TIERONE CORP
Form 10-K
March 10, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2005

Commission File Number: 005-78774

TierOne Corporation

(Exact name of registrant as specified in its charter)

Wisconsin	04-3638672
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

Registrant s Address: 1235 N Street, Lincoln, Nebraska 68508
Registrant s Telephone Number, including area code: (402) 475-0521
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Title of Class Common Stock, Par Value $0.01 Per Share

Indicate whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES |X| NO | |

Indicate if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES | | NO |X|

Indicate 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 | |

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. | |

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Act). Large accelerated filer | | Accelerated filer |X| Non-accelerated filer | |

Indicate whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES | | NO |X|

The aggregate market value of the voting stock held by non-affiliates of the Registrant was $492,179,492 as of June 30, 2005. As of March 8, 2006, there were 18,152,773 issued and outstanding shares of the Registrant s common stock.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the Registrant s Annual Meeting of Shareholders to be held May 17, 2006 are incorporated by reference in Part III, Items 10, 11, 12, 13 and 14.

TierOne Corporation

Form 10-K Index

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

Statements contained in this Annual Report on Form 10-K and the accompanying 2005 Annual Report which are not historical facts may be forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated due to a number of factors. In addition to the risk factors described in Item 1A. of this Annual Report on Form 10-K, factors which could result in material variations include, but are not limited to:

Strength of the United States economy in general and the strength of the local economies in which the Company conducts its operations;

Changes in interest rates or other competitive factors which could affect net interest margins, net interest income and noninterest income;

Changes in demand for loans, deposits and other financial services in the Company's market area;

Increases in the levels of losses, customer bankruptcies, claims and assessments;

Unanticipated issues associated with the execution of the Company s strategic plan;

Changes in fiscal, monetary, regulatory, trade and tax policies and laws;

Increased competitive challenges and expanding product and pricing pressures among financial institutions;

Changes in accounting policies or procedures as may be required by various regulatory agencies;

Changes in consumer spending and saving habits; and

Other factors discussed in documents filed by the Company with the Securities and Exchange Commission from time to time.

These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. The Company undertakes no obligation, and disclaims any obligation, to update information contained in this Annual Report on Form 10-K, including these forward-looking statements, to reflect events or circumstances that occur after the date of the filing of this Annual Report on Form 10-K and the accompanying 2005 Annual Report.

Part I

As used in this report, unless the context otherwise requires, the terms we, us, or our refer to TierOne Corporation and its wholly owned subsidiary, TierOne Bank.

Item 1. Business

General

TierOne Corporation (Company) is a Wisconsin corporation headquartered in Lincoln, Nebraska. TierOne Corporation is the holding company for TierOne Bank (Bank). The Bank has two wholly owned subsidiaries, TMS Corporation of the Americas (TMS) and United Farm & Ranch Management, Inc. (UFARM). TMS is the holding company of TierOne Investments and Insurance, Inc., a wholly owned subsidiary that administers the sale of securities and insurance products, and TierOne Reinsurance Company, a wholly owned subsidiary that reinsures credit life and disability insurance policies. UFARM provides agricultural customers with professional farm and ranch management and real estate brokerage services.

The assets of the Company, on an unconsolidated basis, primarily consist of 100% of the Bank s common stock. The Company has no significant independent source of income and therefore depends on cash distributions from the Bank to meet its funding requirements.

Our results of operations are dependent primarily on net interest income, which is the difference between the interest earned on our assets, primarily our loan and securities portfolios, and our cost of funds, which consists of the interest paid on our deposits and borrowings. Our net income is also affected by our provision for loan losses, noninterest income, noninterest expense and income tax expense. Noninterest income generally includes fees and service charges, debit card fees, net income from real estate operations, net gain on sales of investment securities, loans held for sale and real estate owned and other operating income. Noninterest expense consists of salaries and employee benefits, occupancy(net), data processing, advertising and other operating expense. Our earnings are significantly affected by general economic and competitive conditions, particularly changes in market interest rates and U.S. Treasury yield curves, government policies and actions of regulatory authorities.

Market Area and Competition

We are a regional community bank offering a variety of financial products and services to meet the needs of the customers we serve. Our deposit gathering is concentrated in the communities surrounding our 68 banking offices located in Nebraska, seven counties in southwest Iowa and two counties in northern Kansas (Primary Banking Market Area). In addition to loans generated through our banking offices, our lending efforts have been expanded to include nine loan production offices located in Arizona, Colorado, Florida, Minnesota, Nevada and North Carolina whose sole purpose is to originate commercial real estate and land and/or construction loans in their respective states.

We face significant competition, both in generating loans as well as in attracting deposits. Our market area is highly competitive and we face direct competition from a significant number of financial service providers, many with a statewide or regional presence and, in some cases, a national presence. In recent years, our market area has experienced consolidation of the banking industry as locally based institutions have been acquired by large regional and nationally based financial institutions.

Many of these financial service providers are significantly larger than us and have greater financial resources. Our competition for loans comes principally from commercial banks, savings banks and associations, credit unions, mortgage brokers, mortgage-banking companies and insurance companies. Our most direct competition for deposits has historically come from commercial banks, savings banks and associations and credit unions. In addition, we face increasing competition for deposits from non-bank institutions such as brokerage firms and insurance companies in such instruments as short-term money market funds, corporate and government securities funds, equity securities, mutual funds and annuities.

Available Information

We are a public company and are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). We maintain a website at www.tieronebank.com and make available, free of charge, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and any amendments to such documents as soon as reasonably practicable after the reports have been electronically filed or furnished to the SEC. In addition, we provide our Code of Conduct and Ethics, Audit Committee Charter, Compensation Committee Charter and Nominating and Corporate Governance Committee Charter on our website. We are not including the information contained on or available through our website as a part of, or incorporating by reference into, this Annual Report on Form 10-K.

