Loan Bank	217,359
Advances from borrowers for taxes and insurance	897
Accrued interest payable	3,876
Other liabilities	3,534
Total liabilities	663,788
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; 2,479,547 and 2,465,986 shares outstanding at September 30, 2002 and December 31, 2001, net of treasury shares of $2,567,268 and $2,571,712, respectively.	529
Retained earnings	58,915
Additional paid-in capital	51,608
Unearned ESOP shares	(2,431)
Treasury stock - at cost	(48,809)
Accumulated other comprehensive income	2,546
Total stockholders' equity	62,358
Total liabilities and stockholders' equity	$726,146

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 September 30, 2002	For three months ended September 30, 2001
Interest income		
Loans	$ 6,238	$ 7,042
Mortgage-backed securities	2,872	3,322
Investment securities	608	542
Interest bearing deposits and other	320	564
Total interest income	10,038	11,470
Interest expense		
Deposits	2,565	3,548
Advances from the Federal Home Loan Bank and other borrowings	3,059	3,105
Total interest expense	5,624	6,653
Net interest income	4,414	4,817
Provision for loan losses	150	124
Net interest income after provision for loan losses	4,264	4,693
Non-interest income		
Service fees, charges and other operating income	433	419
Bank-owned life insurance	130	43
Gains on sale of loans and securities available for sale	419	12
Gains on sale of real estate	-	-
Total non-interest income	982	474
Non-interest expense		
Compensation and benefits	1,945	1,965
Occupancy and equipment	570	622
Federal deposit insurance premium	18	18
Professional fees	119	128
Amortization of core deposit intangible	58	69
Amortization of goodwill	-	111
Advertising	110	129
Other operating	613	585
Total non-interest expense	3,433	3,627
Income before income taxes	1,813	1,540
Income taxes	438	389
Net income	$ 1,375	$ 1,151

Basic earnings per share	$0.55	$0.47
Diluted earnings per share	$0.51	$0.43
Weighted average number of shares outstanding - basic	2,478	2,462
Weighted average number of shares outstanding - diluted	2,716	2,703

See notes to consolidated financial statements

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

	For the nin Sept
	2002
Cash flows from operating activities	
Net income	$3,655
Adjustments to reconcile net income to net cash provided by operating activities:	
Mortgage loan servicing rights	10
Deferred loan origination fees	(198
Premiums and discounts on investment securities, net	93
Premiums and discounts on mortgage-backed securities and loans, net	417
Amortization of goodwill and core deposit intangible	174
Provision for loan losses	838
Depreciation of premises and equipment	760
Gain on sale of premises and equipment	-
Recognition of ESOP and MSBP expenses	204
Gain on sales of real estate acquired through foreclosure	(60
Gain on sale of loans and securities available for sale	(419
Increase in surrender value of bank-owned life insurance	(390
Decrease in:	
Accrued interest receivable	219
Other assets	715
Increase (decrease) in:	
Accrued interest payable	114
Other liabilities	(1,188
Net cash provided by operating activities	4,944
Cash flows from investing activities	
Loan originations and principal payments on loans, net	54,305
Purchases of loans	(27,188
Proceeds from loan sales	-
Proceeds from sale of mortgage-backed securities available for sale	17,427
Proceeds from sale of investment securities available for sale	-
Purchases of mortgage-backed securities held to maturity	(1,139
Purchases of mortgage-backed securities available for sale	(67,997
Purchase of investment securities available for sale	(6,453
Purchase of investment securities held to maturity	(6,821
Proceeds from maturities of investment securities held to maturity	2,060
Proceeds from maturities of investment securities available for sale	2,000
Principal repayments from mortgage-backed securities held to maturity	29,843

Principal repayments from mortgage-backed securities available for sale	22,762
Purchases and maturities of certificates of deposit in other financial institutions, net	(5
Purchases and redemptions of Federal Home Loan Bank stock, net	250
Proceeds from sales of real estate acquired through foreclosure	275
Proceeds from sale of premises and equipment	-
Purchase of real estate held for investment	(765
Purchase of premises and equipment	(158
Purchase of Bank-owned life insurance	-
Net cash provided by investing activities	18,396

