CALIFORNIA FEDERAL PREFERRED CAPITAL CORPATION
Form 10-K
March 21, 2002

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2001

Commission file number: 1-12639

CALIFORNIA FEDERAL PREFERRED CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)

Maryland	94
(State or other jurisdiction of incorporation or organization)	(I.R.S.employer I
200 Crescent Court, Suite 1350, Dallas, Texas	
(Address of principal executive offices)	(Z

Registrant's telephone number, including area code: (214) 871-5131

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on w
9-1/8% Noncumulative Exchangeable Preferred Stock, Series A	New York Stock E

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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 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. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the close of business on March 16, 2002: N/A

Number of shares outstanding of registrant's common stock $0.01 par value on March 16, 2002: 1,000 shares

Documents Incorporated by Reference

None

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PART III

Forward-Looking Statements. This Report contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that pertain to our future operating results. Words such as "anticipate," "believe," "expect," "intend," and other similar expressions are intended to identify these statements. Forward-looking statements are not historical facts and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. Our actual results could differ materially from those in the forward-looking statements due to such factors as (i) the Company's dependence upon the operations of its affiliated servicer and upon the financial condition and operations of its parent, California Federal Bank; (ii) regulatory restrictions on the Company's operations; (iii) interest rate changes; (iv) declines in real estate values and increases in uncollected or uncollectable mortgage loans; (v) the concentration of the Company's portfolio in loans secured by residential properties located in California; (vi) the inclusion of high balance mortgage loans in the Company's portfolio; (vii) changes made by the Company's Board of Directors in the Company's investment and operating policies and strategies, including whether or not to incur indebtedness; and (viii) failure to qualify as a real estate investment trust for federal income tax purposes. These factors are discussed in greater detail in "Business ---Factors That May Affect Future Results" below. We assume no obligation to update any of our forward-looking statements.

PART I

ITEM 1. BUSINESS

GENERAL

California Federal Preferred Capital Corporation (the "Company") is a Maryland corporation incorporated on November 19, 1996 which was created for the purpose of acquiring, holding and managing real estate assets. The Company's outstanding common stock is wholly-owned by California Federal Bank (the "Bank"). The Bank is wholly-owned indirectly by Golden State Bancorp Inc. ("Golden State"). The Company has elected to be treated as a Real Estate Investment Trust ("REIT") for Federal income tax purposes and intends to comply with the provisions of the Internal Revenue Code of 1986 (the "IRC"), as amended. Accordingly, in general, the Company is not subject to Federal income tax to the extent it distributes its income to shareholders and as long as certain asset, income and stock ownership tests are met in accordance with the IRC.

On January 31, 1997, the Company commenced its operations with the consummation of an initial public offering of 20,000,000 shares of the Company's 9 1/8% Noncumulative Exchangeable Preferred Stock, Series A (the "Series A Preferred Shares"), $0.01 par value, which raised $500 million. The Series A Preferred Shares are traded on the New York Stock Exchange ("NYSE") under the trading symbol "CFP." Concurrent with the issuance of the Series A Preferred Shares, the Bank contributed additional capital of $500 million to the Company.

The Company used the proceeds raised from the initial public offering of the Series A Preferred Shares and the additional capital contributed by the Bank to purchase from the Bank the Companys initial portfolio of residential mortgage loans at their estimated fair value. The residential mortgage loans were recorded in the accompanying financial statements at the Banks carrying value which approximated their estimated fair values. Pursuant to a servicing agreement (the "Servicing Agreement"), the Banks wholly-owned mortgage banking subsidiary, First Nationwide Mortgage Corporation ("FNMC"), services the Companys residential mortgage loans.

DESCRIPTION OF COMMON STOCK

Dividends

Holders of common stock are entitled to receive dividends if, when and as authorized and declared by the Company's Board of Directors (the "Board") out of assets legally available therefor, provided that, so long as any shares of preferred stock are outstanding, no dividends or other distributions (including redemptions and purchases) may be made with respect to the common stock unless full dividends on the shares of all series of preferred stock, including accumulations in the case of any cumulative preferred stock, have been paid. In order to remain qualified as a REIT, the Company must distribute annually at least 90% of its annual REIT taxable income to the stockholders. See "-- Tax Status of the Company."

Voting Rights

Subject to the rights, if any, of the holders of any class or series of preferred stock, including the Series A Preferred Shares, all voting rights are vested in the common stock. The holders of common stock are entitled to one vote per share. All of the issued and outstanding shares of common stock are currently held by the Bank.

Rights Upon Liquidation

In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, after there have been paid or set aside for the holders of all series of preferred stock the full preferential amounts to which such holders are entitled, the holders of common stock will be entitled to share equally and ratably in any assets remaining after the payment of all debts and liabilities.

DESCRIPTION OF SERIES A PREFERRED SHARES

General

The Series A Preferred Shares form a series of the preferred stock of the Company, which preferred stock may be issued from time to time in one or more series with such designations, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption as are determined by the Board.

The holders of the Series A Preferred Shares have no preemptive rights with respect to any shares of the stock of the Company or any other securities of the Company convertible into or carrying rights or options to purchase any such shares. The Series A Preferred Shares are perpetual and will not be convertible into shares of common stock or any other class or series of stock of the Company and will not be subject to any sinking fund or other obligation of the Company for its repurchase or retirement. The Series A Preferred Shares will be exchanged automatically on a one-for-one basis for Bank Preferred Shares (as defined herein) upon the occurrence of the Exchange Event (as defined herein).

The transfer agent, registrar and dividend disbursement agent for the Series A Preferred Shares is American Stock Transfer & Trust Co. The registrar for shares of Series A Preferred Shares will send notices to stockholders of any meetings at which holders of the Series A Preferred Shares have the right to elect directors of the Company or to vote on any other matter.

Dividends

Holders of Series A Preferred Shares are entitled to receive, if, when and as authorized and declared by the Board out of assets of the Company legally available therefor, noncumulative cash dividends at the rate of 9 1/8% per annum of the initial liquidation preference of $25.00 per share. Dividends on the Series A Preferred Shares are payable, if authorized and declared, quarterly in arrears on the last day of March, June, September and December. Dividends in each quarterly period accrue from the first day of such period. Each authorized and declared dividend is payable to holders of record as they appear on the stock register of the Company on such record dates, not more than 45 calendar days nor less than 10 calendar days preceding the payment dates thereof, as shall be fixed by the Board.

The right of holders of Series A Preferred Shares to receive dividends is noncumulative. Accordingly, if the Board fails to declare a dividend on the Series A Preferred Shares for a quarterly dividend period, then holders of the Series A Preferred Shares have no right to receive a dividend for that period, and the Company has no obligation to pay a dividend for that period, whether or not dividends are declared and paid for any future period.

If any Series A Preferred Shares are outstanding, no full dividends or other distributions shall be authorized, declared or paid or set apart for payment on any common stock or other capital stock of the Company ranking junior to ("Junior Stock") or on a parity with ("Parity Stock") the Series A Preferred Shares for any quarterly period unless full dividends have been or contemporaneously are authorized, declared and paid, or authorized and declared and a sum sufficient for the payment thereof is set apart for such payments on the Series A Preferred Shares for (i) the immediately preceding quarterly dividend period, in the case of Parity Stock, and (ii) the then-current quarterly dividend period, in the case of Junior Stock. When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) for any quarterly dividend period upon the Series A Preferred Shares and the shares of Parity Stock, all dividends authorized and declared on the Series A Preferred Shares and the shares of Parity Stock shall only be authorized and declared pro rata based upon the respective amounts that would have been paid on the Series A Preferred Shares and any shares of Parity Stock had dividends been authorized and declared in full.

In addition to the foregoing restriction, the Company shall not authorize, declare, pay or set apart funds for any dividends or other distributions (other than in common stock or other Junior Stock) with respect to any common stock or other Junior Stock or repurchase, redeem or otherwise acquire, or set apart funds for repurchase, redemption or other acquisition of, any common stock or other Junior Stock through a sinking fund or otherwise, unless and until (i) full dividends on the Series A Preferred Shares for the four most recent preceding quarterly dividend periods (or such lesser number of quarterly dividend periods during which shares of Series A Preferred Shares have been outstanding) are authorized and declared and paid or a sum sufficient for payment has been paid over to the dividend disbursing agent for payment of such dividends and (ii) the Company has authorized and declared a cash dividend on the Series A Preferred Shares at the annual dividend rate for the then-current quarterly dividend period, and sufficient funds have been paid over to the dividend disbursing agent for the payment of such cash dividend for such then-current quarterly dividend period.

Automatic Exchange

Each Series A Preferred Share will be exchanged automatically for one newly issued share of Bank preferred stock if the appropriate federal regulatory agency directs in writing (the "Directive") an exchange of the Series A Preferred Shares for Bank preferred stock because (i) the Bank becomes "undercapitalized" under prompt corrective action regulations, (ii) the Bank is placed into conservatorship or receivership or (iii) the appropriate federal regulatory agency, in its sole discretion, anticipates the Bank becoming "undercapitalized" in the near term (the "Exchange Event"). Upon the Exchange Event, each holder of Series A Preferred Shares shall be unconditionally obligated to surrender to the Bank all certificates representing the Series A Preferred Shares of such holder, and the Bank shall be unconditionally obligated to issue to such holder in exchange for such certificate(s), a certificate or certificates representing an equal number of shares of Bank preferred stock (the "Automatic Exchange"). Any Series A Preferred Shares purchased or redeemed by the Company prior to the Time of Exchange (as defined herein) shall not be deemed outstanding and shall not be subject to the Automatic Exchange.

The Automatic Exchange shall occur as of 8:00 a.m. Eastern time on the effective date of such exchange set forth in the Directive, or, if such date is not set forth in the Directive, as of 8:00 a.m. Eastern time on the first business day immediately following the date of issuance of the Directive (the "Time of Exchange"). As of the Time of Exchange, all shares of Series A Preferred Shares will be canceled without any further action by the Company, all rights of the holders of Series A Preferred Shares as stockholders of the Company will cease, and such persons shall thereupon and thereafter be deemed to be and shall be for all purposes the holders of Bank preferred stock. The Company will mail notice of the occurrence of the Exchange Event to each holder of Series A Preferred Shares within 30 days of such event, and the Bank will deliver to each such holder certificates for Bank preferred stock upon surrender of such holder's certificates for Series A Preferred Shares. Until such replacement stock certificates are delivered (or in the event such replacement certificates are not delivered), certificates previously representing Series A Preferred Shares shall be deemed for all purposes to represent Bank preferred stock. Once the Directive is issued, no action will be required to be taken by holders of Series A Preferred Shares, by the Bank or by the Company in order to effect the Automatic Exchange as of the Time of Exchange.

Holders of Series A Preferred Shares, by purchasing such shares of Series A Preferred Shares, are deemed to have agreed to be bound by the unconditional obligation to exchange such shares of Series A Preferred Shares for Bank preferred stock upon the occurrence of the Exchange Event. The obligation of the holders of Series A Preferred Shares to surrender such shares and the obligation of the Bank to issue Bank preferred stock in exchange for Series A Preferred Shares shall be enforceable by the Bank and such holders, respectively, against the other.

Absent the occurrence of the Exchange Event, no shares of Bank preferred stock will be issued. Upon the occurrence of the Exchange Event, the Bank preferred stock to be issued as part of the Automatic Exchange would constitute a newly issued series of preferred stock of the Bank and would have the same dividend rights, liquidation preference, redemption options and other attributes as to the Bank as holders of Series A Preferred Shares have as to the Company. Any accrued and unpaid dividends on the Series A Preferred Shares as of the Time of Exchange would be deemed to be accrued and unpaid dividends on the Bank preferred stock. The Bank preferred stock would rank pari passu in terms of dividend payment and liquidation preference with any outstanding shares of preferred stock of the Bank. The Bank has registered the Bank preferred stock with the Office of Thrift Supervision ("OTS"). The Bank preferred stock will not be registered with the Commission and will be offered pursuant to an exemption from registration under Section 3(a)(5) of the Securities Act. Absent the occurrence of the Exchange Event, however, the Bank will not issue any Bank preferred stock, although the Bank will be able to issue preferred stock in series other than that of the Bank preferred stock discussed herein. In the event of the issuance of Bank preferred stock, application will be made to list the Bank preferred stock on the NYSE. However, there can be no assurance as to the liquidity of the trading markets for the Bank preferred stock,

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if issued, or that an active public market for the Bank preferred stock would develop or be maintained.

Holders of Series A Preferred Shares cannot exchange their Series A Preferred Shares for Bank preferred stock voluntarily. In addition, absent the occurrence of the Automatic Exchange, holders of Series A Preferred Shares will have no dividend, voting, liquidation preference or other rights with respect to any security of the Bank; such rights as are conferred by the Series A Preferred Shares exist solely as to the Company.

Voting Rights

Except as indicated below, the holders of Series A Preferred Shares are not entitled to vote. In the event the holders of Series A Preferred Shares are entitled to vote, each Series A Preferred Share will be entitled to one vote.

If full dividends on shares of Series A Preferred Shares shall not have been paid for six quarterly dividend periods, the maximum authorized number of directors of the Company shall thereupon be increased by two. Subject to compliance with any requirement for regulatory approval of (or non-objection to) persons serving as directors, the holders of Series A Preferred Shares, voting together as a class with the holders of any Parity Stock upon which the same voting rights as those of the Series A Preferred Shares have been conferred and are irrevocable, shall have the exclusive right to elect the two additional directors at the Company's next annual meeting of shareholders and at each subsequent annual meeting until full dividends have been authorized, declared and paid or authorized and declared and a sum sufficient for payment thereof is set apart for payment on the Series A Preferred Shares for four consecutive quarterly dividend periods. The term of such directors elected thereby shall terminate, and the total number of directors shall be decreased by two, upon the first annual meeting of stockholders after the payment or the authorization or declaration and setting aside for payment of full dividends on the Series A Preferred Shares for four consecutive quarterly dividend periods.