Lending Activities

General. We originate loans to customers located in Nebraska, Iowa, Kansas, Arizona, Colorado, Florida, Minnesota, Nevada and North Carolina (Primary Lending Market Area). We also purchase loans and loan participation interests from financial institutions, loan correspondents and mortgage bankers located throughout the United States. At December 31, 2005 and 2004 approximately 22.2% and 29.2%, respectively, of our loan portfolio consisted of loans secured by properties located outside of our Primary Lending Market Area. In recent years, we have become a regional community bank by shifting our focus to construction, commercial real estate and land, business and consumer lending. These loans typically have relatively higher yields, adjustable interest rates and/or shorter terms to maturities than one-to-four family residential loans.

Loan Approval Procedures and Authority. General lending policies and procedures are established by our Asset/Liability Committee which is composed of the following officers of the Bank: Chief Executive Officer, Chief Operating Officer, Director of Lending, Director of Administration, Director of Retail Banking, Chief Financial Officer, Controller and Senior Financial Analysis Manager. Our Board of Directors reviews and approves lending policies and procedures established by the Asset/Liability Committee and recommended to the Board of Directors. Under policies approved by the Board of Directors, various officers or combinations of officers have loan approval authority, the specific amounts and requirements being set forth for each loan type. For loan amounts in excess of $10.0 million, approval of our Board of Directors is required.

Loan Portfolio Composition. At December 31, 2005, our total loans receivable amounted to $3.5 billion. In recent years, we have shifted the focus of our lending strategy to place an increased emphasis on construction, business, commercial real estate and land, consumer, multi-family residential and agricultural loans as well as warehouse mortgage lines of credit. The types of loans that we may purchase and originate are subject to federal and state laws and regulations. The interest rates we charge on loans are affected by the demand for such loans and the supply of money available for lending purposes and the rates offered by competitors. These factors are, in turn, affected by general and local economic conditions, monetary policies of the Federal Government, including the Board of Governors of the Federal Reserve System and legislative tax policies.

Residential Mortgage Lending. We offer both fixed- and adjustable-rate loans with maturities of up to 40 years secured by one-to-four family properties. One-to-four family residential mortgage loan originations are generally obtained from our in-house loan representatives, from existing or past customers, from mortgage bankers and through referrals from members of our local communities. We also originate and/or purchase from correspondent lenders second mortgage loans in amounts up to 100% of the appraised value of the collateral with maturities of up to 30 years.

We currently originate fixed-rate, one-to-four family residential mortgage loans with terms of up to 40 years. We sell substantially all newly originated fixed-rate, one-to-four family residential loans in the secondary market on a servicing retained basis which produces noninterest income in the form of net gains and losses on sales and loan servicing fees.

We originate or purchase adjustable-rate, one-to-four family residential mortgage loans with terms of up to 30 years and interest rates which generally adjust one to seven years from the outset of the loan and thereafter annually for the duration of the loan. The interest rates for such adjustable-rate loans are normally tied to indices such as the U.S. Treasury CMT or LIBOR, plus a margin. Our adjustable-rate loans generally provide for periodic caps (not more than 2.0%) on the increase or decrease in the interest rate at any adjustment date. The maximum amount the rate can increase or decrease from the initial rate during the life of the loan is 5% to 6%.

The origination or purchase of adjustable-rate, one-to-four family residential mortgage loans helps reduce our exposure to increases in interest rates. However, adjustable-rate loans generally pose credit risks not inherent in fixed-rate loans, primarily because as interest rates rise, the underlying payments of the borrower rise, thereby increasing the potential for default. Periodic and lifetime caps on interest rate increases help to reduce the risks associated with adjustable-rate loans but also limit the interest rate sensitivity of such loans.

Generally, we originate one-to-four family residential mortgage loans in amounts up to 80% of the lower of the appraised value or the selling price of the property and up to 100% if private mortgage insurance is obtained. Mortgage loans originated by us generally include due-on-sale provisions which provide us with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property without our consent. We require fire, casualty, title and, in certain cases, flood insurance on properties securing mortgage loans made by us.

Multi-Family Residential and Commercial Real Estate and Land Lending. We offer multi-family residential and commercial real estate and land loans for both construction and permanent financing collateralized by real property. These loans are generally used for business purposes such as apartment buildings, office and retail facilities and land being held for commercial and residential development. The properties securing these loans are generally located in our Primary Lending Market Area and in selected areas outside of our Primary Lending Market Area. We have increased our involvement in these lending categories as part of our strategy to increase our investment in loans with relatively higher yields, adjustable interest rates and/or shorter terms to maturity. We increased our capacity to originate such loans during 2004 and 2005 with the hiring of several experienced real estate lenders.

Our underwriting procedures generally provide that commercial real estate loans (as well as multi-family, land and commercial construction loans) may be made in amounts up to 80% of the value of the property if it is located within our Primary Lending Market Area and 75% of the value if it is outside our Primary Lending Market Area. Any loans exceeding prescribed loan-to-value ratios must be reviewed by our Board of Directors and supported by documentation of the relevant factors justifying the deviation from policy.

Loans secured by commercial real estate and land and multi-family residential properties generally involve larger principal amounts and a greater degree of risk than one-to-four family residential mortgage loans. Payments on loans secured by multi-family and commercial real estate properties are often dependent on the successful operation or management of the properties. Repayment of such loans may be subject to adverse conditions in the real estate market or the economy and a concentration of loans in a geographic region may be subject to greater risk because of the potential for adverse economic conditions affecting that region. We seek to minimize these risks through our underwriting standards.

Construction Lending. We offer residential construction loans for either pre-sold houses (a purchase contract has been signed) or speculative houses (properties for which no buyer yet exists). We originate most of our residential construction loans within our Primary Lending Market Area typically through direct contact with home builders. At December 31, 2005, approximately 83.7% of our residential construction loans were located in our Primary Lending Market Area. At December 31, 2005, approximately 70% of our residential construction loans were for pre-sold houses. During the years ended December 31, 2005 and 2004, we purchased $589.5 million and $551.7 million, respectively, of residential construction loans.