See notes to consolidated financial statements

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

	For the nine months ende September 30,	
	2002	2001
Cash flows from financing activities		
Net increase in deposits	16,070	15,223
Net decrease in advances from Federal Home Loan Bank	(5,000)	(22,500
Net decrease in other borrowings	-	(14,962
Net decrease in advances from borrowers for taxes and insurance	(344)	(387
Exercise of stock options	249	256
Purchase of treasury stock, net	(376)	(998
Common stock cash dividend	(1,110)	(1,099
Net cash provided by (used in) financing activities	9,489	(24,467
Net increase in cash and cash equivalents	32,829	85,229
Cash and cash equivalents at beginning of period	69,139	10,618
Cash and cash equivalents at end of period	$101,968	$95,847
Supplemental disclosure of cash flow information		
Cash paid for		
Interest on deposits and advances	$ 17,155	$19,939
Income taxes	$ 1,600	$ 1,595
Non-cash transactions		
Transfers from loans to real estate acquired through foreclosure	$ 269	$ -

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 September 30, 2002 (unaudited) and December 31, 2001 and for the three-month and nine-month periods ended September 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 September 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 September 30, 2002 and 2001 was $1,682,000 and $2,180,000, net of applicable income tax of $596,000 and $919,000, respectively. Total comprehensive income for the nine-month periods ended September 30, 2002 and 2001 was $5,416,000 and $5,700,000, net of applicable income tax of $2,052,000 and $2,255,000, 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 (FASB) 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.

On October 1, 2002 the FASB issued SFAS No. 147,"Acquisitions of Certain Financial Institutions." Except for transactions between two or more mutual enterprises, SFAS No. 147 removes the acquisitions of financial institutions from the scope of both SFAS No. 72 and FASB Interpretation No. 9 and requires that those transactions be accounted for in accordance with SFAS No. 141 and SFAS No. 142. Thus, the requirement of SFAS No. 72 to recognize (and subsequently amortize) any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired ("SFAS 72 Goodwill") as an unidentifiable intangible no longer applies to acquisitions within the scope of SFAS No. 147. In addition, SFAS No. 147 amends SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to include within its scope long-term customer relationship intangible assets of financial institutions such as depositor-relationship intangible assets. Consequently, those intangible assets are subject to undiscounted cash flow recoverability tests and impairment loss recognition and measurement provisions. Finally, SFAS No. 147 provides that branch acquisitions that meet the definition of a business should be accounted for as a business combination. SFAS No. 147 is effective October 1, 2002, although earlier application is permitted. The Company has elected to apply SFAS No. 147 as of January 1, 2002.

The Company had $4,324,000 of SFAS 72 Goodwill at December 31, 2001 related to a 1996 branch acquisition that management of the Company has concluded was a business combination. In accordance with the provisions of SFAS No. 147, as of July 1, 2002 the Company has restated its financial information to remove the amortization of goodwill from the Unaudited Consolidated Statement of Earnings retroactive to January 1, 2002. Accordingly, net income for the quarterly periods ended March 31, 2002 and June 30, 2002 is restated to $1,285,000 and $995,000, respectively. In addition, the Company will test the goodwill for impairment prior to its fiscal year ending December 31, 2002. No impairment has been previously recognized.

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, 2002 and December 31, 2001 were $726.1 million and $711.2 million, respectively, an increase of $14.9 million, or 2.1%, during the nine-month period. The increase in total assets was primarily the result of deposit growth that was first used to repay advances from the Federal Home Loan Bank and then invested in interest-earning assets. Cash and cash equivalents increased by $32.8 million. Investment securities increased by $9.6 million due to the purchase of $13.3 million of such securities. Mortgage-backed securities available for sale increased by $30.1 million as $68.0 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 $28.8 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 $28.0 million in loans receivable.

Total liabilities increased by $10.6 million due to $16.1 million in deposit growth, less $5.0 million in advances from the Federal Home Loan Bank, which were repaid as they matured. Non-interest bearing

demand deposits grew by $1.2 million while interest-bearing checking accounts increased by $1.6 million. Savings and money market accounts grew by $11.2 million and certificates of deposit increased by $2.1 million.

Total consolidated stockholders' equity of the Company was $62.4 million or 8.59% of total assets at September 30, 2002, compared to $58.0 million or 8.15% of assets at December 31, 2001. During the first nine months of 2002 the Company repurchased 16,894 shares of its common stock and issued 21,338 shares pursuant to the exercise of stock options. As of September 30, 2002, there were approximately 114,000 shares available for repurchase under a previously announced share repurchase plan, and the Company will continue to repurchase shares as share availability and market conditions permit.

Asset Quality

During the third quarter of 2002, the Company's provision for loan and lease losses was $150,000 compared with $124,000 during the third quarter of 2001. The Company has not experienced any significant deterioration in its asset quality during the third quarter of 2002, nor has the Company experienced any significant change in the composition of its non-performing assets during such period.