So long as any shares of Series A Preferred Shares are outstanding, the Company shall not, without the consent or vote of the holders of at least two-thirds of the outstanding shares of Series A Preferred Shares, voting separately as a class, (a) amend, alter or repeal or otherwise change any provision of the Charter (including the terms of the Series A Preferred Shares) if such amendment, alteration, repeal or change would materially and adversely affect the rights, preferences, powers or privileges of the Series A Preferred Shares, or (b) authorize, create or increase the authorized amount of or issue any class or series of any equity securities of the Company, or any warrants, options or other rights convertible or exchangeable into any class or series of any equity securities of the Company, ranking prior to the Series A Preferred Shares, either as to dividend rights or rights on liquidation, dissolution or winding up of the Company or (c) merge, consolidate, reorganize or effect any other business combination involving the Company, unless the resulting corporation will thereafter have no class or series of equity securities either authorized or outstanding ranking prior to the Series A Preferred Shares as to dividends or as to the distribution of assets upon liquidation, dissolution or winding up, except the same number of shares of such equity securities with the same preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions or redemption as the shares of equity securities of the Company that are authorized and outstanding immediately prior to such transaction, and each holder of Series A Preferred Shares immediately prior to such transaction shall receive shares with the same preferences, conversion or other rights, voting powers, restrictions, limitations as to the dividends or other distributions, qualifications or terms or conditions or redemption of the resulting corporation as the Series A Preferred Shares held by such holder immediately prior thereto.

Redemption

The Series A Preferred Shares are not redeemable prior to January 31, 2002 (except upon the occurrence of a Tax Event or a Change of Control, each as defined herein). On or after such date, the Series A Preferred Shares are redeemable by the Company or its successor or any acquiring or resulting entity with respect to the Company (including by any parent or subsidiary of the Company, any such successor, or any such acquiring or resulting entity), as applicable, at its option, in whole or in part, at any time or from time to time, at the redemption prices set forth below in cash, plus authorized, declared and unpaid dividends to the date of redemption, without interest:

If Redeemed During the 12-month Period Beginning January 31,	Redemption Price Per Share of the Series A Preferred Shares

2002................................	$26.14
2003................................	25.91
2004................................	25.68
2005................................	25.46
2006................................	25.23
2007 and thereafter..................	25.00

The Company also has the right at any time, upon the occurrence of a Tax Event, to redeem the Series A Preferred Shares, in whole (but not in part) at a redemption price of $25.00 per share, plus all accumulated and unpaid dividends for the then current quarter to the date of redemption, without interest. "Tax Event" means the receipt by the Company of an opinion of a nationally recognized legal counsel to the Company experienced in such matters to the effect that, as a result of (i) any amendment to, clarification of, or change (including any announced prospective change) in, the laws, treaties or any regulations thereunder of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, (ii) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) ("Administrative Action") or (iii) any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification, or change is effective or such pronouncement or decision is announced on or after the date of issuance of the Series A Preferred Shares, there is more than an insubstantial risk that (a) dividends paid or to be paid by the Company with respect to the stock of the Company are not, or will not be, fully deductible by the Company for United States federal income tax purposes or (b) the Company is, or will be, subject to more than a de minimis amount of other taxes, duties or other governmental charges.

Upon a Change of Control, the Series A Preferred Shares are redeemable on or prior to January 31, 2002, at the option of the Company or its successor or any acquiring or resulting entity with respect to the Company (including by any parent or subsidiary of the Company, any such successor, or any such acquiring or resulting entity), as applicable, in whole, but not in part, at a redemption price per share equal to (i) $25.00, plus (ii) an amount equal to all authorized, declared and unpaid dividends, if any, to the date fixed for redemption, without interest, and without duplication, an additional amount equal to the amount of dividends that would be payable on the Series A Preferred Shares in respect of the period from the first day of the quarterly dividend period in which the date fixed for redemption occurs to the date fixed for redemption (assuming all such dividends were to be authorized and declared), plus (iii) the Applicable Premium (as defined herein), payable in cash.

The Company or any such successor or any acquiring or resulting entity will be entitled to issue a notice of redemption after the Company or a parent company has entered into a definitive binding agreement with a third party that will result in a Change of Control, provided that (i) the date fixed for redemption is not earlier than the date on which the related Change of Control occurs and (ii) the obligation to effect such redemption is contingent upon the occurrence of such Change of Control.

"Applicable Premium" means the greater of (i) $1.14 and (ii) the excess of (A) the present value of (1) an amount equal to the amount of dividends that would be payable on the preferred shares in respect of the period from the date fixed for redemption through January 31, 2002 (assuming all such dividends were to be authorized and declared) plus (2) $26.14, computed using a discount rate equal to the Treasury Rate (as defined herein) plus 75 basis points, over (B) $25.00.

"Change of Control" means the occurrence of any of the following events:

(i) any Person (as defined herein) other than a Permitted Holder (as defined herein) shall be the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of a majority in the aggregate of the total voting power of the voting stock of the Bank, whether as a result of issuance of securities of the Bank, any merger, consolidation, liquidation or dissolution of the Bank, any direct or indirect transfer of securities by a Permitted Holder (as defined herein), or otherwise; or

(ii) a sale, transfer, conveyance or other disposition, in a single transaction or in a series of related transactions (other than to an affiliate of the Bank or any of its subsidiaries), in either case occurring outside the ordinary course of business, of more than 75% of the assets and 75% of the deposit liabilities of the Bank shown on the consolidated balance sheet of the Bank as of the end of the most recent fiscal quarter ending at least 45 days prior to such transaction (or the first in such related series of transactions); or

(iii) a transaction or series of related transactions as a result of which 20% or more of the voting stock or common stock (or capital stock convertible or exchangeable into 20% of the voting stock or common stock) of the Bank is held by one or more Persons other than Golden State Holdings Inc. (successor to First Nationwide Holdings Inc.) or its wholly owned subsidiaries.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivisions thereof.

"Permitted Holder" means Ronald O. Perelman (or in the event of his incompetence or death, his estate, heirs, executor, administrator, committee or other personal representative (collectively, "heirs")) or any entity controlled, directly or indirectly, by Ronald O. Perelman or his heirs.

"Treasury Rate" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H. 15 (519)) which has become publicly available at least two business days prior to the date fixed for redemption (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period of time to January 31, 2002; provided, however, that if such period is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that, if such remaining life is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

If redemption is being effected by the Company, on and as of the date fixed for redemption, dividends shall cease to accrue on the Series A Preferred Shares called for redemption, and they shall be deemed to cease to be outstanding, provided that the redemption price (including any authorized and declared but unpaid dividends to the date fixed for redemption, without interest) has been duly paid or provided for. If redemption is being effected by an entity other than the Company, on and as of the redemption date such entity shall be deemed to own the Series A Preferred Shares being redeemed for all purposes of the Company's charter, provided that the redemption price (including the amount of any authorized and declared but unpaid dividends to the date fixed for redemption) has been duly paid or provided for.

Notice of any redemption will be mailed at least 30 days, but not more than 60 days, prior to any redemption date to each holder of Series A Preferred Shares to be redeemed at such holder's registered address.

The Company's ability to redeem any Series A Preferred Shares, whether as a result of a Change of Control or otherwise, is subject to compliance with applicable regulatory requirements, including the prior approval of the OTS, relating to the redemption of capital instruments. Under current policies of the OTS, such approval would be granted only if the redemption were to be made out of the proceeds of the issuance of another capital instrument or if the OTS determines that the condition and circumstances of the Bank warrant the reduction of a source of permanent capital.

Rights Upon Liquidation

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of the Series A Preferred Shares at the time outstanding are entitled to receive in respect of each share, out of assets of the Company legally available for distribution to its stockholders under applicable law, before any distribution of assets is made to holders of any Junior Stock and subject to the rights of the holders of any class or series of equity securities having preference with respect to distributions upon liquidation and the rights of the Company's general creditors,

liquidating distributions in the amount of $25.00 per share, plus authorized, declared and unpaid dividends thereon, if any, without interest.

After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series A Preferred Shares will have no right or claim to any of the remaining assets of the Company. In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, the available assets of the Company are insufficient to pay the amount of the liquidation distributions on all outstanding Series A Preferred Shares and the corresponding amounts payable on any Parity Stock, then the holders of the Series A Preferred Shares and any Parity Stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled. For such purposes, the consolidation or merger of the Company with or into any other entity, or the sale, lease or conveyance of all or substantially all of the assets of the Company, shall not be deemed to constitute a liquidation, dissolution or winding up of the Company.

Restrictions on Ownership and Transfer

In order for the Company to qualify, and to continue to qualify, as a REIT under the IRC, not more than 50% of the value of its outstanding shares of stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the IRC to include certain entities) during the last half of a taxable year (other than the first year) (the "Five or Fewer Test"). The Five or Fewer Test is applied using certain constructive ownership rules. Certain significant shareholders of Golden State (i.e., Ronald O. Perelman and Gerald J. Ford) ("Significant Shareholders"), through their constructive ownership of a beneficial interest in the Bank, constitute two individuals for the purposes of this test and, under the Internal Revenue Service ("IRS") rules for determining percentages of ownership, are deemed to own constructively approximately 23% of the value of the outstanding shares of stock in the Company during the last half of the taxable year. Presently, there are no restrictions which prevent either (i) any Significant Shareholder from increasing or decreasing its percentage ownership of the Company, (ii) any Significant Shareholder from increasing or decreasing its percentage ownership of the Bank (and thus its percentage ownership in the Company) or (iii) any other person from becoming a significant constructive shareholder of the Company by acquiring an equity interest in the Bank. Moreover, any increase or decrease in the value of the common stock as compared to the value of the preferred stock will increase or decrease the percentage of ownership held by the Significant Shareholders.

The Company's charter, subject to certain exceptions, provides that no individual or entity other than a Significant Shareholder may own, or be deemed to own by virtue of the attribution rules of the IRC, stock of the Company in amounts in excess of the lesser of 2.5% of the number of issued and outstanding shares of preferred stock, including the Series A Preferred Shares, or 1.25% of the value of all classes of issued and outstanding shares of the Company (the "Ownership Limit"). However, certain entities whose interests are widely held (generally, an entity in which no Person actually or constructively owns more than 9.9% of the value) will be permitted to own up to the lesser of 20% of the number of the issued and outstanding shares of preferred stock, including the Series A Preferred Shares, or 10% of the value of all of the classes of issued and outstanding shares of stock of the Company, if they satisfy certain notification requirements. The Board may (but will not be required to), upon the receipt of a ruling from the IRS or the advice of counsel satisfactory to it, waive the Ownership Limit with respect to a holder if such holder's ownership will not then or in the future jeopardize the Company's status as a REIT.

The constructive ownership rules of the IRC are complex and may cause preferred stock owned, directly or indirectly, by one individual or entity to be deemed to be owned by other related individuals or entities. Similarly, under the constructive ownership rules, an individual or entity that owns stock of the Bank will be deemed to own a proportionate share of the common stock of the Company owned by the Bank. As a result, the acquisition by an individual or entity of stock of the Company in amounts below the Ownership Limit (or the acquisition of an entity that owns such shares) may cause that individual or entity (or another individual or entity) to violate the Ownership Limit. In addition, other events, such as changes in relative values of the common and preferred stock, could cause an individual or entity to violate the Ownership Limit.

The Company's charter provides that any shares in excess of the Ownership Limit ("Excess Shares") will automatically be transferred, by operation of law, to a trustee as a trustee of a trust for the exclusive benefit of a charitable beneficiary to be named by the Company as of the day prior to the day the prohibited transfer took place. Any distributions paid prior to the discovery of the prohibited transfer are to be repaid by the original transferee to the Company and by the Company to the trustee; subject to applicable law, any vote of the holder of the shares while the shares were held by the original transferee prior to the Company's discovery thereof shall be void ab initio and the original transferee shall be deemed to have given its proxy to the trustee. Any unpaid distributions with respect to the original transferee will be rescinded as void ab initio. In liquidation, the original transferee stockholder's ratable share of the Company's assets would be limited to the price paid by the original transferee for the Excess Shares or, if no value was given, the price per

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share equal to the closing market price on the date of the purported transfer. The trustee of the trust shall promptly sell the shares to any person whose ownership is not prohibited, whereupon the interest of the trust shall terminate. Proceeds of the sale shall be paid to the original transferee up to its purchase price (or, if the original transferee did not purchase the shares, the value on its date of acquisition) and any remaining proceeds shall be paid to a charity to be named by the Company.

All certificates representing shares of preferred stock will bear a legend referring to the restrictions described above.

The Ownership Limit provisions will not be automatically removed even if the REIT rules are changed so as to eliminate any ownership concentration limitation or if the ownership concentration limitation is increased. The foregoing restrictions on transferability and ownership will not apply, however, if the Company determines that it is no longer in the best interests of the Company to attempt to qualify, or continue to qualify, as a REIT.

In addition, the REIT provisions of the IRC require that the stock of the Company must be beneficially owned by 100 or more persons during at least 335 days of a taxable year (the "One Hundred Persons Test"). The Charter contains restrictions in order to ensure compliance with the One Hundred Persons Test. Specifically, such provisions require that if any transfer of shares of stock of the Company would cause the Company to be beneficially owned by fewer than 100 persons, such transfer shall be null and void and the intended transferee will acquire no rights to the stock.

The Company's charter requires that any person who beneficially owns 1.0% (or such lower percentage as may be required by the IRC or the Treasury regulations) of the outstanding shares of any class or series of preferred stock of the Company must provide certain information to the Company within 30 days of June 30 and December 31 of each year. In addition, each stockholder shall upon demand be required to disclose to the Company in writing such information as the Company may request in order to determine the effect, if any, of such stockholder's actual and constructive ownership on the Company's status as a REIT and to ensure compliance with the Five or Fewer and One Hundred Persons Tests.

DIVIDEND POLICY

In order to remain qualified as a REIT, the Company must distribute annually at least 90% of its REIT taxable income to its stockholders. For the years ended prior to December 31, 2001, the company was required to distribute 95% of its REIT taxable income to it stockholders. The Company currently expects to distribute dividends annually to satisfy these REIT requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations" for a discussion of dividends declared and paid to the common stockholder and to the holders of the Series A Preferred Shares during the years ended December 31, 2001, 2000 and 1999.