We also originate commercial real estate construction loans as well as purchase participation interests in such loans. We provide commercial construction loans to real estate developers for the purpose of constructing a variety of commercial projects such as retail facilities, industrial buildings and warehouses. These developers and builders have experience in construction of the projects we finance.

Commercial construction lending involves a moderate level of risk, therefore, we closely monitor our concentration in such loans. We also seek a broad diversification of project types, borrowers and geographic areas to mitigate the level of risk associated with this lending type.

Our ability to originate both residential and commercial construction loans significantly increased during 2004 and 2005 with the acquisition or opening of loan production offices in Arizona, Colorado, Florida, Minnesota, Nevada and North Carolina. Additionally, we have, in recent years, hired several experienced real estate loan officers to increase our capabilities in both types of construction lending.

Risk of loss on construction loans is dependent largely upon the accuracy of the initial estimate of the property s value when completed or developed compared to the projected cost (including interest) of construction and other assumptions, including the approximate time to sell or lease the properties. If the appraised collateral value proves to be inaccurate, we may be confronted with a project, when completed, having a value which is insufficient to assure full repayment.

Agricultural Loans. Agricultural loans are made predominantly to farmers and ranchers in our Primary Banking Market Area. Agricultural operating loans are made to finance day-to-day operations, including crop and livestock production. Intermediate term loans are used to purchase breeding livestock and machinery. Real estate loans are used to purchase or refinance farm and ranchland.

Overall credit worthiness is determined by evaluation of the borrower, including management experience and skills, financial strength and the ability to service debt. Loans are generally repaid using cash flows from agricultural activities and the sale of agricultural commodities produced by the operation. Underwriting standards include maximum advance rates on collateral, minimum cash flow coverage and review of the historical net worth and cash flow trends of the operation.

Risk of loss is related to the effects of the external risk factors such as adverse weather conditions and poor commodity prices. The impact of external risk factors is significantly affected by the borrower s ability to mitigate the effect of risk on the borrower s operation. Commodity based agricultural chattel assets are relatively easy to liquidate, there is also a stable demand for agricultural real estate. Lenders are responsible for validating the existence, value and condition of the collateral. This monitoring may include periodic on-site inspections and the use of borrowing base reports.

Warehouse Mortgage Lines of Credit. We are actively involved in originating revolving lines of credit to mortgage brokers. These lines are drawn upon by mortgage brokers to fund the origination of one-to-four family residential mortgage loans. Prior to funding the advance, the mortgage broker must have an approved commitment for the purchase of the loan which reduces credit exposure associated with the line. The lines are repaid upon sale of the mortgage loan to third parties which usually occurs within 30 days of origination of the loan. In connection with extending the line of credit to the mortgage broker, we enter into agreements with each company to which such mortgage broker intends to sell loans. Under such agreements, the loan purchaser agrees to hold the mortgage documents issued by the mortgage brokers on our behalf and for our benefit until such time that the purchaser remits to us the purchase price for such loans. As part of the structure of the lines of credit, the mortgage brokers are required to maintain commercial deposits with us, with the amount of such deposits depending upon the amount of the line and other factors. The lines are structured with adjustable rates indexed to the Wall Street Journal prime rate. Maximum amounts permitted to be advanced by us under existing warehouse mortgage lines of credit range in amounts from $2.0 million to $40.0 million.

Business Lending. Business loans are made predominantly to small and mid-sized businesses located within our Primary Banking Market Area. The business lending products we offer include lines of credit, receivable and inventory financing and equipment loans. We have established minimum underwriting standards in regard to business loans which set forth the criteria for sources of repayment, borrower s capacity to repay, specific financial and collateral margins and financial enhancements such as guarantees. Generally, the primary source of repayment is recurring cash flow of the borrower or cash flow from the business.

Business loans generally involve a greater degree of risk than real estate loans, primarily because collateral is more difficult to appraise, the collateral may be difficult to obtain or liquidate following default and it is difficult to foresee the borrower s ability to generate cash flows. These loans, however, typically offer relatively higher yields and have shorter expected terms to maturity. The availability of business loans enables potential depositors to establish full-service banking relationships with us.

Consumer and Other Lending. Consumer loans are generally originated directly through our network of 68 banking offices. We generally offer home equity loans, home improvement loans and lines of credit in amounts up to $100,000 with a term of 15 years or less and a loan-to-value ratio up to 100% of the appraised value of the collateral. A portion of our home improvement loans consist of participation interests we have purchased from a third party. Under the terms of our third party arrangement, if any loan becomes more than 120 days past due, we can require the seller to repurchase such loan at a price equal to our total investment in the loan, including any uncollected and accrued interest. We also offer automobile loans in amounts up to $50,000 with maximum 72 month and 60 month terms for new and used cars, respectively, and purchase price ratios of generally not more than 95% and 85% for new and used cars, respectively. Most of our automobile loans are obtained through a network of 76 new and used automobile dealers located primarily in Lincoln and Omaha, Nebraska. Although employees of the automobile dealership take the application, the loan is made pursuant to our own underwriting standards and must be approved by one of our authorized loan officers. Our consumer loan portfolio also includes manufactured housing, recreational vehicle, boat, motorcycle and unsecured loans.

Unsecured loans and loans secured by rapidly depreciating assets, such as automobiles, entail greater risks than one-to-four family residential mortgage loans. In such cases, repossessed collateral, if any, for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. Further, consumer loan collections on these loans are dependent on the borrower s continuing financial stability and, therefore, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Finally, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans in the event of a default.