The following table sets forth information regarding the Company's asset quality (dollars in thousands):
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	September 30, 2002	December 31, 2001
Non-performing loans	$3,275	$3,776
Ratio of non-performing loans to gross loans	0.93%	0.99%
Ratio of non-performing loans to total assets	0.45%	0.53%
Foreclosed property	$ 84	$ 40
Foreclosed property to total assets	0.01%	0.01%
Ratio of total non-performing assets to total assets	0.46%	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	838	249
Less: charge-off's (recoveries), net	850	155
Ending balance, September 30,	$1,960	$1,808

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

Net Income. The Company recorded net income of $1,375,000, or $0.51 per diluted share, for the three months ended September 30, 2002 as compared to $1,151,000, or $0.43 per diluted share, for the three months ended September 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 Septemb			
	2002			
	Average Balance	Interest	Average Yld/Cost	Avera Balan
	(dollars in thousands			
Assets:				
Interest-earning assets:				
Loans receivable (1)......................	$348,675	$ 6,238	7.10%	$361,9
Mortgage-backed securities................	205,729	2,872	5.54%	205,6
Investment securities.....................	54,051	608	4.46%	34,7
Other interest-earning assets(2)..........	80,811	320	1.57%	66,1
Total interest-earning assets...........	689,266	10,038	5.78%	668,4
Non interest-earning assets..................	34,176			28,8
Total assets...........................	$723,442			$697,3
Liabilities and stockholders' equity:				
Interest-bearing liabilities				
Deposits.................................	$436,272	2,565	2.33%	$411,9
Advances from the FHLB and other Borrowings.....................	218,989	3,059	5.54%	222,3
Total interest-bearing liabilities.......	655,261	5,624	3.41%	634,3
Non interest-bearing liabilities..............	6,908			7,4
Total liabilities......................	662,169			641,7
Stockholders' equity.........................	61,273			55,5
Total liabilities and stockholders' equity	$723,442			$697,3
Net interest income..........................		$ 4,414		
Interest rate spread (3)......................			2.37%	
Net yield on interest-earning assets (4).......			2.54%	
Ratio of average interest-earning assets to average interest bering 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 September 30, 2002 vs. 2001	
	Increase (decrease) due to	
	Volume	Rate
Interest income:		
Loans receivable, net	$ (252)	$ (552)
Mortgage-backed securities	14	(464)
Investment securities	841	(775)
Other interest-earning assets	631	(875)
Total interest-earning assets	1,234	(2,666)
Interest expense:		
Deposits	1,246	(2,229)
Advances from the FHLB and other borrowings	(54)	8
Total interest-bearing liabilities	1,192	(2,221)
Net change in net interest income	$ 42	$ (445)

Total Interest Income. Total interest income decreased by $1.4 million or 12.5% to $10.0 million for the three months ended September 30, 2002 compared with the third 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 repayment of these mortgage-related assets produced cash and cash equivalents in amounts greater than the Corporation was able to reinvest back into longer-term, higher-yielding assets; thus, 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 September 30, 2002 cash and cash equivalents totaled $102.0 million or 14.0% of total assets.

Total Interest Expense. Total interest expense decreased by $1.0 million or 15.5% to $5.6 million for the three-month period ended September 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 nine months of 2002, the

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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 $982,000 for the three-month period ended September 30, 2002 compared with $474,000 for the same period in 2001. The increase is due to $419,000 in gains on sales of securities and an $87,000 increase in income from the Corporation's bank-owned life insurance which was purchased during August 2001.

Non-interest expense. Total non-interest expense decreased by $194,000 to $3.4 million for the three months ended September 30, 2002 compared to the same period in 2001. The decrease in non-interest expenses is largely attributable to the elimination of $111,000 in amortization of goodwill. Please refer to Note 6 of the Notes to Unaudited Consolidated Financial Statements for an explanation. The Company's effective tax rate during the third quarter of 2002 was 24.2% compared with 25.3% during the third quarter of 2001. The decrease is due to the purchase of bank-owned life insurance during August 2001.

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RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

Net Income. The Company recorded net income of $3,655,000, or $1.34 per diluted share, for the nine months ended September 30, 2002 as compared to $4,097,000, or $1.54 per diluted share, for the nine months ended September 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.