Dividends are declared at the discretion of the Board of Directors after considering the Company's distributable funds, financial requirements, tax considerations and other factors. The Company's distributable funds consist primarily of interest payments received in respect of the residential mortgage loans held by it, and the Company anticipates that most of such assets will bear interest at adjustable rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk."

THE BANK

The Bank, which is headquartered in San Francisco, California, provides diversified financial services to consumers and small businesses in California and Nevada. The Bank's principal business consists of operating retail branches that provide deposit products such as demand, transaction and savings accounts, and selling investment products such as mutual funds, annuities and insurance. In addition, it engages in mortgage banking activities, including originating and purchasing 1-4 unit residential loans for sale to various investors in the secondary market or for retention in its own portfolio, and servicing loans for itself and others. To a lesser extent, the Bank originates and/or purchases commercial real estate, commercial and consumer loans for investment.

The Bank is chartered as a federal stock savings bank under the Home Owners' Loan Act of 1933 ("HOLA") and regulated by the OTS and the Federal Deposit Insurance Corporation ("FDIC"), which insures the deposit accounts of the Bank, up to applicable limits through the Savings Association Insurance Fund ("SAIF"). The Bank is also a member of the Federal Home Loan Bank System ("FHLB System").

As of December 31, 2001, the Bank had assets totalling $56.4 billion, deposits totalling $25.2 billion and operated retail branch offices at 356 locations in California and Nevada.

Because the Company is a subsidiary of the Bank, federal regulatory authorities have the right to examine the Company

and its activities. Payment of dividends on the Series A Preferred Shares could be subject to regulatory limitations if the Bank became "undercapitalized" for purposes of the OTS prompt corrective action regulations, which is currently defined as having a total risk-based capital ratio of less than 8.0%, a tier 1 risk-based capital ratio of less than 4.0% or a core capital (or leverage) ratio of less than 4.0%. At December 31, 2001, the Bank's total risk-based capital ratio was 12.98%, its tier 1 risk-based capital ratio was 11.54% and its core capital (or leverage) ratio was 6.62%.

If the Exchange Event occurs, the Bank would likely be prohibited from paying dividends on the Bank preferred shares. In all circumstances following the Exchange Event, the Bank's ability to pay dividends would be subject to various restrictions under OTS regulations, a resolution of the Bank's board of directors and certain contractual provisions.

The Bank and its affiliates are involved in virtually every aspect of the Company's existence. FNMC services the Company's residential mortgage loans in its role as Servicer under the Servicing Agreement. See "-- Servicing of Residential Mortgage Loans."

The Bank and its affiliates may have interests which are not identical to those of the Company. Consequently, conflicts of interest may arise with respect to transactions, including without limitation, (i) future acquisitions of residential mortgage loans from, or sales of residential mortgage loans to, the Bank, FNMC or their affiliates and (ii) the modification of the Servicing Agreement.

It is the intention of the Company and the Bank that any agreements and transactions between the Company on the one hand and the Bank or one of its affiliates on the other hand are fair to all parties and consistent with market terms for such types of transactions. The requirement in the Company's charter that certain actions of the Company be approved by a majority of the independent directors is also intended to promote fair dealings between the Company and the Bank and its affiliates. However, there can be no assurance that such agreements or transactions will be on terms as favorable to the Company as would have been obtained from unaffiliated third parties.

RESIDENTIAL MORTGAGE LOANS

The Company's portfolio of mortgage loans consisted of 1-4 unit residential mortgage loans totalling $933.2 million and $970.4 million at December 31, 2001 and 2000, respectively, which were primarily adjustable rate mortgages ("ARMs") which adjust periodically based on changes in various indices including the FHLB Eleventh District Cost of Funds, the one-year Treasury rate, the six-month Treasury rate, and the average of interbank offered rates for six month U.S. dollar-denominated deposits in the London market ("LIBOR"). Certain types of residential mortgage loans contain an option for the mortgagor to convert the ARM to a fixed rate loan for the remainder of the term.

The Company currently intends to invest in residential mortgage loans only. The Company's current policy prohibits the acquisition of any mortgage loan which is delinquent at the time of the proposed acquisition or which meets certain criteria for non-performance during the preceding 12 months. The Company currently expects that substantially all of the residential mortgage loans to be acquired will be adjustable rate loans; however, the Company may from time to time acquire fixed interest rate residential mortgage loans. The Company anticipates it will continue to acquire all of its residential mortgage loans from the Bank or affiliates of the Bank as whole loans secured by first mortgages or deeds of trust on single-family (one-to-four-unit) residential real estate properties, although mortgage loans may be acquired from unaffiliated third parties. The Company may from time to time acquire fixed rate or variable rate mortgage-backed securities issued or guaranteed by agencies of the federal government or government sponsored agencies. The mortgage loans underlying the mortgage-backed securities will be secured by single-family residential, multifamily or commercial real estate properties located throughout the United States.

The Company may choose to dispose of any residential mortgage loan which subsequent to its acquisition by the Company (i) becomes classified, (ii) falls into nonaccrual status, (iii) has to be renegotiated due to the financial deterioration of the borrower or (iv) is more than 30 days past due in the payment of principal or interest more than once in any 12 month period. The Bank has indicated to the Company that it does not intend to purchase any residential mortgage loans of the Company that fall into any of the foregoing categories; accordingly, the Company currently anticipates that any such residential mortgage loan may be sold at its then current fair value by the Company only to a subsidiary of the Bank or an unrelated third party. The Company does not generally intend to dispose of any residential mortgage loans.

CREDIT RISK MANAGEMENT POLICIES

The Company expects that each residential mortgage loan acquired from the Bank or one of its affiliates in the future will represent a first lien position and will be originated by the Bank or such affiliate or by financial institutions acquired

by the Bank by merger in the ordinary course of its or their real estate lending activities based on the underwriting standards generally applied (at the time of origination) for the originator's own account.

The Company also intends that all residential mortgage loans held by the Company will be serviced pursuant to the Servicing Agreement between the Company and FNMC dated January 31, 1997. See "-- Servicing of Residential Mortgage Loans."

DELINQUENCIES AND NONPERFORMING LOANS

When a borrower fails to make a contractually required payment on a loan, the loan is characterized as delinquent. In most cases delinquencies are cured promptly; however, foreclosure proceedings, and in some cases workout proceedings, are generally commenced if the delinquency is not cured. The procedures for foreclosure actions vary from state to state, but generally, if a loan is not reinstated within certain periods specified by statute, the property securing the loan can be acquired through foreclosure by the lender. While deficiency judgments against the borrower are available in some of the states in which the Company originates loans, the value of the underlying collateral property is usually the principal source of recovery available to satisfy the loan balance.

The following table reflects residential mortgage loans with past due principal and interest payments as of December 31, 2001 and 2000:

	2001		200
	Principal Balance (in thousands)	Percent of Total Loans	Principal Balance (in thousands)
30 to 59 days past due	$1,593	0.17%	$1,775
60 to 89 days past due	1,397	0.15	1,162
90 days or more past due	2,214	0.24	1,628
	$5,204	0.56%	$4,565

It is the Company's policy to place a loan on nonaccrual status when a borrower is 90 days or more delinquent. There were no accruing loans contractually past due 90 days or more at December 31, 2001 and 2000.

For loans on nonaccrual status at December 31, 2001 and 2000, the Company recognized $127,000 and $59,000 of interest income, respectively. The Company would have recognized $172,000 and $120,000 of interest income during the years ended December 31, 2001 and 2000, respectively, on such loans had the borrowers performed under the contractual terms of the loans.

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries) and is comprised of specific allowances for identified problem loans and an unallocated allowance. Management's periodic evaluation of the adequacy of the allowance is based on such factors as the Bank's and the Company's past loan loss experience, known and inherent risks in the residential mortgage loan portfolio, adverse situations that have occurred but are not yet known that may affect the borrower's ability to repay, the estimated value of underlying collateral, and economic conditions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Allowance for Loan Losses."

GEOGRAPHIC DISTRIBUTION

At December 31, 2001, the Company's total residential mortgage loan portfolio included $758.4 million of loans secured by residential real estate properties located in California. These loans may be subject to a greater risk of default than other comparable residential mortgage loans in the event of natural hazards or other adverse conditions in California that may affect the ability of residential property owners in California to make payments of principal and interest on underlying mortgages. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Significant Concentration of Credit Risk."

SERVICING OF RESIDENTIAL MORTGAGE LOANS

The Company entered into the Servicing Agreement with FNMC pursuant to which FNMC, in its capacity as servicer under the Servicing Agreement ("Servicer"), performs the actual servicing of the residential mortgage loans held by the Company in accordance with normal industry practice. The Servicing Agreement can be terminated without cause with at least 30 days written prior notice to the Servicer and payment to the Servicer of a termination fee equal to 2% of the outstanding principal balances of the loans. The servicing fee ranges from 0.25% to 0.50% per year of the outstanding principal balances. The Servicer is also entitled to a 1% disposition fee on the aggregate proceeds obtained in the sale of a defaulted residential mortgage loan.

The Servicer collects and remits principal and interest payments, administers mortgage escrow accounts, submits and pursues insurance claims and initiates and supervises foreclosure proceedings on the residential mortgage loans it services. The Servicer also provides accounting and reporting services required by the Company for such residential mortgage loans. The Servicer is required to follow such collection procedures as are customary in the industry. The Servicer may, in its discretion, arrange with a defaulting borrower a schedule for the liquidation of delinquencies, provided that any primary mortgage insurance coverage is not adversely affected. The Servicer may from time to time subcontract all or a portion of its servicing obligations under the Servicing Agreement to the Bank or other affiliates of the Bank, or to an unrelated third party subject to approval of the majority of the independent directors of the Company. FNMC will not be discharged or relieved in any respect from performing its obligations under the Servicing Agreement in connection with subcontracting any of the obligations thereunder.

The Servicer is required to pay all expenses related to the performance of its duties under the Servicing Agreement. The Servicer is required to make advances of the principal and interest, taxes and required insurance premiums that are not collected from borrowers with respect to any residential mortgage loan, unless it determines that such advances are nonrecoverable from the borrower, insurance proceeds or other sources with respect to such residential mortgage loan. If such advances are made, the Servicer generally will be reimbursed prior to the Company out of proceeds related to such residential mortgage loan. The Servicer is also entitled to reimbursement by the Company for expenses incurred by it in connection with the liquidation of defaulted residential mortgage loans and in connection with the restoration of mortgaged property.

As is customary in the mortgage loan servicing industry, the Servicer is entitled to retain any late payment charges, prepayment fees or penalties, assumption fees and ARM conversion fees collected in connection with the residential mortgage loans. The Servicer receives any benefit derived from interest earned on collected principal and interest payments between the date of collection and the date of remittance to the Company and, to the extent permitted under applicable law, from interest earned on tax and insurance impound funds with respect to residential mortgage loans.

CAPITAL AND LEVERAGE POLICIES

To the extent that the Board of Directors determines that additional funding is required, the Company may raise such funds through additional equity offerings, debt financing or retention of cash flow (after consideration of provisions of the IRC requiring the distribution by a REIT of a certain percentage of taxable income and taking into account taxes that would be imposed on undistributed taxable income), or a combination of these methods.

At December 31, 2001 and 2000, the Company had no debt outstanding, and the Company does not currently intend to incur any indebtedness. However, the organizational documents of the Company do not contain any limitation on the amount or percentage of debt, funded or otherwise, the Company might incur, except that the incurrence by the Company of debt for borrowed money in excess of 20% of the Company's total stockholders' equity will require the approval of a majority of the independent directors. Any such debt incurred may include intercompany advances made by the Bank to the Company.

The Company may also issue additional series of preferred stock. However, the Company may not issue additional shares of preferred stock senior to the Series A Preferred Shares without the consent of holders of at least two-thirds of the outstanding shares of preferred stock at that time, including the Series A Preferred Shares, and the Company may not issue additional shares of preferred stock on a parity with the Series A Preferred Shares without the approval of a majority of the Company's independent directors. In addition, the Company does not currently intend to issue any additional series of preferred stock unless it simultaneously receives additional capital contributions from the Bank equal to the aggregate offering price of such additional preferred stock plus the Company's expenses (including underwriting discounts or placement fees) in connection with the issuance of such additional shares of preferred stock.

EMPLOYEES

The Company has four executive officers. See "Directors and Executive Officers of the Registrant." The Company does not require significantly more employees because it has retained FNMC to perform certain functions pursuant to the Servicing Agreement. All of the executive officers of the Company are also executive officers of the Bank and/or its affiliates. The Company maintains corporate records and audited financial statements that are separate from those of the Bank and its affiliates.

COMPETITION

The Company does not engage in the business of originating residential mortgage loans. The Company does anticipate that it will purchase residential mortgage loans in addition to those in the current loan portfolio and that substantially all of these residential mortgage loans will be purchased from the Bank or affiliates of the Bank. Accordingly, the Company does not compete, and does not expect to compete, with mortgage conduit programs, investment banking firms, savings and loan associations, banks, thrift and loan associations, finance companies, mortgage bankers or insurance companies in the acquisition of its residential mortgage loans.

TAX STATUS OF THE COMPANY

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the IRC, commencing with its taxable year ended December 31, 1997. As a REIT, the Company generally is not subject to Federal income tax on its net income and capital gains that it distributes to the holders of its common stock and preferred stock, including the Series A Preferred Shares. The Company must also meet certain organizational, stock ownership and operational requirements. If in any taxable year the Company fails to qualify as a REIT, the Company would not be allowed a deduction for distributions to stockholders in computing its taxable income and would be subject to Federal and state income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. In addition, the Company would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost.

FACTORS THAT MAY AFFECT FUTURE RESULTS

A number of factors could cause the Company's actual results to differ materially from those in the forward-looking statements made in this Form 10-K, made in other documents filed by the Company with the Securities and Exchange Commission or made by the Company's senior management orally to analysts, investors, the media and others. Some of these factors are described below.

The Company's Dependence Upon FNMC and the Bank

The Company is dependent upon the diligence and skill of its officers and the officers and employees of FNMC for the selection, structuring and monitoring of its mortgage assets. In addition, the Company is dependent upon the expertise of FNMC for the servicing of its mortgage loans. FNMC may subcontract all or a portion of its obligations under its servicing agreement with the Company to one or more affiliates, and under certain circumstances to non-affiliates, involved in the business of managing or servicing mortgage assets, subject to the approval of the independent directors of the Company. If FNMC subcontracts its obligations in such a manner, the Company will be dependent upon the subcontractor.