Loan Portfolio Composition. The following table shows the composition of our loan portfolio by type of loan at the dates indicated:

	At December 31,				
(Dollars in thousands)	**2005**	**2004**	**2003**	**2002**	**2001**
Real estate loans:					
One-to-four family residential (1)	$ 384,722	$ 418,270	$ 559,134	$ 547,619	$ 487,015
Second mortgage residential	160,208	255,222	258,121	25,590	15,487
Multi-family residential	166,579	142,454	99,078	79,953	74,209
Commercial real estate and land	692,420	597,114	449,152	398,076	258,277
Residential construction	943,378	601,075	245,782	156,322	113,300
Commercial construction	351,767	282,399	154,247	143,020	95,614
Agriculture	57,008	66,830	--	--	--
Total real estate loans	2,756,082	2,363,364	1,765,514	1,350,580	1,043,902
Business	177,592	142,675	64,522	33,375	12,193
Agriculture - operating	72,518	71,223	--	--	--
Warehouse mortgage lines of credit	95,174	132,928	78,759	236,492	224,067
Consumer loans:					
Home equity	61,600	56,441	33,874	37,522	45,398
Home equity line of credit	141,021	142,725	117,899	94,801	61,839
Home improvement	69,165	73,386	74,915	82,081	76,555
Automobile	85,515	80,512	67,351	60,707	42,547
Other	49,812	25,956	15,621	15,131	10,486

	At December 31,				
Total consumer loans	407,113	379,020	309,660	290,242	236,825
Total loans	3,508,479	3,089,210	2,218,455	1,910,689	1,516,987
Unamortized premiums, discounts and deferred loan fees	4,778	7,228	10,790	3,998	(232)
Undisbursed portion of construction and land development loans in process	(668,587)	(441,452)	(193,063)	(123,331)	(109,852)
Net loans	2,844,670	2,654,986	2,036,182	1,791,356	1,406,903
Allowance for loan losses	(30,870)	(26,831)	(19,586)	(17,108)	(13,464)
Net loans after allowance for loan losses	$ 2,813,800	$ 2,628,155	$ 2,016,596	$ 1,774,248	$ 1,393,439
(1) Includes loans held for sale	$ 8,666	$ 11,956	$ 7,083	$ 8,504	$ 14,373

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Contractual Terms to Final Maturities. The following table shows the scheduled contractual maturities of our loans at December 31, 2005, before giving effect to net items. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported as due in one year or less. The following amounts do not take into account loan prepayments.

	Principal Payments Contractually Due in Years				
(Dollars in thousands)	**2006**	**2007 - 2010**	**2011 - 2015**	**After 2015**	**Total**
Real estate loans:					
One-to-four family residential	$ 716	$ 14,100	$ 12,480	$ 357,426	$ 384,722
Second mortgage residential	232	5,837	19,894	134,245	160,208
Multi-family residential	892	73,132	29,594	62,961	166,579
Commercial real estate and land	130,561	294,063	223,857	43,939	692,420
Agriculture	3,221	13,649	29,682	10,456	57,008
Residential construction	896,479	31,630	--	15,269	943,378
Commercial construction	36,224	210,013	95,920	9,610	351,767
Total real estate loans	1,068,325	642,424	411,427	633,906	2,756,082
Business	63,932	90,063	22,318	1,279	177,592
Agriculture - operating	59,920	9,190	3,097	311	72,518
Warehouse mortgage lines of credit	95,174	--	--	--	95,174
Consumer	34,289	298,698	34,592	39,534	407,113
Total loans (1) (2)	$ 1,321,640	$ 1,040,375	$ 471,434	$ 675,030	$ 3,508,479

(1) Gross of unamortized premiums, discounts and deferred loan fees, undisbursed portion of construction and land development loans in process and allowance for loan losses.
(2) Total loans due after one year from December 31, 2005 with fixed interest rates totaled $1.0 billion. Total loans due after one year from December 31, 2005 with floating or adjustable interest rates totaled $1.2 billion.

Originations, Purchases and Sales of Loans. Our lending activities are subject to underwriting standards and loan origination procedures established by our Asset/Liability Committee and approved by our Board of Directors. Applications for mortgages and other loans are taken at our banking and loan production offices. In the past, we relied on a network of loan correspondents and brokers to originate a substantial part of our loans. In recent years we have greatly expanded our capacity to directly originate loans through the expansion of our loan production office network and the employment of a number of experienced loan originators. We continue to use loan correspondents to originate one-to-four family residential loans to supplement our origination efforts. A substantial portion of such loans consists of fixed-rate, one-to-four family residential mortgage loans which we sell into the secondary market on a servicing retained basis.

Although we originate both adjustable-rate and fixed-rate loans, our ability to originate and purchase fixed or adjustable-rate loans is dependent upon the relative customer demand for such loans, which is affected by the current and expected future level of interest rates. In order to implement our strategy of building a mortgage loan portfolio that consists primarily of adjustable-rate loans, our purchase activity has increased in recent years. The loans purchased for retention during 2005 consisted of construction, one-to-four family residential, consumer (primarily home improvement loans and automobile financing), multi-family residential, commercial real estate and land (including participation interests), business and second mortgage residential loans.

Generally, we originate adjustable-rate mortgage loans for retention in our portfolio. It is our current policy to sell substantially all the fixed-rate, one-to-four family residential mortgage loans we originate or purchase. Substantially all of the loans sold are sold to either Fannie Mae (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) or the FHLBank Topeka (FHLBank) pursuant to the Mortgage Partnership Finance Program. Upon receipt of an application to make a fixed-rate loan, we typically enter into agreements to sell such loans to FNMA, FHLMC or the FHLBank pursuant to forward sale commitments, with delivery being required in approximately 90 days. We generally agree to deliver a somewhat smaller dollar amount of loans in the event that not all the loans for which applications are submitted actually close. Loans are delivered pursuant to such sale contracts upon their origination or purchase and are not aggregated for sale as loan packages. As a result, we typically do not have a significant amount of loans held for sale at any given point in time. We recognize, at the time of disposition, the gain or loss on the sale of the loans. The gain or loss is based on the difference between the net proceeds received and the carrying value of the loans sold excluding the value of servicing rights retained.