	Nine months ended Septemb Three Months Ended Mar 2002			
	Average Balance	Interest	Average Yld/Cost	Avera Balan
			(dollars in thousands	
Assets:				
Interest-earning assets:				
Loans receivable (1)......................	$360,215	$19,398	7.20%	$360,7
Mortgage-backed securities................	206,506	9,120	5.90%	218,4
Investment securities.....................	50,650	1,760	4.65%	54,6
Other interest-earning assets(2)..........	66,499	800	1.61%	39,0
Total interest-earning assets...........	683,870	31,078	6.08%	672,8
Non interest-earning assets..................	34,890			27,4
Total assets............................	$718,760			$700,3
Liabilities and stockholders' equity:				
Interest-bearing liabilities				
Deposits..................................	$430,857	8,102	2.51%	$405,3
Advances from the FHLB and other Borrowings....................	221,223	9,167	5.54%	232,6
Total interest-bearing liabilities.......	652,080	17,269	3.54%	638,0
Non interest-bearing liabilities..............	7,340			7,9
Total liabilities.......................	659,420			645,9
Stockholders' equity.........................	59,340			54,3
Total liabilities and stockholders' equity..	$718,760			$700,3
Net interest income..........................		$13,809		
Interest rate spread (3).....................			2.54%	
Net yield on interest-earning assets (4).......			2.70%	
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.

	Nine months ended September 30, 2002 vs. 2001		
	Increase (decrease) due to		
	Volume	Rate	Net
Interest income:			
Loans receivable, net	$ (33)	$(1,924)	$(1,957)
Mortgage-backed securities	(561)	(989)	(1,550)
Investment securities	(168)	(524)	(692)
Other interest-earning assets	790	(1,130)	(340)
Total interest-earning assets	28	(4,567)	(4,539)
Interest expense:			
Deposits	1,013	(3,627)	(2,614)
Advances from the FHLB and other borrowings	(476)	(118)	(594)
Total interest-bearing liabilities	537	(3,745)	(3,208)
Net change in net interest income	$(509)	$ (822)	$(1,331)

Total Interest Income. Total interest income decreased by $4.5 million or 12.7% to $31.1 million for the nine months ended September 30, 2002 compared with the first nine months 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 repayment of these mortgage-related assets produced cash and cash equivalents in amounts greater than the Corporation was able to reinvest back into longer-term, higher-yielding assets; thus, 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 September 30, 2002 cash and cash equivalents totaled $102.0 million or 14.0% of total assets.

Total Interest Expense. Total interest expense decreased by $1.3 million or 15.7% to $17.3 million for the nine-month period ended September 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 nine months 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 $1,988,000 for the nine-month period ended September 30, 2002 compared with $1,683,000 for the same period in 2001. The net increase is due to $419,000 in gains on sales of securities during the third quarter of 2002 and a $347,000 increase in income from the Corporation's bank-owned life insurance which was purchased during August 2001, off-set in part by $444,000 non-recurring gain on the sale of real estate which occurred during the second quarter of 2001.

Non-interest expense. Total non-interest expense decreased by $765,000 to $10.2 million for the nine months ended September 30, 2002 compared to the same period in 2001. The decrease in non-interest expenses is largely attributable to the elimination of $333,000 in amortization of goodwill. Please refer to Note 6 of the Notes to Unaudited Consolidated Financial Statements for an explanation. 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 nine months 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 $73,000 due to a decrease in the amount of loans serviced by others, and decreased deposit account servicing charges, net of a related increase in postage expense, which were lower by $89,000 because the Company began servicing customer accounts using in-house item processing and statement rendering capabilities installed during the first quarter of 2001. The Company's effective tax rate during the first nine months of 2002 was 23.9% compared with 25.9% during the first nine months of 2001. The decrease is due to the purchase of bank-owned life insurance during August 2001.

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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, 2002 in the ability of the Company and its subsidiaries to fund their operations.

At September 30, 2002, the Company had commitments outstanding under letters of credit of $1.5 million, commitments to originate or purchase loans of $31.0 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of $27.1 million.

Capital Requirements

The Bank is in compliance with all of its capital requirements as of September 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 nine months ended September 30, 2002.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers") have evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this report and have concluded that such controls and procedures ensured that material information was made known to them, particularly during the period in which this report was being prepared.

Internal Controls

The Certifying Officers have concluded that there were no significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data; nor have there been any significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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

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: November 13, 2002

John R. Stranford
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Dennis R. Stewart

Date: November 13, 2002

Dennis R. Stewart
Senior Vice President and
Chief Financial Officer
(Principal Financial & Accounting Officer)

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John R. Stranford, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TF Financial Corporation (Registrant);

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the
effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ John R. Stranford

Date: November 13, 2002 John R. Stranford

President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dennis R. Stewart, Senior Vive President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TF Financial Corporation (Registrant);

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

		/s/ Dennis R. Stewart ---------------------
Date:	November 13, 2002	Dennis R. Stewart Senior Vice President and Chief Financial Officer (Principal Financial & Accounting Officer)