A decline in the performance and capital levels of the Bank or its placement into conservatorship or receivorship could result in the occurrence of an Exchange Event, which would result in holders of the Series A Preferred Shares owning preferred stock of the Bank, which would be an investment in the Bank rather than in the Company. An investment in the Bank is also subject to certain risks that are distinct from the risks associated with an investment in the Company, such as risks relating to the capital level and other federal regulatory requirements applicable to the Bank, the performance of the Bank's loan portfolio and the Bank's reliance on non-interest income. An investment in the Bank is also subject to the general risks inherent in equity investments in depository institutions. As a result, holders of Series A Preferred Shares would become holders of preferred stock of the Bank at a time when the financial condition of the Bank was deteriorating or when the Bank had been placed into conservatorship or receivership. In that event, the holders of the preferred stock of the Bank likely would receive, if anything, substantially less than the holders of the Series A Preferred Shares would have received if the Series A Preferred Shares had not been exchanged for preferred stock of the Bank. Furthermore, there can be no assurance that the Bank would be in a financial position to pay any dividends on its preferred stock.

Dividend and Other Regulatory Restrictions on Operations of the Company

Because the Company is a subsidiary of the Bank, federal regulatory authorities have the right to examine the Company and its activities. Under certain circumstances, including any determination that the Bank's relationship to the Company results in an unsafe and unsound banking practice, such regulatory authorities have the authority to restrict the ability of the Company to transfer assets, to make distributions to its stockholders (including dividends to the holders of the Series A Preferred Shares), or to redeem shares or even to require the Bank to sever its relationship with or divest its ownership of the Company. Such actions could potentially result in the Company's failure to qualify as a REIT.

Payment of dividends on the Series A Preferred Shares could also be subject to regulatory limitations if the Bank became undercapitalized for purposes of the OTS prompt corrective action regulations, which is currently defined as having a total risk-based capital ratio of less than 8.0%, a Tier 1 capital ratio of less than 4.0% and a core capital (or leverage) ratio of less than 4.0%. At December 31, 2001, the Bank's total risk based capital ratio was 12.98%, its Tier 1 capital ratio was 11.54% and its core capital (or leverage) ratio was 6.62%. In addition, federal regulatory authorities would have the authority to restrict the ability of the Company to pay dividends to its stockholders if such dividend payments were inconsistent with the safe and sound operation of the Bank.

If the Automatic Exchange occurs and the Bank has not been placed into conservatorship or receivership, the Bank would likely be prohibited from paying dividends on the preferred stock of the Bank because the Bank would be "undercapitalized." In addition, the Bank's ability to pay dividends should its capital status improve would be subject to various restrictions under OTS regulations, a resolution of the Bank's board of directors and certain contractual provisions.

However, if the Automatic Exchange occurs after the Bank has been placed into conservatorship or receivership, the Bank would not be able to pay dividends on its preferred stock, and the claims of the Bank's depositors and of its secured, senior, general and unsubordinated creditors would be entitled to a priority of payment over the claims of holders of equity interests such as the preferred stock of the Bank.

Interest Rate Risk

The Company's income consists primarily of interest payments on the mortgage loans held by it, most of which are adjustable rate loans. If interest rates decrease (as measured by the indices upon which the interest rates of the mortgage loans are based), then the Company will experience a decrease in income available to be distributed to its stockholders. In such an interest rate environment, the Company may experience an increase in prepayments on its residential mortgage loans and may find it more difficult to purchase additional mortgage loans bearing interest rates sufficient to support payment of the dividends on the Series A Preferred Shares. In addition, certain residential mortgage loan products that the Company may have in its portfolio could allow borrowers in such an interest rate environment to convert an adjustable rate mortgage to a fixed rate mortgage, thus "locking in" a low fixed interest rate. Because the rate at which dividends are required to be paid on the Series A Preferred Shares is fixed, there can be no assurance that an interest rate environment in which there is a significant decline in interest rates would not adversely affect the Company's ability to pay dividends on the Series A Preferred Shares.

In addition, certain residential mortgage loans included in the Company's portfolio have the potential to negatively amortize. If there is an increase in interest rates on such mortgage loans (as measured by the indices upon which the interest rates of the mortgage loans are based), the Company may experience a decrease in income available to be distributed to its stockholders where such increase in the interest rates does not coincide with a corresponding adjustment of the borrowers' monthly payments.

Dividends Not Cumulative

Dividends on the Series A Preferred Shares are not cumulative. Consequently, if the Board of Directors does not authorize and declare a dividend on the Series A Preferred Shares for any period, including in the event the Company is prevented from paying such dividend by the OTS, the holders of the Series A Preferred Shares would not be entitled to recover such dividend, whether or not funds are or subsequently become available. The Board of Directors may determine, in its business judgment, that it would be in the best interests of the Company to pay less than the full amount of the stated dividends on the Series A Preferred Shares or no dividends for any quarter notwithstanding that funds are available. Factors that could be considered by the Board of Directors in making this determination are the Company's financial condition and capital needs, the impact of legislation and regulations as then in effect or as may be proposed, economic conditions, and such other factors as the Board of Directors may deem relevant. To remain qualified as a REIT, the Company must distribute annually at least 90% of its REIT taxable income to stockholders.

Risks Associated with Mortgage Loans Generally

An investment in the Series A Preferred Shares may be affected by, among other things, a decline in real estate values. In the event a substantial amount of the mortgage loans held by the Company become nonperforming, the Company may not have funds sufficient to pay dividends on the Series A Preferred Shares.

Factors that could affect the value of the mortgage loans held by the Company include the following:

Real Estate Market Conditions

The results of the Company's operations will be affected by various factors, many of which are beyond the control of the Company, such as local and other economic conditions affecting real estate value, interest rate levels and the availability of credit to refinance mortgage loans at or prior to maturity. The results of the Company's operations depend on, among other things, the level of interest income generated by the Company's mortgage assets, the market value of such mortgage assets and the supply of and demand for such mortgage assets. Further, no assurance can be given that the values of the properties securing the mortgage loans included in the Company's portfolio have remained or will remain at the levels existing on the dates of origination of such mortgage loans.

Delays in Liquidating Defaulted Mortgage Loans

Even assuming that the mortgaged properties underlying the mortgage loans held by the Company provide adequate security for such mortgage loans, substantial delays could be encountered in connection with the liquidation of defaulted mortgage loans, with corresponding delays in the receipt of related proceeds by the Company. An action to foreclose on a mortgaged property securing a mortgage loan is regulated by state statutes and rules and is subject to many of the delays and expenses of other lawsuits if defenses or counterclaims are interposed, sometimes requiring several years to complete. Furthermore, in some states an action to obtain a deficiency judgment is not permitted following a nonjudicial sale of a mortgaged property. In the event of a default by a mortgagor, these restrictions, among other things, may impede the ability of the Company to foreclose on or sell the mortgaged property or to obtain proceeds sufficient to repay all amounts due on the related mortgage loan. In addition, the servicer of the Company's mortgage loans will be entitled to deduct from collections received all expenses reasonably incurred in attempting to recover amounts due and not yet repaid on liquidated mortgage loans, including a disposition fee equal to 1% of the aggregate proceeds obtained in a sale of a defaulted mortgage loan, legal fees and costs of legal action, real estate taxes and maintenance and preservation expenses, thereby reducing amounts available to the Company. As used herein, unless the contest indicates otherwise, "mortgaged properties" includes shares in a cooperative and the related proprietary leases and occupancy agreements that are allocated to a dwelling unit in a residential cooperative housing corporation.

Legal Considerations

Applicable state laws generally regulate interest rates and other charges and require certain disclosures to borrowers. In addition, most states have other laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and practices which may apply to the origination, servicing and collection of the mortgage loans. Certain states such as California also limit the remedies that may be available to a lender in the event of default. Depending on the provisions of the applicable law and the specific facts and circumstances involved, these laws, policies and principles may limit the ability of the Company to collect all or part of the principal of or interest on the mortgage loans, may entitle the borrower to a refund of amounts previously paid and, in addition, could subject the Company to damages and administrative sanctions.

Environmental Considerations

In the event that the Company is forced to foreclose on a defaulted mortgage loan to recover its investment in such mortgage loan, the Company may be subject to environmental liabilities in connection with the underlying real property that could exceed the value of the real property. Although the Company intends to exercise due diligence to discover potential environmental liabilities prior to the acquisition of any property through foreclosure, hazardous substances or wastes, contaminants, pollutants or sources thereof (as defined by state and federal laws and regulations) may be discovered on properties during the Company's ownership or after a sale thereof to a third party. If such hazardous substances are discovered on a property which the Company has acquired through foreclosure or otherwise, the Company may be required to remove those substances and clean up the property. There can be no assurance that in such a case the Company would not incur full recourse liability for the entire costs of any removal and clean-up, that the cost of such removal and clean-up would not exceed the value of the property or that the Company could recoup any of such costs from any third party. The Company may also be liable to tenants and other users of neighboring properties. In addition,

the Company may find it difficult or impossible to sell the property prior to or following any such clean-up.

Negatively Amortizing Loans

The difference between the amount of the monthly interest payment made by the borrower and the full amount of interest owed for the month, known as deferred interest or negative amortization, is added to the principal balance of the residential mortgage loan. Any resulting increase in the borrower's monthly payment when the payment does adjust may exceed the borrower's ability to pay, thereby increasing the possibility of default. In addition, with respect to certain of those residential mortgage loans that have the potential to negatively amortize, the related borrower has the option to limit the amount by which the residential mortgage loan negatively amortizes by making an "interest only" payment in an amount that would be sufficient to pay the full monthly interest cost of the residential mortgage loan. In those instances where the residential mortgage loan is negatively amortizing or the borrower is making an "interest only" payment, the lender is permitted to reamortize the residential mortgage loan and require the borrower to make full amortizing principal and interest payments either (i) approximately every fifth semiannual or annual payment adjustment date during the term of the residential mortgage loan or (ii) when the outstanding principal balance of the residential mortgage loan equals or exceeds a percentage ranging from 110% to 125% of the original loan balance. Due to the extended period of time during which a borrower may not be required to make fully amortizing principal and interest payments on a residential mortgage loan, any monthly payment adjustment that would require fully amortizing principal and interest payments could be significant and could exceed the borrower's ability to pay, thereby increasing the likelihood of default.

Concentration in California

In addition to the foregoing, certain geographic regions of the United States from time to time will experience natural disasters or weaker regional economic conditions and housing markets and, consequently, may experience higher rates of loss and delinquency on mortgage loans generally. Any concentration of the mortgage loans in such a region may present risks in addition to those generally present with respect to mortgage loans. At December 31, 2001, approximately 81.3% of the residential mortgage loans included in the Company's portfolio were secured by residential properties located in California. These mortgage loans may be subject to a greater risk of default than other comparable mortgage loans in the event of adverse economic, political or business developments or natural hazards, such as earthquakes, that may affect such region and the ability of property owners in such region to make payments of principal and interest on the underlying mortgages.

High Balance Mortgage Loans

As of December 31, 2001, the average original principal balance of the residential mortgage loans included in the Company's portfolio was approximately $224,400 and approximately 7.1% of the Company's portfolio (calculated as of December 31, 2001) had original principal balances in excess of $500,000. The loss and delinquency experience on such higher balance loans may have a disproportionate effect on the Company's portfolio as a whole.

Ability of the Board of Directors to Revise the Policies and Strategies of the Company

The Board of Directors has established the investment policies and operating policies and strategies of the Company. These policies may be revised from time to time at the discretion of the Board of Directors (in certain circumstances subject to the approval of a majority of the independent directors) without a vote of the Company's stockholders, including holders of the Series A Preferred Shares. The ultimate effect of any change in the policies and strategies on a holder of Series A Preferred Shares may be positive or negative and may increase risks to the Company.

Ability to Increase Leverage May Affect the Company's Ability to Receive Interest Income

Although the Company does not currently intend to incur any indebtedness in connection with the acquisition and holding of mortgage loans, the Company may do so at any time, provided, that indebtedness in excess of 20% of the Company's stockholders' equity may not be incurred without the approval of a majority of the independent directors of the Company. To the extent the Company were to change its policy with respect to the incurrence of indebtedness, the Company would be subject to risks associated with leverage including, without limitation, changes in interest rates, prepayment risk and risks of various hedging strategies.

Relationship with the Bank and Its Affiliates; Conflicts of Interest

The Bank and its affiliates are involved in virtually every aspect of the Company's existence. The Bank is the sole holder

of the common stock of the Company. FNMC acts as servicer of the Company's mortgage loans. In addition, other than the independent directors, all of the officers and directors of the Company are also officers and directors of the Bank or its affiliates. As the holder of all of the outstanding voting stock of the Company, the Bank will have the right to elect all directors of the Company, including the Independent Directors.

The Company is dependent on the diligence and skill of its officers and the officers and employees of the Bank and of any of the Bank's affiliates for the selection, structuring and monitoring of its mortgage assets. In addition, the Company is dependent on FNMC (and any non-affiliates with which it enters into sub-servicing agreements) for the servicing of its mortgage loans. The Bank and its affiliates may have interests that are not identical to those of the Company and the ultimate beneficial owners of the Bank's common stock may have investment goals and strategies that differ from those of the holders of the Series A Preferred Shares. Consequently, conflicts of interest may arise with respect to transactions, including without limitation the Company's acquisitions of mortgage loans from the Bank or its affiliates; future dispositions of mortgage loans to the Bank or any of its non-bank subsidiaries; and the modification of the Servicing Agreement. It is the intention of the Company and the Bank that any agreements and transactions between the Company, on the one hand, and the Bank and its affiliates, on the other hand, be fair to all parties and consistent with market terms, including the prices paid and received for mortgage loans on their acquisition or disposition by the Company. The requirement that certain actions of the Company be approved by a majority of the independent directors is also intended to ensure fair dealings between the Company, on the one hand, and the Bank and its affiliates, on the other hand. However, there can be no assurance that such agreements or transactions will be on terms as favorable to the Company as those that could have been obtained from unaffiliated third parties.