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In recent years, we have developed lending relationships with several financial institutions and mortgage bankers pursuant to which we have purchased whole loans or loan participation interests secured by properties located outside our Primary Lending Market Area. Our purchases have consisted of construction loans or participation interests in such loans, both residential and commercial, as well as commercial real estate and land, and were originated under underwriting guidelines substantially identical to our own guidelines. For loans in which we hold a participation interest we generally require the lead lender to maintain anywhere from 5% to 50% interest in the loans. Prior to entering into such relationships, we conduct on-site due diligence of each lender, including document review as well as management interviews. We also conduct on-site inspections of selected properties and of the market areas in which the properties are located. In addition, we apply our own underwriting standards to each loan or loan participation we purchase. We also review and underwrite, with respect to construction loans, the individual builders to whom loans are being extended, establishing a limit as to the total amount that we will lend to each such builder. We engage local independent inspectors to inspect the progress of construction on properties securing such loans and base our disbursements on such inspections. We also generally visit the lenders every three to six months to conduct follow-up inspections of the lenders operations as well as to review the collateral property securing the loans.

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The following table shows total loans originated, purchased, sold and repaid during the years indicated:

	Year Ended December 31,		
(Dollars in thousands)	**2005**	**2004**	**2003**
Net loans after allowance for loan losses at beginning of year	$ 2,628,155	$ 2,016,596	$ 1,774,248

	Year Ended December 31,		
Loan originations:			
One-to-four family residential	150,744	145,655	377,661
Second mortgage residential	3,867	3,361	2,787
Multi-family residential	13,008	10,794	42,309
Commercial real estate and land	221,458	167,448	99,426
Residential construction	560,322	190,964	154,695
Commercial construction	218,368	166,714	59,075
Agriculture	25,054	7,404	--
Business	348,450	221,466	99,198
Agriculture - operating	188,591	37,432	--
Warehouse mortgage lines of credit (1)	3,640,622	3,145,266	5,491,777
Consumer	148,538	152,692	147,069
Total loan originations	5,519,022	4,249,196	6,473,997
Loan purchases:			
One-to-four family residential (2)	191,725	192,163	652,751
Second mortgage residential	1,191	122,069	304,593
Multi-family residential	61,133	12,895	13,500
Commercial real estate and land	34,169	44,925	43,949
Residential construction	589,506	551,654	184,126
Commercial construction	47,587	42,371	45,568
Business	9,235	8,511	21,326
Consumer	120,466	75,891	67,526
Total loan purchases	1,055,012	1,050,479	1,333,339
Total loan originations and purchases	6,574,034	5,299,675	7,807,336
Sales and loan principal repayments:			
Loan sales:			
One-to-four family residential	(254,578)	(280,990)	(627,525)
Consumer	(4,777)	(4,041)	(6,519)
Loan principal repayments:			
Real estate, business, agriculture-operating and consumer	(2,224,703)	(1,349,928)	(1,215,568)
Warehouse mortgage lines of credit (1)	(3,678,376)	(3,091,097)	(5,649,510)
Total loan sales and principal repayments	(6,162,434)	(4,726,056)	(7,499,122)
Increase due to acquisition	--	304,300	--
Decrease due to other items (3)	(225,955)	(266,360)	(65,866)
Net loans after allowance for loan losses at end of year	$ 2,813,800	$ 2,628,155	$ 2,016,596

(1) Reflects amounts advanced and repaid under such lines of credit during the years presented.
(2) Substantially all of these fixed-rate loans were acquired from mortgage bankers and sold to Fannie Mae, Freddie Mac or the FHLBank Topeka with servicing retained.
(3) Other items consist of unamortized premiums, discounts and deferred loan fees, undisbursed portion of construction and land development loans in process and changes in the allowance for loan losses.

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Loan Servicing. In recent years, we began selling substantially all fixed-rate, one-to-four family residential mortgage loans with servicing retained in order to develop additional sources of noninterest income. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, holding escrow funds for the payment of real estate taxes and insurance premiums, contacting delinquent borrowers and supervising foreclosures and property dispositions in the event of unremedied defaults. The gross servicing fee income from loans sold is generally 0.25% to 0.50% of the total balance of each loan serviced. At December 31, 2005 and 2004, we were servicing $1.2 billion and $1.1 billion, respectively, of loans for others, primarily consisting of one-to-four family residential loans sold by us to investors.

Loan Commitments. We generally issue written commitments to individual borrowers and mortgage brokers for the purposes of originating and purchasing loans. These loan commitments establish the terms and conditions under which we will fund the loans. At December 31, 2005, we had issued commitments totaling $830.6 million, excluding the undisbursed portion of construction and land development loans in process, to fund and purchase loans, extend credit on commercial and consumer unused lines of credit and to extend credit under unused warehouse mortgage lines of credit. These outstanding loan commitments do not necessarily represent future cash requirements since many of the commitments may expire without being drawn.

Derivative Financial Instruments. We enter into commitments to fund loans in which the interest rate on the loan is set prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives under Statement of Financial Accounting Standard (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and are recorded at their fair value in other assets in the Consolidated Statements of Financial Condition. Changes in fair value are recorded in the net gain or loss on loans held for sale category in the Consolidated Statements of Income. Fair value is based on a quoted market price that closely approximates the gain that would have been recognized if the loan commitment was funded and sold at December 31, 2005. The amount of expected servicing rights is excluded from the measurement of fair value. The measurement of fair value is also adjusted for anticipated cancellation by the borrower of commitments that will never be funded. We are exposed to interest rate risk as a result of rate lock commitments.

We manage interest rate risk by entering into forward sale commitments, which are also defined as derivatives under SFAS No. 133, and are recorded at their fair value in the other liabilities category in the Consolidated Statements of Financial Condition, with changes in fair value reported in net gain or loss on loans held for sale in the Consolidated Statements of Income. Their fair value is based on a quoted premium or penalty that would have been received or paid if we had exited the forward position at December 31, 2005.

Asset Quality

Reports listing all delinquent loans, classified assets and real estate owned are reviewed by management and our Board of Directors. The procedures we take with respect to delinquencies vary depending on the nature of the loan, period and cause of delinquency and whether the borrower is habitually delinquent. When a borrower fails to make a required payment on a loan, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status. In the event payment is not then received or the loan not otherwise satisfied, letters and telephone calls generally are made. If the loan is still not brought current or satisfied and it becomes necessary for us to take legal action, which typically occurs after a loan is 90 days or more delinquent, we will commence recovery proceedings against the property securing the loan. If a legal action is instituted and the loan is not brought current, paid in full, or refinanced before the recovery sale, the property securing the loan generally is sold and, if purchased by us, becomes real estate owned or a repossessed asset.

Delinquent Loans. The following table shows loans delinquent 30 89 days in our loan portfolio as of the dates indicated:

	At December 31,				
(Dollars in thousands)	**2005**	**2004**	**2003**	**2002**	**2001**
One-to-four family residential	$ 2,081	$ 8,203	$ 1,844	$ 3,677	$ 6,632
Second mortgage residential	1,844	1,426	1,051	86	--
Commercial real estate and land	2,642	643	142	--	--
Residential construction	8,287	1,529	2,501	258	--
Agriculture	586	120	--	--	--
Business	1,740	1,122	126	--	--
Agriculture - operating	180	566	--	--	--
Consumer	6,416	3,448	2,945	2,499	2,694
Total delinquent loans	$ 23,776	$ 17,057	$ 8,609	$ 6,520	$ 9,326
Delinquent loans as a percentage of total loans	0.68%	0.55%	0.39%	0.34%	0.61%

At December 31,

Nonperforming Loans and Real Estate Owned. The following table sets forth information regarding nonperforming loans (90 or more days delinquent) and real estate owned. It is our policy to cease accruing interest on loans contractually delinquent 90 days or more and charge-off all accrued interest. We did not have any accruing loans 90 days or more past due at the dates shown.

	At December 31,				
(Dollars in thousands)	**2005**	**2004**	**2003**	**2002**	**2001**
Nonperforming loans:					
One-to-four family residential	$ 1,902	$ 1,914	$ 1,461	$ 981	$ 895
Second mortgage residential	609	739	224	180	3
Multi-family residential	5,731	2,374	--	--	--
Commercial real estate and land	1,922	707	--	3,795	--
Residential construction	1,840	2,256	1,012	106	--
Agriculture	113	349	--	--	--
Business	526	771	219	--	--
Agriculture - operating	308	1	--	--	--
Consumer	1,454	1,121	700	427	767
Total nonperforming loans	14,405	10,232	3,616	5,489	1,665
Real estate owned, net (1)	2,446	382	678	1,967	168
Total nonperforming assets	16,851	10,614	4,294	7,456	1,833
Troubled debt restructurings	5,180	3,469	468	209	345
Total nonperforming assets and troubled debt restructurings	$ 22,031	$ 14,083	$ 4,762	$ 7,665	$ 2,178
Total nonperforming loans as a percentage of net loans	0.51%	0.39%	0.18%	0.31%	0.12%
Total nonperforming assets as a percentage of total assets	0.52%	0.35%	0.19%	0.38%	0.12%
Total nonperforming assets and troubled debt restructurings as a percentage of total assets	0.68%	0.46%	0.22%	0.39%	0.14%

(1) Real estate owned balances are shown net of related loss allowances. Includes both real property and other repossessed collateral consisting primarily of automobiles.

Included in the preceding table, under nonperforming loans and troubled debt restructurings, are impaired loans of $9.4 million and $6.1 million at December 31, 2005 and 2004, respectively. At December 31, 2005, we classified four nonperforming loans totaling $4.2 million as impaired. Impaired loans at December 31, 2005 include three multi-family residential loans which are seasoned loans for tax-advantaged affordable housing units totaling $3.3 million and one commercial real estate and land loan totaling $915,000. We had established an allowance for loan losses related to impaired loans of $1.1 million and $464,000 at December 31, 2005 and 2004, respectively.

When we acquire real estate owned property through foreclosure or deed in lieu of foreclosure, it is initially recorded at the lower of the recorded investment in the corresponding loan or the fair value of the related assets at the date of foreclosure, less costs to sell. If there is a further deterioration in value, we provide for a specific valuation allowance and charge operations for the decline in value. It is our policy to obtain an appraisal or broker s price opinion on all real estate subject to foreclosure proceedings prior to the time of foreclosure. It is our policy to require appraisals on a periodic basis on foreclosed properties as well as conduct inspections on such properties. Real estate owned totaled $2.4 million and $382,000 at December 31, 2005 and 2004, respectively. Real estate owned at December 31, 2005 includes a $1.6 million multi-family residential property acquired in the United Nebraska Financial Co. (UNFC) transaction in 2004.

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Classified Assets. Federal regulations and our Asset Classification Policy require that we utilize an internal asset classification system as a means of reporting problem and potential problem assets. We have incorporated the Office of Thrift Supervision s (OTS) internal asset classifications as a part of our credit monitoring system. All assets are subject to classification. Asset quality ratings are divided into three asset classifications: Pass (unclassified), special mention and classified (adverse classification). Additionally, there are three adverse classifications: substandard , doubtful and loss . A pass asset is considered to be of sufficient quality to preclude a special mention or an adverse rating. The special mention asset has potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in our credit position at a future date. Classified assets receive an adverse classification. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. When we classify one or more assets, or portions thereof, as substandard , doubtful or loss , we establish a specific valuation allowance for loan losses in an amount deemed prudent by management based on the specific facts of the asset.

Our Asset Classification Committee reviews and classifies assets no less frequent than quarterly and our Board of Directors reviews the asset classification reports on a quarterly basis. The Asset Classification Committee is composed of the following officers of the Bank: Chief Executive Officer, Chief Operating Officer, Director of Lending, Chief Credit Officer, Director of Real Estate Lending, Chief Financial Officer, Controller, Senior Financial Analysis Manager and External Reporting Manager.