No Third Party Valuation of the Mortgage Loans; No Arms'-Length Negotiations with Affiliates

It is not anticipated that third party valuations will be obtained in connection with future acquisitions and disposition of mortgage loans even in circumstances where an affiliate of the Company is selling the mortgage loans to, or purchasing the mortgage loans from, the Company. Accordingly, although the Company and the Bank intend that future acquisitions or dispositions of mortgage loans be on a fair value basis, there can be no assurance that the consideration to be paid (or received) by the Company to (or from) the Bank or any of its affiliates in connection with future acquisitions or dispositions of mortgage loans will not differ from the fair value of such mortgage loans.

Tax Risks

Adverse Consequences of Failure to Qualify as a REIT

The Company attempts to operate so as to qualify as a REIT under the Code. Although the Company believes that it will be owned and organized and will operate in such a manner, no assurance can be given that the Company will be able to operate in such a manner so as to qualify as a REIT or to remain so qualified. Qualification as a REIT involves the satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within the Company's control.

If in any taxable year the Company fails to qualify as a REIT, the Company would not be allowed a deduction for distributions to stockholders in computing its taxable income and would be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. In addition, unless entitled to relief under certain statutory provisions, the Company would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. As a result, the amount available for distribution to the Company's stockholders would be reduced for the year or years involved. To the extent the Company fails to qualify as a REIT, the Bank has agreed to indemnify the Company for such income tax liability. A failure of the Company to qualify as a REIT would not by itself give the Company the right to redeem the Series A Preferred Shares.

Notwithstanding that the Company currently intends to continue to operate in a manner designed to qualify as a REIT, future economic, market, legal, tax or other considerations may cause the Company to determine that it is in the best interest of the Company and the holders of its common stock and preferred stock to revoke the REIT election. As long as any Series A Preferred Shares is outstanding, any such determination by the Company may not be made without the approval of a majority of the independent directors. The tax law prohibits the Company from electing treatment as a REIT for the four taxable years following the year of such revocation.

REIT Requirements with Respect to Stock Ownership

In order for the Company to qualify, and to continue to qualify, as a REIT under the Code, not more than 50% of the

value of its outstanding shares of stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year (other than the first year) or during a proportionate part of a shorter taxable year. The Five or Fewer Test is applied using certain constructive ownership rules. Immediately after the Offering, certain significant shareholders of the Bank (i.e., Ronald O. Perelman and Gerald J. Ford) will, through their constructive ownership of a beneficial interest in the Bank, constitute two individuals for purposes of this test and, under the applicable statutory rules for determining percentages of ownership, will be deemed to own constructively approximately 23% of the value of the outstanding shares of stock in the Company. Presently, there are no restrictions which prevent (i) any Significant Shareholder from increasing or decreasing its percentage ownership of the Company, (ii) any Significant Shareholder from increasing or decreasing its percentage ownership of the Bank (and their percentage ownership in the Company) or (iii) any other person from becoming a significant constructive stockholder of the Company by acquiring an equity interest in the Bank. Moreover, any increase or decrease in the value of the common stock as compared to the value of the Series A Preferred Shares will increase or decrease the percentage of ownership held by the Significant Shareholders.

Because the Company believes that it is essential to qualify, and to continue to qualify, as a REIT, the Charter provides that subject to certain exceptions, no individual or entity other than a Significant Shareholder may own, or be deemed to own by virtue of the attribution rules of the Code, more than the lesser of 2.5% of the number of the issued and outstanding shares of preferred stock, including the Series A Preferred Shares, or 1.25% of the value of all of the classes of issued and outstanding shares of stock of the Company (the "Ownership Limit"). However, certain entities whose interest are widely held (generally, any entity in which no Person actually or constructively owns more than 9.9% of the value) will be permitted to own more than the lesser of 20% of the number of the issued and outstanding shares of preferred stock, including the Series A Preferred Shares or 10% of the value of all of the classes of issued and outstanding shares of stock of the Company, if they satisfy certain notification requirements. The Board of Directors may (but will not be required to), upon the receipt of a ruling from the Internal Revenue Service (the "IRS") or the advice of counsel satisfactory to it, waive the Ownership Limit with respect to an individual or entity if such individual's or entity's ownership will not then or in the future jeopardize the Company's status as a REIT. The transfer of any shares of Preferred Stock, including Series A Preferred Shares (including the occurrence of events other than actual transfers of preferred stock that result in changes in constructive ownership of preferred stock) in violation of such Ownership Limit, or any other events (such as changes in the relative values of the Common Stock and the preferred stock) which would cause an individual or entity to own preferred stock in excess of the Ownership Limit or otherwise cause the Company to fail to qualify as a REIT, will cause the shares of any class or series of preferred stock owned, or deemed to be owned, by or transferred to a stockholder in excess of the Ownership Limit (the "Excess Shares") to be automatically transferred to a trust for the exclusive benefit of a charity to be named by the Company. All rights to dividends to such Excess Shares will be held by such trust.

REIT Requirements with Respect to Stockholder Distribution

To obtain favorable tax treatment as a REIT qualifying under the Code, the Company generally will be required each year to distribute as dividends to its stockholders at least 90% of it REIT taxable income. Failure to comply with this requirement would result in the Company's income being subject to tax at regular corporate rates. In addition, the Company will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions considered as paid by it with respect to any calendar year are less than the sum of 85% of its ordinary income for the calendar year, 95% of its capital gains net income for the calendar year and any undistributed taxable income from prior periods.

Redemption upon Occurrence of a Tax Event

At any time following the occurrence of a Tax Event the Company will have the right to redeem the Series A Preferred Shares in whole but not in part. See "Description of Series A Preferred Shares - Redemption."

Automatic Exchange Upon Occurrence of the Exchange Event

Upon the occurrence of the Exchange Event, the outstanding Series A Preferred Shares will be automatically exchanged on a one-for-one basis into Bank Preferred Stock. See "Description of Series A Preferred Shares- Automatic Exchange." The Automatic Exchange will be taxable, and each holder of Series A Preferred Shares will have a gain or loss, as the case may be, measured by the difference between the basis of such holder in the Series A Preferred Shares and the fair market value of the Bank preferred stock received in the automatic Exchange. Provided that such holder's Series A Preferred Shares were held as capital assets for more than one year prior to the Automatic Exchange, any gain or loss will be long-term capital gain or loss.

ITEM 2. PROPERTIES

None.

ITEM 3. LEGAL PROCEEDINGS

The Company is not the subject of any material litigation. None of the Company, the Bank or any of its affiliates is currently involved in nor, to the Company's knowledge, is currently threatened with any material litigation with respect to the residential mortgage loans included in the portfolio other than routine litigation arising in the ordinary course of business, most of which is covered by liability insurance.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

All of the Company's common shares are owned by the Bank. There is no established public trading market for the Company's common stock.

During 2001, 2000 and 1999, dividends on the Company's common stock totalled $7.0 million, $20.5 million and $18.6 million, respectively. For a discussion of the Company's dividend distribution policy and any restrictions on the payment of dividends with respect to its common stock, see "Business - Dividend Policy."

ITEM 6. SELECTED FINANCIAL DATA

The data presented below represents selected financial data relative to the Company for, and as of the end of, the years ended December 31, 2001, 2000 and 1999 (dollars in thousands).

STATEMENTS OF INCOME:	2001	2000
Interest income, net of servicing fee expense	$ 64,793	$ 69,856
Net interest income	$ 64,793	$ 69,856
Net interest income after provision for loan losses	$ 64,793	$ 69,856
Net income	$ 64,670	$ 69,795
Average yield on residential mortgage loans	6.41%	6.93%
BALANCE SHEETS:		
Residential mortgage loans, net	$ 933,168	$ 970,398
Total assets	$ 1,012,729	$ 1,000,217
Total stockholders' equity	$ 1,011,854	$ 999,851
Number of preferred shares outstanding	20,000,000	20,000,000
Number of common shares outstanding	1,000	1,000

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company's principal business objective is to acquire, hold and manage residential mortgage loans that will generate net income for distribution to stockholders. The Company currently intends to invest in residential mortgage loans only. The Company's current policy prohibits the acquisition of any mortgage loan which is delinquent at the time of the proposed acquisition or which meets certain criteria for non-performance during the preceding 12 months. The Company currently expects that substantially all of the residential mortgage loans to be acquired will be adjustable rate loans; however, the Company may from time to time acquire fixed interest rate residential mortgage loans. The Company anticipates it will continue to acquire all of its residential mortgage loans from the Bank or affiliates of the Bank as whole loans secured by first mortgages or deeds of trust on 1-4 unit residential real estate properties, although mortgage loans may be acquired from unaffiliated third parties. The Company may from time to time acquire fixed rate or variable rate mortgage-backed securities issued or guaranteed by agencies of the federal government or government sponsored enterprises. The mortgage loans underlying the mortgage-backed securities will be secured by single-family residential, multifamily or commercial real estate properties located throughout the United States.

On January 31, 1997, the Company commenced its operations upon the initial public offering of 20,000,000 shares of the Company's Series A Preferred Shares, which raised $500 million. The Series A Preferred Shares are traded on the NYSE under the trading symbol "CFP." Concurrent with the sale of the Series A Preferred Shares, the Bank contributed additional capital of $500 million to the Company. All common shares are held by the Bank.

The Bank and its affiliates are involved in virtually every aspect of the Company's existence. FNMC services the Company's residential mortgage loans in its role as Servicer under the Servicing Agreement.

The Bank and its affiliates may have interests which are not identical to those of the Company. Consequently, conflicts of interest may arise with respect to transactions, including without limitation, (i) future acquisitions of residential mortgage loans from, or sales of residential mortgage loans to, the Bank, FNMC or their affiliates and (ii) the modification of the Servicing Agreement.

It is the intention of the Company and the Bank that any agreements and transactions between the Company on the one hand and the Bank or one of its affiliates on the other hand are fair to all parties and consistent with market terms for such types of transactions. The requirement in the Company's charter that certain actions of the Company be approved by a majority of the independent directors is also intended to promote fair dealings between the Company and the Bank and its affiliates. However, there can be no assurance that such agreements or transactions will be on terms as favorable to the Company as would have been obtained from unaffiliated third parties.

RESULTS OF OPERATIONS

Years ended December 31, 2001 versus December 31, 2000

Net Income. The Company reported net income for the year ended December 31, 2001 of $64.7 million compared with net income of $69.8 million for the year ended December 31, 2000. This decrease in 2001 compared with 2000 is attributable to a decrease in net interest income.

During each of the years ended December 31, 2001 and 2000, the Company declared and paid dividends of $45.6 million on the outstanding Series A Preferred Shares. Net income available to the common stockholder for the years ended December 31, 2001 and 2000 totalled $19.0 million and $24.2 million, respectively. During the years ended December 31, 2001 and 2000, the Company declared and paid dividends of $7.0 million and $20.5 million, respectively, to the Bank as common stockholder.

Net Interest Income. The Company reported interest income, net of servicing fee expense, of $64.8 million for the year ended December 31, 2001, a decrease of $5.1 million from the $69.9 million reported for the year ended December 31, 2000. This decrease in interest income is primarily attributable to a lower average yield on the residential mortgage loan portfolio. The lower yield of 6.41% on residential mortgage loans during the year ended December 31, 2001 as compared to 6.93% for the same period in 2000 is primarily due to the repricing of variable rate loans resulting from comparatively lower market interest rates in 2001 versus 2000 and the purchase of new loans at lower current market interest rates. The

average outstanding balance of residential mortgage loans during the year ended December 31, 2001 was $4.9 million higher than during the same period in 2000. Interest income, net of servicing fee expense during the year ended December 31, 2001 is comprised of $64.0 million ($67.7 million gross interest less $3.7 million servicing fee expense) from residential mortgage loans and $819,000 from short-term investments, representing an average yield after servicing fees on residential mortgage loans of 6.41% and on earning assets of 6.35%, based on average outstanding asset balances of $997.4 million and $1,021.1 million, respectively. Interest income, net of servicing fee expense during the year ended December 31, 2000 is comprised of $68.7 million ($72.4 million gross interest less $3.7 million servicing fee expense) from residential mortgage loans and $1.1 million from short-term investments, representing an average yield after servicing fees on residential mortgage loans of 6.93% and on earning assets of 6.90%, based on average outstanding asset balances of $992.5 million and $1.0 billion, respectively.

The computation of the average yield on residential mortgage loans and on earning assets is based on daily average outstanding asset balances that include nonaccruing loans and the amount of principal payments collected by FNMC but not yet remitted to the Company, which is included in due from affiliates on the balance sheets.

Provision for Loan Losses. The Company recorded no provision for loan losses in the years ended December 31, 2001 and 2000. The determination to record no provision for loan losses during these periods is the result of management's evaluation of the adequacy of the allowance for loan losses based on, among other things, the Bank's and the Company's past loan loss experience, known and inherent risks in the residential mortgage loan portfolio, adverse situations that have occurred but are not yet known and that may affect the borrower's ability to repay, the estimated value of the underlying collateral, and economic conditions.

Years ended December 31, 2000 versus December 31, 1999

Net Income. The Company reported net income for the year ended December 31, 2000 of $69.8 million compared with net income of $65.5 million for the year ended December 31, 1999. This increase in 2000 compared with 1999 is attributable to an increase in net interest income.

During each of the years ended December 31, 2000 and 1999, the Company declared and paid dividends of $45.6 million on the outstanding Series A Preferred Shares. Net income available to the common stockholder for the years ended December 31, 2000 and 1999 totalled $24.2 million and $19.9 million, respectively. During the years ended December 31, 2000 and 1999, the Company declared and paid dividends of $20.5 million and $18.6 million, respectively, to the Bank as common stockholder.