Allowance for Loan Losses. A provision for loan losses is charged to income when it is determined by management to be required based on our analysis. The allowance is maintained at a level to cover all known and inherent losses in the loan portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the loan portfolio no less frequently than quarterly in order to identify those inherent losses and to assess the overall collection probability of the portfolio. Our review includes a quantitative analysis by loan category, using historical loss experience, classifying loans pursuant to a grading system and consideration of a series of qualitative loss factors. These loss factors are developed using our historical loan loss experience for each group of loans as further adjusted for specific factors, including the following:

Trends and levels of delinquent, nonperforming or "impaired" loans;
Trends and levels of charge-offs and recoveries;
Trends in volume and underwriting terms or guarantees for loans;
Impact of changes in underwriting standards, risk tolerances or other changes in lending practices;
Changes in the value of collateral securing loans;
Total loans outstanding and the volume of loan originations;
Type, size, terms and geographic concentration of loans held;
Changes in qualifications or experience of the lending staff;
Changes in local or national economic or industry conditions;
Number of loans requiring heightened management oversight;
Changes in credit concentration; and

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Changes in regulatory requirements.

Although management believes that, based on information currently available to us at this time, our allowance for loan losses is maintained at a level which covers all known and inherent losses that are both probable and reasonably estimable at each reporting date, actual losses are dependent upon future events and, as such, further additions to the level of allowances for loan losses may become necessary.

The allowance for loan losses consists of two elements. The first element is an allocated allowance established for specific loans identified by the credit review function that are evaluated individually for impairment and are considered to be impaired. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impairment is measured by: (a) the fair value of the collateral if the loan is collateral dependent; (b) the present value of expected future cash flows; or (c) the loan s observable market price. The second element is an estimated allowance established for losses which are probable and reasonable to estimate on each category of outstanding loans. While we utilize available information to recognize probable losses on loans inherent in the portfolio, future additions to the allowance may be necessary based on changes in economic conditions and other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgment of information available to them at the time of their examination.

The following table shows changes in our allowance for loan losses during the years presented:

	At or For the Year Ended December 31,				
(Dollars in thousands)	**2005**	**2004**	**2003**	**2002**	**2001**
Allowance for loan losses at beginning of year	$ 26,831	$ 19,586	$ 17,108	$ 13,464	$ 9,947
Allowance for loan losses acquired	--	4,221	--	--	--
Charge-offs:					
One-to-four family residential	(11)	(16)	(6)	(16)	(37)
Second mortgage residential	(402)	(520)	(107)	(21)	--
Multi-family residential	(729)	--	--	--	--
Commercial real estate and land	(7)	--	(330)	--	(1)
Residential construction	(114)	(138)	(13)	--	--
Business	(608)	(57)	(5)	(99)	--
Agriculture - operating	--	(64)	--	--	--
Warehouse mortgage lines of credit	--	(20)	(110)	--	--
Consumer	(1,192)	(1,421)	(1,368)	(1,018)	(458)
Total charge-offs	(3,063)	(2,236)	(1,939)	(1,154)	(496)
Recoveries on loans previously charged-off	666	373	146	103	16
Provision for loan losses	6,436	4,887	4,271	4,695	3,997
Allowance for loan losses at end of year	$ 30,870	$ 26,831	$ 19,586	$ 17,108	$ 13,464
Allowance for loan losses as a percentage of net loans	1.09%	1.01%	0.96%	0.96%	0.96%
Allowance for loan losses as a percentage of nonperforming loans	214.30%	262.23%	541.65%	311.68%	808.65%
Ratio of net charge-offs during the year as a percentage of average loans outstanding during the year	0.09%	0.08%	0.10%	0.08%	0.04%

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The following table shows how our allowance for loan losses is allocated by type of loan at each of the dates indicated:

At December 31,		
2005	**2004**	**2003**

(Dollars in thousands)	At December 31, Amount of Allowance	Loan Category as a % of Total Loans	Amount of Allowance	Loan Category as a % of Total Loans	Amount of Allowance	Loan Category as a % of Total Loans
One-to-four family residential	$ 740	10.96%	$ 805	13.54%	$ 1,069	25.20%
Second mortgage residential *	1,502	4.57	2,369	8.26	2,343	11.63
Multi-family residential	2,659	4.75	2,468	4.61	2,002	4.47
Commercial real estate and land	8,739	19.74	7,323	19.33	5,482	20.25
Residential construction	4,455	26.89	3,140	19.46	1,570	11.08
Commercial construction	2,681	10.03	2,000	9.14	1,011	6.95
Agriculture	687	1.62	873	2.16	--	--
Business	2,531	5.06	1,796	4.62	788	2.91
Agriculture - operating	941	2.07	990	2.31	--	--
Warehouse mortgage lines of credit	190	2.71	266	4.30	207	3.55
Consumer	5,715	11.60	4,795	12.27	5,003	13.96
Unallocated	30	--	6	--	111	--
Total	$ 30,870	100.00%	$ 26,831	100.00%	$ 19,586	100.00%

(Dollars in thousands)	At December 31, 2002 Amount of Allowance	2002 Loan Category as a % of Total Loans	2001 Amount of Allowance	2001 Loan Category as a % of Total Loans
One-to-four family residential	$ 1,071	30.00%	$ 976	33.13%
Second mortgage residential *	--	--	--	--
Multi-family residential	1,740	4.18	1,715	4.89
Commercial real estate and land	6,343	20.83	3,876	17.03
Residential construction	1,051	8.18	597	7.47
Commercial construction	1,259	7.49	586	6.30
Agriculture	--	--	--	--
Business	400	1.75	146	0.80
Agriculture - operating	--	--	--	--
Warehouse mortgage lines of credit	473	12.38	448	14.77
Consumer	4,771	15.19	4,736	15.61
Unallocated	--	--	384	--
Total	$ 17,108	100.00%	$ 13,464	100.00%

* Second mortgage residential loans disclosed separately for 2003, 2004 and 2005 as we began analyzing this portfolio separately in 2003 due to our increased investment in such loans.

Investment Activities

Federally chartered savings institutions have the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, time deposits of insured banks and savings institutions, bankers acceptances, repurchase agreements and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest in commercial paper, investment-grade corporate debt securities and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly. Historically, we have maintained liquid assets at a level considered to be adequate to meet our normal daily activities.

Our investment policy, as approved by our Board of Directors, requires management to maintain adequate liquidity and to generate a favorable return on investment without incurring undue interest rate and credit risk. We primarily utilize investments in securities for liquidity management and as a method of deploying excess funding not utilized for loan originations and purchases. We have invested in U.S. Government securities and agency obligations, corporate securities, municipal obligations, agency equity securities, mutual funds, U.S. Government sponsored agency issued mortgage-backed securities and collateralized mortgage obligations. As required by SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, we have established an investment portfolio of securities that are categorized as held to maturity or available for sale. We do not currently maintain a portfolio of securities categorized as held for trading. Substantially all of our investment securities are purchased for the available for sale portfolio which totaled $102.6 million, or 3.2% of total assets, at December 31, 2005. At such date, we had net unrealized losses with respect to such securities of $1.4 million. At December 31, 2005, the held to maturity securities portfolio totaled $111,000.

At December 31, 2005, our mortgage-backed security portfolio (all of which were classified as available for sale) totaled $19.8 million, or 0.6% of total assets. Investments in mortgage-backed securities involve a risk that actual prepayments will be greater than estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or in the event such securities are redeemed by the issuer. In addition, the fair value of such securities may be adversely affected by changes in interest rates.

The GNMA is a government agency within the Department of Housing and Urban Development which is intended to help finance government-assisted housing programs. GNMA securities are backed by loans insured by the Federal Housing Administration, or guaranteed by the Veterans Administration. The timely payment of principal and interest on GNMA securities is guaranteed by GNMA and backed by the full faith and credit of the U.S. Government. FHLMC is a private corporation chartered by the U.S. Government. FHLMC issues participation certificates backed principally by conventional mortgage loans. FHLMC guarantees the timely payment of interest and the ultimate return of principal on participation certificates. FNMA is a private corporation chartered by the U.S. Congress with a mandate to establish a secondary market for mortgage loans. FNMA guarantees the timely payment of principal and interest on FNMA securities. FHLMC and FNMA securities are not backed by the full faith and credit of the U.S. Government, but because FHLMC and FNMA are U.S. Government-sponsored enterprises, these securities are considered to be among the highest quality investments with minimal credit risks.

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The following table sets forth certain information relating to our available for sale investment securities portfolio at the dates indicated:

	At December 31,					
	2005		2004		2003	
(Dollars in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
U.S. Government securities and agency obligations	$ 68,949	$ 67,761	$ 83,371	$ 82,865	$ 12,877	$ 12,886
Corporate securities	10,249	10,264	11,532	11,714	24,496	24,660
Municipal obligations	18,301	18,220	23,560	23,554	142	142
Agency equity securities	546	521	3,763	3,823	--	--
Asset Management Fund - ARM Fund	6,000	5,848	6,000	5,927	6,000	5,969

	At December 31,					
Total investment securities	104,045	102,614	128,226	127,883	43,515	43,657
FHLBank Topeka stock	58,491	58,491	54,284	54,284	37,143	37,143
Total investment securities and FHLBank Topeka stock	$ 162,536	$ 161,105	$ 182,510	$ 182,167	$ 80,658	$ 80,800

The following table sets forth the amount of investment securities which mature during each of the years indicated and the weighted average yields for each range of maturities at December 31, 2005. No tax-exempt yields have been adjusted to a tax-equivalent basis.

	Maturing During the Year Ending December 31,				
(Dollars in thousands)	**2006**	**2007 - 2010**	**2011 - 2015**	**After 2015**	**Total**
Bonds and other debt securities:					
U.S. Government securities and agency obligations					
Balance	$ 25,511	$ 33,455	$ 9,983	$ --	$ 68,949
Weighted average yield	2.61%	3.43%	4.18%	--	3.24%
Corporate securities					
Balance	$ 996	$ 7,538	$ --	$ 1,715	$ 10,249
Weighted average yield	3.08%	5.79%	--	9.63%	6.17%
Municipal obligations					
Balance	$ 1,581	$ 4,305	$ 9,485	$ 3,041	$ 18,412
Weighted average yield	3.76%	4.27%	4.35%	4.80%	4.35%
Equity Securities:					
Asset Management Fund - ARM Fund					
Balance	$ 6,000	$ --	$ --	$ --	$ 6,000
Weighted average yield	4.02%	--	--	--	4.02%
Agency equity securities					
Balance	$ 546	$ --	$ --	$ --	$ 546
Weighted average yield	5.82%	--	--	--	5.82%
FHLBank Topeka stock					
Balance	$ 58,491	$ --	$ --	$ --	$ 58,491
Weighted average yield	5.05%	--	--	--	5.05%
Total carrying value	$ 93,125	$ 45,298	$ 19,468	$ 4,756	$ 162,647
Weighted average yield	4.28%	3.90%	4.26%	6.54%	4.24%

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The following table sets forth the composition of our mortgage-backed securities portfolio at the dates indicated:

	At December 31,					
	2005		**2004**		**2003**	
(Dollars in thousands)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Fixed-rate:						
FHLMC	$ 1,548	$ 1,490	$ 2,336	$ 2,305	$ 102	$ 109
FNMA	1,810	1,768	3,011	3,029	2,179	2,234
GNMA	902	835	1,391	1,363	--	--
FHLMC/FNMA CMOs	9,910	9,691	20,520	20,283	--	--

	At December 31,					
Private CMOs	--	--	1	1	4	4
Total fixed-rate	14,170	13,784	&			