Net Interest Income. The Company reported interest income, net of servicing fee expense, of $69.9 million for the year ended December 31, 2000, an increase of $4.5 million from the $65.4 million reported for the year ended December 31, 1999. This increase in interest income is attributed to a higher average yield on the residential mortgage loan portfolio. The higher yield of 6.93% on residential mortgage loans during the year ended December 31, 2000 as compared to 6.49% for the same period in 1999 is primarily due to the repricing of variable rate loans resulting from comparatively higher market interest rates in 2000 versus 1999 and the purchase of new loans at higher current market interest rates. The average outstanding balance of residential mortgage loans during the year ended December 31, 2000 was $905,000 lower than during the same period in 1999. Interest income, net of servicing fee expense during the year ended December 31, 2000 is comprised of $68.7 million ($72.4 million gross interest less $3.7 million servicing fee expense) from residential mortgage loans and $1.1 million from short-term investments, representing an average yield after servicing fees on residential mortgage loans of 6.93% and on earning assets of 6.90%, based on average outstanding asset balances of $992.5 million and $1.0 billion, respectively. Interest income, net of servicing fee expense during the year ended December 31, 1999 is comprised of $64.4 million ($68.1 million gross interest less $3.7 million servicing fee expense) from residential mortgage loans and $964,000 from short-term investments, representing an average yield after servicing fees on residential mortgage loans of 6.49% and on earning assets of 6.45%, based on average outstanding asset balances of $993.4 million and $1.0 billion, respectively.

The computation of the average yield on residential mortgage loans and on earning assets is based on daily average outstanding asset balances that include nonaccruing loans and the amount of principal payments collected by FNMC but not yet remitted to the Company, which is included in due from affiliates on the balance sheets.

Provision for Loan Losses. The Company recorded no provision for loan losses in either of the years ended December 31, 2000 and 1999. The determination to record no such provision for loan losses during these periods is the result of

management's evaluation of the adequacy of the allowance for loan losses based on, among other things, the Bank's and the Company's past loan loss experience, known and inherent risks in the residential mortgage loan portfolio, adverse situations that have occurred but are not yet known and that may affect the borrower's ability to repay, the estimated value of the underlying collateral, and economic conditions.

RESIDENTIAL MORTGAGE LOANS

The Company used the proceeds from its offering of Series A Preferred Shares, coupled with a capital contribution from the Bank, to purchase the Company's initial portfolio of residential mortgage loans at their estimated fair value. The Company reinvests principal collections in additional residential mortgage loans purchased from either the Bank or its affiliates on a periodic basis.

It is the Company's policy to place a loan on nonaccrual status when a borrower is 90 days or more delinquent. There were no accruing loans contractually past due 90 days or more at December 31, 2001 and 2000. See "Business - Delinquencies and Nonperforming Loans."

ALLOWANCE FOR LOAN LOSSES

As of December 31, 2001 and 2000, the Company's allowance for loan losses was $7.4 million and $7.6 million, respectively. This allowance is available to absorb potential loan losses from the entire residential mortgage loan portfolio. The Company believes its allowance for loan losses as of December 31, 2001 is a reasonable estimate of our known and inherent losses in the current portfolio. Although the Company considers that it has sufficient allowances to absorb losses that currently exist in the portfolio, the precise loss is subject to continuing review based on quality indicators, industry and geographic concentrations, changes in business conditions, and other external factors such as competition, legal and regulatory requirements. The Company will continue to reassess the adequacy of the allowance for loan losses.

The following table reflects the activity in the Company's allowance for loan losses for the years ended December 31, 2001, 2000 and 1999 (in thousands):

	2001	2000
Balance - beginning of year	$ 7,641	$ 7,883
Provision for loan losses	--	--
Charge-offs	(53)	(242)
Balance - end of year	$ 7,588	$ 7,641

The Company's allowance coverage ratio (allowance for loan losses to loans) at December 31, 2001, 2000 and 1999 was 0.81%, 0.79% and 0.81%, respectively, while the Company's ratio of allowance for loan losses to non-performing loans at December 31, 2001, 2000 and 1999 was 343%, 469% and 757%, respectively.

INTEREST RATE RISK

The Company's income consists primarily of interest payments on residential mortgage loans. The Company anticipates that most of its residential mortgage loans will bear interest at adjustable rates. If there is a decline in interest rates (as measured by the indices upon which the interest rates of the residential mortgage loans are based), then the Company will experience a decrease in income available to be distributed to its stockholders. In such an interest rate environment the Company may experience an increase in prepayments on its residential mortgage loans and may find it more difficult to purchase additional residential mortgage loans bearing rates sufficient to support payment of the dividends on the Series A Preferred Shares. In addition, certain residential mortgage loan products which the Company holds will allow borrowers in such an interest rate environment to convert an adjustable rate mortgage to a fixed rate mortgage, thus "locking in" a lower fixed interest rate. Because the dividend rate on the Series A Preferred Shares is fixed, there can be no assurance that an interest rate environment in which there is a significant decline in interest rates would not adversely affect the Company's ability to pay such dividends.

Residential mortgage loans which have interest rates that adjust monthly based upon the FHLB Eleventh District Cost of Funds limit payment changes to no more than 7.5% of the payment amount per year. This may lead to monthly payments which are less than the amount necessary to amortize the loan to maturity at the interest rate in effect for any

particular month. In the event that the monthly payment is not sufficient to pay interest accruing on the loan during the month, this deficiency is added to the loan's principal balance (i.e., negative amortization). The total outstanding principal balance for a particular loan is generally not allowed to exceed 125% of the original loan amount as a result of negative amortization. Every five years and at any time the loan reaches its maximum amount, the loan payment is recalculated to the payment sufficient to repay the unpaid principal balance in full at the maturity date. At December 31, 2001 and 2000, residential mortgage loans included approximately $115.2 million and $172.2 million, respectively, of principal balance that had the potential to negatively amortize. At December 31, 2001 and 2000, approximately $8.6 million and $18.9 million, respectively, of residential mortgage loans had negatively amortized such that the current principal balance of the loan exceeds the original principal balance. The current principal balance exceeded the original principal balance by approximately $264,000 and $712,000, as of December 31, 2001 and 2000, respectively. If there is an increase in interest rates on such residential mortgage loans (as measured by the indices upon which the interest rates of the residential mortgage loans are based), the Company may experience a decrease in cash available to be distributed to its common stockholder where such increase in the interest rate does not coincide with a corresponding adjustment of the borrowers' monthly payments.

SIGNIFICANT CONCENTRATION OF CREDIT RISK

Certain geographic regions of the United States from time to time may experience natural disasters or weaker regional economic conditions and housing markets and, consequently, may experience higher rates of loss and delinquency on residential mortgage loans generally. Any concentration of the residential mortgage loans in such a region may present risks in addition to those generally present with respect to residential mortgage loans.

The Company's exposure to geographic concentrations directly affects the credit risk of the residential mortgage loans within the portfolio. The following table shows the residential mortgage loan portfolio by geographical area as of December 31, 2001:

Book V (in thou

California	$ 758,4
Florida	21,3
Colorado	18,7
Texas	15,9
Illinois	15,5
New York	15,2
Nevada	14,2
Washington	10,2
Hawaii	9,3
Other states (31 states and Washington, D.C.; no state has more than 1%)	53,5
	$ 932,6

The 81.3% of the Company's total residential mortgage loan portfolio comprised of loans secured by residential real estate properties located in California may be subject to a greater risk of default than other comparable residential mortgage loans in the event of natural hazards or other adverse conditions in California that may affect the ability of residential property owners in California to make payments of principal and interest on underlying mortgages.

LIQUIDITY RISK MANAGEMENT

The objective of liquidity management is to ensure the availability of sufficient cash flows to meet all of the Company's financial commitments and to capitalize on opportunities for the Company's business expansion. In managing liquidity, the Company takes into account various legal limitations placed on a REIT. See "-- Other Matters."

The Company's principal liquidity needs are to maintain the current portfolio size through the acquisition of additional residential mortgage loans and to pay dividends on the Series A Preferred Shares. The acquisition of additional residential mortgage loans is funded with the proceeds obtained from repayment of principal balances by individual mortgagees. The payment of dividends on the Series A Preferred Shares will be made from legally available funds, principally arising from the operating activities of the Company. The Company's cash flows from operating activities

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principally consist of the collection of interest on the residential mortgage loans. The Company does not have and does not anticipate having any material capital expenditures.

In order to remain qualified as a REIT, the Company must distribute annually at least 90% of its adjusted REIT taxable income, as provided for under the IRC, to its common and preferred stockholders. The Company currently expects to distribute dividends annually to satisfy these REIT requirements.

The Company anticipates that cash and cash equivalents on hand and the cash flow from the residential mortgage loans will provide adequate liquidity for its operating, investing and financing needs.

Net cash provided by operating activities for the year ended December 31, 2001, totalled $71.0 million, an increase of $300,000 from net cash provided by operating activities for the year ended December 31, 2000. The increase was principally due to the increase in non-cash amortization of purchase discounts and premiums resulting from higher loan prepayment activity and lower accrued interest receivable on loans, offset by lower interest income on mortgage loans.

Net cash provided by operating activities for the year ended December 31, 2000, totalled $70.7 million, an increase of $3.6 million from net cash provided by operating activities for the year ended December 31, 1999. The increase was principally due to the increase in interest income on residential mortgage loans.

Net cash used in investing activities for the year ended December 31, 2001, totalled $8.2 million, compared to net cash used in investing activities of $1.6 million for the year ended December 31, 2000. Cash flows used in investing activities in 2001 included purchases of mortgage loans and accrued interest receivable of $395.6 million and $1.4 million, respectively. Cash flows provided by investing activities in 2001 included mortgage loan principal repayments of $388.1 million and proceeds from sales of foreclosed real estate of $710,000.

Net cash used in investing activities for the year ended December 31, 2000, totalled $1.6 million, compared to net cash provided by investing activities of $68,000 for the year ended December 31, 1999. Cash flows used in investing activities in 2000 included purchases of mortgage loans and accrued interest receivable of $160.7 million and $693,000, respectively. Cash flows provided by investing activities in 2000 included mortgage loan principal repayments of $158.7 million and proceeds from sales of foreclosed real estate of $1.1 million.

Net cash used in financing activities for the year ended December 31, 2001, totalled $52.7 million, a decrease of $13.4 million from net cash used in financing activities for the year ended December 31, 2000. The decrease was due to the decrease in common stock dividends paid in 2001 compared to 2000.

Net cash used in financing activities for the year ended December 31, 2000, totalled $66.1 million, an increase of $1.9 million from net cash used in financing activities for the year ended December 31, 1999. The increase was due to the increase in common stock dividends paid in 2000 compared to 1999.

IMPACT OF INFLATION AND CHANGING PRICES

Prevailing interest rates have a more significant impact on the Company's performance than does the general level of inflation. While interest rates may bear some relationship to the general level of inflation (particularly in the long run), over short periods of time interest rates may not necessarily move in the same direction or change in the same magnitude as the general level of inflation. As a result, the business of the Company is generally not affected by inflation in the short run, but may be affected by inflation in the long run.

OTHER MATTERS

As of December 31, 2001, the Company was in full compliance with the REIT tax rules and believes that it will continue to qualify as a REIT under the provisions of the IRC. The Company calculates:

a. its Qualified REIT Assets, as defined in the Code, to be 97% of its total assets, as compared to the Federal tax requirements that at least 75% of its total assets must be Qualified REIT assets;

b. that 99% of its revenue qualifies for the 75% source of income test and 100% of its revenue qualifies for the 95% source of income test under the REIT rules; and

The Company also met all REIT requirements regarding the ownership of its stock and anticipates meeting the annual distribution requirements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure is interest rate risk. As of December 31, 2001 the Company's residential loan portfolio totalled $933.2 million, had a fair value of $942.9 million and a weighted average interest rate, net of the service fee rate, of 6.54%. The portfolio consisted primarily of ARM loans. Certain types of residential mortgage loans contain an option for the mortgagor to convert the ARM loan to a fixed rate loan for the remainder of the term. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements of the Company at December 31, 2001 and 2000 and for the years ended December 31, 2001, 2000 and 1999 are included in this report at the pages indicated.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Company's Board of Directors is currently composed of eight members, three of whom are not current officers or employees of the Company or current directors, officers or employees of the Bank or any affiliate of the Bank (the "Independent Directors"). The Company's charter provides that the Independent Directors will consider the interests of the holders of both the Company's common stock and preferred stock, including the Series A Preferred Shares, in determining whether any proposed action requiring their approval is in the best interests of the Company.

The following persons are directors and/or executive officers of the Company (ages as of March 1, 2002):

NAME	AGE	POSITION AND OFFICES HELD
Gerald J. Ford	57	Chairman, Chief Executive Officer and Directo
Carl B. Webb	52	President, Chief Operating Officer and Direct
Christie S. Flanagan	63	Executive Vice President, General Counsel and
P. Richard Frieder	67	Director
Robert Nichols	57	Director
James R. Staff	54	Director
Richard H. Terzian	65	Executive Vice President, Chief Financial Off and Director
R. Gerald Turner	56	Director

Each of the executive officers has held his position with the Company since its inception in November 1996. The following is a summary of the experience of the executive officers and directors of the Company:

Mr. Ford has been Chairman of the Board, Chief Executive Officer and a Director of the Bank and its predecessors since 1988 and Chairman of the Board and Chief Executive Officer of Golden State since September 1998. Mr. Ford has also been Chairman of the Board and Chief Executive Officer of Golden State Holdings Inc. ("GS Holdings") since 1998. Mr. Ford is Chairman of the Board of FNMC. Mr. Ford is also Chairman of the Board and Chief Executive Officer of Liberte Investors Inc. Mr. Ford is also a Director of Auto One Acceptance Corporation ("Auto One"), Freeport-McMoRan Copper & Gold Co. and McMoRan Exploration Co.

Mr. Webb has served as President, Chief Operating Officer and a Director of Golden State since September 1998, of the Bank and its predecessors since 1988, and of GS Holdings since 1998. Mr. Webb also serves as a Director of FNMC and Auto One.

Mr. Flanagan has been Executive Vice President and General Counsel of Golden State since September 1998 and Group Executive Vice President and General Counsel of the Bank since June 2000. He served as Executive Vice President and General Counsel of the Bank from 1994 until June 2000. He also serves as Director of FNMC and Auto One. Mr. Flanagan was previously managing partner of the law firm of Jenkins & Gilchrist, P.C. and is currently of counsel to the firm.

Mr. Frieder has been a Director of the Company since January 1997. Mr. Frieder is a private investor and is an attorney admitted to practice in the State of Pennsylvania. He was President and Chief Executive Officer of KSD Industries, Inc., a company engaged in manufacturing and sale of household hardware, from 1974 until 2001.

Mr. Nichols has been a Director of the Company since January 1997. He has been Chairman of the Board of Conley, Lott, Nichols Machinery Company, a Dallas based company engaged in machinery sales, since 1978.

Mr. Staff has been Executive Vice President and the Chief Financial Advisor of Golden State since September 1998 and Group Executive Vice President and Chief Financial Advisor of the Bank since June 2000. He served as Executive Vice President and Chief Financial Advisor of the Bank from 1994 until June 2000. He also serves as a Director of FNMC and Auto One. Prior to joining the Bank, Mr. Staff was associated with the public accounting firm of KPMG LLP, most recently as a partner specializing in financial services.

Mr. Terzian has been Executive Vice President and Chief Financial Officer of Golden State since September 1998 and Group Executive Vice President and Chief Financial Officer of the Bank since June 2000. He served as Executive Vice President and Chief Financial Officer of the Bank from April 1995 until June 2000. Mr. Terzian is also a Director of the Federal Home Loan Bank of San Francisco. Prior to joining the Bank, Mr. Terzian served as Chief Financial Officer of Dime Bancorp, Inc and its subsidiary, The Dime Savings Bank of New York, FSB.

Dr. Turner has been a Director of the Company since January 22, 2001 and the President of Southern Methodist University in Dallas, Texas since June 1995. He was Chancellor of the University of Mississippi from 1984 to 1995. Dr. Turner also serves as a Director of J.C. Penney Company, Inc., ChemFirst Inc., and American AAdvantage Funds.

ITEM 11. EXECUTIVE COMPENSATION

The Company pays the Independent Directors of the Company for their services as directors an annual compensation of $15,000 plus a fee of $2,000 for attendance (in person or by telephone) at each meeting of the Board of Directors. Independent Directors who are members of the audit committee receive a fee of $1,000 for attendance (in person or by telephone) at each meeting of the audit committee.

The Company does not pay any compensation to its officers or employees or to directors who are not Independent Directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Common Stock of the Company

All of the common stock of the Company is held by the Bank.

Preferred Stock of the Company

The following table sets forth information as of March 1, 2002, concerning the shares of Series A Preferred Shares beneficially owned by each director and/or executive officer named in Item 10 and by all directors and/or executive officers of the Company as a group.

NAME OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Christie S. Flanagan..	4,440	*
Gerald J. Ford...	51,700 (1)	*
P. Richard Frieder..	0	*
Robert Nichols...	0	*
James R. Staff...	8,000	*
Richard H. Terzian..	0	*
R. Gerald Turner..	500	*
Carl B. Webb.....	24,000	*
All directors and executive officers as a group (8 persons)..	88,640	*

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* Less than one percent of the outstanding shares in each case.

(1) Includes 40,000 shares held by Turtle Creek Revocable Trust, a revocable trust organized under the laws of the State of Texas, of which Gerald J. Ford is the sole grantor and trustor.

Common Stock of Golden State

The Company is an indirect subsidiary of Golden State. The following table sets forth information as of March 1, 2002, concerning the shares of Golden State common stock beneficially owned by each director and/or executive officer named in Item 10 and by all directors and/or executive officers of the Company as a group.

NAME OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP
Christie S. Flanagan...	60,527(1)
Gerald J. Ford...	20,108,186(2)
P. Richard Frieder...	1,000
Robert Nichols...	0
James R. Staff...	70,883(3)
Richard H. Terzian...	54,721(4)
R. Gerald Turner...	0
Carl B. Webb...	320,835(5)
All directors and executive officers as a group (8 persons)...........	20,616,152(6)

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* Less than one percent of the outstanding shares in each case.

(1) Includes 12,527 restricted shares of common stock and 41,000 options to purchase shares of common stock.

(2) Includes 99,958 restricted shares of common stock owned by Mr. Ford and 323,667 options to purchase shares of common stock. Also includes 19,684,561 shares of common stock owned by Hunter's Glen/Ford, Ltd. Mr. Ford and a corporate entity controlled by Mr. Ford are the general partners of Hunter's Glen/Ford, Ltd. Accordingly, Mr. Ford may be deemed to be the beneficial owner of all of the shares of common stock owned by Hunter's Glen/Ford, Ltd.

(3) Includes 17,217 restricted shares of common stock and 53,666 options to purchase shares of common stock.

(4) Includes 9,388 shares of restricted stock and 4,000 shares held jointly with Mr. Terzian's spouse. Also includes 41,333 options to purchase shares of common stock.

(5) Includes 41,835 restricted shares of common stock and 229,000 options to purchase common stock.

(6) Includes 180,925 restricted shares granted to executive officers pursuant to the Golden State Bancorp Inc. Omnibus Stock Plan. Also includes 4,000 shares as to which voting and investment power are shared.

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Litigation Tracking Warrants(TM) of Golden State

The following table sets forth information as of March 1, 2002 concerning the number of Litigation Tracking Warrants(TM) of Golden State (sometimes referred to as "LTWs") beneficially owned by each director and/or executive officer named in Item 10 and by all directors and/or executive officers of the Company as a group.

NAME OF BENEFICIAL OWNER	AMOUNT AND NATU OF BENEFICIAL OWNERS
Christie S. Flanagan	7,000
Gerald J. Ford	1,903,000(1
P. Richard Frieder	0
Robert Nichols	0
James R. Staff	0
Richard H. Terzian	0
R. Gerald Turner	0
Carl B. Webb	0

All directors and executive officers as a group (8 persons)..............	1,910,000

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* Less than one percent of the outstanding warrants in each case.

(1) Includes 1,000,000 LTWs purchased and held of record by Turtle Creek Revocable Trust, a revocable trust organized under the laws of the State of Texas of which Gerald J. Ford is the sole grantor and trustee. Accordingly, Mr. Ford may be deemed to be the beneficial owner of all of the LTWs owned by Turtle Creek Revocable Trust. Also includes 903,000 LTWs owned by Hunter's Glen/Ford, Ltd. Mr. Ford and a corporate entity controlled by Mr. Ford are the general partners of Hunter's Glen/Ford, Ltd. Accordingly, Mr. Ford may be deemed to be the beneficial owner of all of the LTWs owned by Hunter's Glen/Ford, Ltd.

Change in Control of Golden State

As of March 1, 2002, GSB Investments Corp. ("GSB Investments") owned 42,949,525 shares, representing 31.6% of the outstanding common stock of Golden State. Ronald O. Perlman is the indirect beneficial owner of all of the outstanding capital stock of GSB Investments and accordingly, he may be deemed to be the beneficial owner of all of the shares of common stock owned by GSB Investments. Of these shares, 15,080,724 are pledged to Credit Suisse First Boston, of which Credit Suisse First Boston may borrow 12,080,724 shares from time to time, in connection with forward sales transactions. GSB Investments beneficial shares also include 4,000,000 shares pledged to J.P. Morgan Securities Inc., which J.P. Morgan Securities may borrow from time to time, in connection with forward sale transactions. GSB Investments has the right to demand the return of any or all of the borrowed shares upon five business day's notice under certain circumstances. The other shares of GSB Investments are pledged to secure obligations of Mafco Holdings and its affiliates.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

FNMC services the residential mortgage loans included in the Company's portfolio and is entitled to receive fees in connection with the related servicing agreement. Loan servicing fees paid to FNMC for the years ended December 31, 2001, 2000 and 1999 totalled \$3.7 million, \$3.6 million and \$3.7 million, respectively. See "Business - Servicing of Residential Mortgage Loans."

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PART IV

ITEM 14 EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. FINANCIAL STATEMENT SCHEDULES

Schedules are omitted because of the absence of conditions under which they are required or because the required information is provided in the financial statements or notes thereto.

3.1	Amended and Restated Charter of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 (the "March 1997 Form 10-Q")).
3.2	By-laws of the Registrant, as amended (Incorporated by reference to Exhibit 3(b) to Amendment No. 2 to the Registrant's Registration Statement on Form S-11 (File No. 333-11609)).
10.1	Mortgage Loan Purchase and Warranties Agreement, dated as of January 24, 1997, by and between California Federal Preferred Capital Corporation and California Federal Bank, A Federal Savings Bank. (Incorporated by reference to Exhibit 10.1 to the March 1997 Form 10-Q).
10.2	Servicing Agreement, entered into as of January 31, 1997, by and between First Nationwide Mortgage Corporation and California Federal Preferred Capital Corporation. (Incorporated by reference to Exhibit 10.2 to the March 1997 Form 10-Q).
10.3	Promissory Note, entered into as of September 29, 1998, between California Federal Bank, A Federal Savings Bank, lender, and California Federal Preferred Capital Corporation, borrower (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
24.1	Power of Attorney executed by P. Richard Frieder.
24.2	Power of Attorney executed by Robert Nichols.
24.3	Power of Attorney executed by R. Gerald Turner.

(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.

Dated: March 20, 2002

CALIFORNIA FEDERAL PREFERRED CAPITAL CORPATION

By: /s/ Gerald J. Ford

Gerald J. Ford
Chairman of the Board

and Chief Executive Officer

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

NAME	TITLE	DATE
/s/ Gerald J. Ford ------------------------------- Gerald J. Ford	Chairman of the Board, Chief Executive Officer and Director	March
/s/ Carl B. Webb ------------------------------- Carl B. Webb	President, Chief Operating Officer and Director	March
/s/ Christie S. Flanagan ------------------------------- Christie S. Flanagan	Executive Vice President, General Counsel and Director	March
/s/ Richard H. Terzian ------------------------------- Richard H. Terzian	Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer)	March
* ------------------------------- P. Richard Frieder	Director	March
* ------------------------------- Robert Nichols	Director	March
* ------------------------------- R. Gerald Turner	Director	March
/s/ James R. Staff ------------------------------- James R. Staff	Director	March

* Eric K. Kawamura, by signing his name, hereto, does hereby execute this report on Form 10-K on behalf of the directors and officers of the Registrant indicated above by asterisks, pursuant to powers of attorney duly executed by such directors and officers and filed as exhibits to this report on Form 10-K.

By: /s/ Eric K. Kawamura

Eric K. Kawamura
Attorney-in-Fact

INDEPENDENT AUDITORS' REPORT

The Board of Directors
California Federal Preferred Capital Corporation:

We have audited the accompanying balance sheets of California Federal Preferred Capital Corporation (the "Company") as of December 31, 2001 and 2000 and the related statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Federal Preferred Capital Corporation as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

McLean, Virginia
March 19, 2002

CALIFORNIA FEDERAL PREFERRED CAPITAL CORPORATION

BALANCE SHEETS
December 31, 2001 and 2000
(dollars in thousands, except per share data)

2001

ASSETS	
Residential mortgage loans, net	$ 933,16
Cash and cash equivalents	18,70
Due from affiliates	56,62
Accrued interest receivable	4,13
Foreclosed real estate, net	9
TOTAL ASSETS	$ 1,012,72
LIABILITIES AND STOCKHOLDERS' EQUITY	
Due to affiliates	$ 63
Accounts payable and accrued liabilities	23
	87
Stockholders' Equity:	
Preferred stock, par value $0.01 per share, liquidation preference $500,000, 30,000,000 shares authorized, 20,000,000 shares issued and outstanding	500,00
Common stock, par value $0.01 per share, 30,000,000 shares authorized, 1,000 shares issued and outstanding	
Additional paid-in capital	500,00
Retained earnings (accumulated deficit)	11,85
Total Stockholders' Equity	1,011,85
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,012,72

See accompanying notes to financial statements.

CALIFORNIA FEDERAL PREFERRED CAPITAL CORPORATION

STATEMENTS OF INCOME
Years Ended December 31, 2001, 2000 and 1999
(dollars in thousands)

	2001

INTEREST INCOME		
Residential mortgage loans	$ 67,651	$ 72
Less: servicing fee expense	(3,677)	(3
	63,974	68
Short-term investments	819	1
Interest income, net of servicing fee expense	64,793	69
INTEREST EXPENSE		
Borrowing from Bank		
Net interest income	64,793	69
Provision for loan losses		
Net interest income after provision for loan losses	64,793	69
NONINTEREST EXPENSE		
Directors fees	74	
Professional fees	72	
Foreclosed real estate operations, net	(64)	
Other	41	
Total noninterest expense (income)	123	
NET INCOME	64,670	69
Preferred stock dividends	45,625	45
NET INCOME AVAILABLE TO COMMON STOCKHOLDER	$ 19,045	$ 24

See accompanying notes to financial statements.

CALIFORNIA FEDERAL PREFERRED CAPITAL CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2001, 2000 and 1999
(dollars in thousands)

	Preferred Stock	Common Stock	Additional Paid-in Capital
BALANCE AT DECEMBER 31, 1998	$ 500,000	$	$ 500,000
Net income			
Dividends paid on 9 1/8% noncumulative exchangeable preferred stock, series A			
Dividends paid on common stock			
BALANCE AT DECEMBER 31, 1999	500,000		500,000
Net income			
Dividends paid on 9 1/8% noncumulative exchangeable preferred stock, series A			
Dividends paid on common stock			
BALANCE AT DECEMBER 31, 2000	500,000		500,000
Net income			
Dividends paid on 9 1/8% noncumulative exchangeable preferred stock, series A			
Dividends paid on common stock			
BALANCE AT DECEMBER 31, 2001	$ 500,000	$ __	$ 500,000

See accompanying notes to financial statements.

CALIFORNIA FEDERAL PREFERRED CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2001, 2000 and 1999
(dollars in thousands)

	2001
OPERATING ACTIVITIES:	
Net income	$ 64,670
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization of purchase discounts and premiums, net	3,647
Provision for losses on foreclosed real estate	--
Interest capitalized on negatively amortizing loans	(60
Gain on sales of foreclosed real estate, net	(64
Decrease/(increase) in due from affiliates	(555
(Increase)/decrease in accrued interest receivable	2,886
Increase/(decrease) in accounts payable and accrued liabilities	(73
(Decrease)/increase in due to affiliates	582
Net cash provided by operating activities	71,033
INVESTING ACTIVITIES:	
Purchase of mortgage loans	(395,556
Mortgage loan principal repayments	388,064
Purchase of accrued interest receivable	(1,408
Proceeds from sales of foreclosed real estate	710
Net cash (used in) provided by investing activities	(8,190
FINANCING ACTIVITIES:	
Common stock dividends paid	(7,042
Preferred stock dividends paid	(45,625
Net cash used in financing activities	(52,667
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,176
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,526
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 18,702
Supplemental disclosures of cash flow information:	
Cash paid for interest	$
Non-cash investing activities:	
Mortgage loan principal reductions due to foreclosure	45
Mortgage loan principal decrease for timing difference between principal repayments received by servicer and related cash received by Company during the period	40,958

See accompanying notes to financial statements.

CALIFORNIA FEDERAL PREFERRED CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS

(1) Organization and Basis of Presentation

California Federal Preferred Capital Corporation, formerly First Nationwide Preferred Capital Corporation (the "Company"), is a Maryland corporation which was created for the purpose of acquiring, holding and managing real estate assets. The Company's outstanding common stock is wholly-owned by California Federal Bank (the "Bank").

The Company commenced its operations in 1997 with the consummation of an initial public offering of 20,000,000 shares of the Company's 9 1/8% Noncumulative Exchangeable Preferred Stock, Series A (the "Series A Preferred Shares"), $0.01 par value, which raised $500 million. The Series A Preferred Shares are traded on the New York Stock Exchange under the trading symbol "CFP." Concurrent with the issuance of the Series A Preferred Shares, the Bank contributed additional capital of $500 million to the Company.

The Company used the proceeds raised from the initial public offering of the Series A Preferred Shares and the additional capital contributed by the Bank to purchase from the Bank the Company's initial portfolio of residential mortgage loans at their estimated fair value. The residential mortgage loans were recorded in the accompanying financial statements at the Bank's carrying value which approximated their estimated fair values. Pursuant to a servicing agreement (the "Servicing Agreement"), the Bank's wholly-owned mortgage banking subsidiary, First Nationwide Mortgage Corporation ("FNMC"), services the Company's mortgage assets.

The accompanying financial statements include certain amounts from prior years which have been reclassified to conform to the current year's presentation.

(2) Summary of Significant Accounting Policies

The accounting and reporting policies of the Company conform to generally accepted accounting principles and prevailing industry practices. The following summarizes the more significant of these policies:

(a) Residential Mortgage Loans

Residential mortgage loans are carried at the principal amount outstanding, net of unamortized purchase discounts and premiums. Discounts or premiums are accreted or amortized to income using the interest method over the contractual term of the loans. Unaccreted or unamortized discounts or premiums on loans sold or paid in full are recognized in income at the time of sale or payoff. It is the Company's policy to place a loan on nonaccrual status when a borrower is 90 days or more delinquent. When a loan is placed on nonaccrual status, the accrued and unpaid interest receivable is reversed. Amortization or accretion of premiums or discounts associated with loans that are on nonaccrual status is discontinued. Income is subsequently recognized only to the extent that cash payments are received. When, in management's judgment, the borrower's ability to make periodic interest and principal payments resumes, the loan is returned to accrual status.

The Company considers a loan to be impaired when it is "probable" that a creditor will be unable to collect all amounts due (i.e., both principal and interest) according to the contractual terms of the loan agreement. The measurement of impairment may be based on (i) the present value of the expected future cash flows of the impaired loan discounted at the loan's original effective interest rate, (ii) the observable market price of the impaired loan, or (iii) the fair value of the collateral of a collateral-dependent loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. The Company collectively reviews its portfolio of residential mortgage loans for impairment due to its homogeneous composition.

Residential mortgage loans consist primarily of adjustable rate mortgages ("ARMs") which adjust periodically based on changes in various indices including the FHLB Eleventh District Cost of Funds, the one-year Treasury rate and the six-month Treasury rate. Certain types of residential mortgage loans contain an option for the mortgagor to convert the ARM to a fixed rate loan for the remainder of the term.

(b) Allowance for Loan Losses

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries) and is comprised of specific allowances for identified problem loans and an unallocated allowance. Management's periodic evaluation of the adequacy of the allowance is based on such factors as the Bank's and the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that have occurred but are not yet known that may affect the borrower's ability to repay, the estimated value of underlying collateral, and economic conditions.

Although management believes that its present allowance for loan losses is adequate, it will continue to review its loan portfolio to determine the extent to which any changes in loss experience may require additional provisions in the future.

(c) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash and amounts due from banks, and other short-term investments with original maturities of three months or less.

(d) Foreclosed Real Estate

Real estate acquired through, or in lieu of, loan foreclosure consists of 1-4 unit residential real estate and is initially recorded at fair value less estimated disposal costs at the time of foreclosure.

Subsequent to foreclosure, the Company charges current earnings with a provision for estimated losses when the carrying value of the collateral property exceeds its fair value. Gains or losses on the sale of real estate are recognized upon disposition of the property.

(e) Income Taxes

The Company has elected to be treated as a Real Estate Investment Trust ("REIT") for Federal income tax purposes. Accordingly, in general, the Company is not subject to Federal income tax to the extent it distributes its income to stockholders and as long as certain asset, income and stock ownership tests are met in accordance with the Internal Revenue Code of 1986 (the "IRC"), as amended. The Company is subject to Federal income tax on net gains on the sale of foreclosed real estate.

Pursuant to IRC Section 857(a), the Company is required to distribute 90% of its REIT taxable income. Taxable income may vary from book earnings as a result of temporary differences. For the years ended December 31, 2001, taxable income before dividend distributions was estimated to be $64.7 million and, for the years ended December 31, 2000 and 1999, taxable income before dividend distributions was $69.6 million and $65.1 million, respectively. Temporary differences consisted primarily of differences in the book basis and tax basis of residential mortgage loans and provisions for loan losses in excess of charge-offs.

(f) Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) disclosure of contingent assets and liabilities at the date of the financial statements and (iii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(g) Earnings per Share

As all the Company's common stock is owned by the Bank, earnings per share data is not presented.

(h) Newly Issued Accounting Pronouncements

Business Combinations

On July 20, 2001, the FASB issued SFAS No. 141 which defines a business combination as a transaction through which an enterprise acquires all or a portion of the net assets that constitute a business or equity interests of one or more enterprises and obtains control over those enterprises. This definition is not substantively different from the APB Opinion No. 16 definition.

SFAS No. 141 requires that all business combinations be accounted for using the purchase method. Use of the pooling-of-interests method to account for business combinations, which APB Opinion No. 16 required to be used when certain criteria were met, is prohibited. SFAS No. 141 provides guidance for determining the acquiror versus the acquiree in an acquisition. In addition, SFAS No. 141 requires that additional information be disclosed about business combination transactions.

The accounting, disclosure and financial statement provisions of SFAS No. 141 became effective for business combinations initiated after June 30, 2001, and has not materially impacted the Company's current financial condition or operating results.

Accounting for the Impairment or Disposal of Long-Lived Assets

On October 3, 2001, the FASB issued SFAS No. 144. SFAS No. 144 establishes a single accounting model for the financial accounting and reporting for impairment or disposal of long-lived assets. The reason for issuing the Statement stemmed from the failure of SFAS No. 121 to address the accounting for the disposal of a segment of a business accounted for as a discontinued operation under APB Opinion No. 30. Thus, two accounting models existed for the disposal of long-lived assets. SFAS No. 144 is based on the framework established in SFAS No. 121.

The accounting, disclosure and financial statement provisions of SFAS No. 144 are effective for financial statements issued for the Company beginning January 1, 2002. The provisions of the Statement generally are to be applied prospectively.

The implementation of SFAS No. 144 is not expected to materially impact the Company's financial condition or operating results.

(3) Residential Mortgage Loans, Net

At December 31, 2001 and 2000, residential mortgage loans, net consisted of the following (in thousands):

	At December 31	
	2001	2000
1-4 unit residential mortgage loans	$ 932,683	$ 971,145
Purchase discounts and premiums, net	8,073	6,894
Allowance for loan losses	(7,588)	(7,641)
Total residential mortgage loans, net	$ 933,168	$ 970,398

At December 31, 2001 and 2000, residential mortgage loans on nonaccrual totalled $2.2 million and $1.6 million, respectively.

For loans on nonaccrual at December 31, 2001 and 2000, the Company recognized $127,000 and $59,000 of interest income during the years ended December 31, 2001 and 2000, respectively. The Company would have recognized $172,000 and $120,000 of interest income during the years ended December 31, 2001 and 2000, respectively, on such loans had the borrowers performed under the contractual terms of the loans.

At December 31, 2001, the Company's total residential mortgage loan portfolio includes $758.4 million of loans secured by residential real estate properties located in California. These loans may be subject to a greater risk of default than other comparable residential mortgage loans in the event of natural hazards or other adverse conditions in California that may affect the ability of residential property owners in California to make payments of principal and interest on underlying mortgages.

Activity in the allowance for loan losses for the years ended December 31, 2001, 2000 and 1999 is summarized as follows (in thousands):

	2001	2000	1999
Balance - beginning of year	$ 7,641	$ 7,883	$ 8,413
Provision for loan losses			
Charge-offs	(53)	(242)	(530)
Balance - end of year	$ 7,588	$ 7,641	$ 7,883

(4) Preferred Stock

The liquidation value of each Series A Preferred Share is $25 plus any authorized, declared and unpaid dividends. Except upon the occurrence of certain events, the Series A Preferred Shares are not redeemable until January 31, 2002, and are redeemable thereafter at the option of the Company. If, due to the occurrence of certain events, the Series A Preferred Shares are redeemed prior to January 31, 2002, the per share redemption price will be $25.00 plus any authorized, declared and unpaid dividends. If redeemed during the twelve-month period beginning January 31, 2002, the per share redemption price will be $26.14 plus any authorized, declared and unpaid dividends. This per share redemption price incrementally declines annually after January 31, 2002 down to $25.00 plus any authorized declared and unpaid dividends on January 31, 2007. Except under certain limited circumstances, the holders of the Series A Preferred Shares have no voting rights. The Series A Preferred Shares are automatically exchangeable for a new series of preferred stock of the Bank upon the occurrence of certain limited events.

CALIFORNIA FEDERAL PREFERRED CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS

(5) Dividends

Holders of Series A Preferred Shares are entitled to receive, if, when and as authorized and declared by the Board of Directors of the Company out of funds legally available, noncumulative dividends at a rate of 9 1/8% per annum of the initial liquidation preference ($25.00 per share). Dividends on the Series A Preferred Shares, if authorized and declared, are payable quarterly in arrears on the last day of March, June, September and December. Dividends paid during each of the years ended December 31, 2001, 2000 and 1999 to the holders of the Series A Preferred Shares totalled $45.6 million, respectively.

Dividends on common stock are paid if, when and as authorized and declared by the Board of Directors out of funds legally available after all preferred dividends have been paid. Common stock dividends paid during the years ended December 31, 2001, 2000 and 1999 totalled $7.0 million, $20.5 million and $18.6 million, respectively.

(6) Related Party Transactions

The Company entered into the Servicing Agreement with FNMC pursuant to which FNMC performs the actual servicing of the residential mortgage loans held by the Company in accordance with normal industry practice. The Servicing Agreement can be terminated without cause with at least 30 days written prior notice to FNMC and payment to FNMC of a termination fee equal to 2% of the outstanding principal balances of the loans. The servicing fee ranges from 0.25% to 0.50% per year of the outstanding principal balances. Servicing fee expense totalled $3.7 million, $3.6 million and $3.7 million for the years ended December 31, 2001, 2000 and 1999, respectively. FNMC is also entitled to a 1% disposition fee on the aggregate proceeds obtained in the sale of a foreclosed residential mortgage loan. The Company recorded such disposition fees totalling $5,100, $12,000 and $24,000 during the years ended December 31, 2001, 2000 and 1999, respectively.

In its capacity as servicer, FNMC holds mortgage loan payments received on behalf of the Company in a custodial account at the Bank. The balance of this account totalled approximately $56.6 million and $15.1 million at December 31, 2001 and 2000, respectively, and is included in due from affiliates. Substantially all of such payments were passed through to the Company in January 2002 and 2001, respectively, as provided in the Servicing Agreement. At December 31, 2001 and 2000, trust funds of approximately $1.4 million represent escrows received from borrowers, are on deposit in a trust account at the Bank and are not included in the accompanying financial statements.

As of December 31, 2001 and 2000 the Company owed the Bank approximately $638,000 and $56,000, respectively, in connection with the settlement of loans purchased from the Bank, advances related to foreclosed real estate and expenses incurred by the Company to be reimbursed to the Bank. These amounts were paid to the Bank during January 2002 and 2001, respectively.

During the years ended December 31, 2001, 2000 and 1999, the Company purchased mortgage loans totalling $395.6 million, $160.7 million and $311.8 million, respectively, all of which were purchased from the Bank.

(7) Commitments and Contingencies

ARMs whose interest rates adjust monthly based upon the FHLB Eleventh District Cost of Funds limit payment changes to no more than 7.5% of the payment amount per year. This may lead to monthly payments which are less than the amount necessary to amortize the loan to maturity at the interest rate in effect for any particular month. In the event that the monthly payment is not sufficient to pay interest accruing on the loan during the month, this deficiency is added to the loan's principal balance (i.e., negative amortization). The total outstanding principal balance for a particular loan is generally not allowed to exceed 125% of the original loan amount as a result of negative amortization. If the loan reaches its maximum amount, the loan payment is recalculated to the payment sufficient to repay the unpaid principal balance in full at the maturity date. At December 31, 2001 and 2000, residential mortgage loans included approximately $115.2 million and $172.2 million, respectively, of principal balance that had the potential to negatively amortize. At December 31, 2001 and 2000, approximately $8.6 million and $18.9 million, respectively, of residential mortgage loans had negatively amortized such that the current principal balance of the loan exceeds the original principal balance. The current principal balance

exceeded the original principal balance by approximately $264,000 and $712,000 as of December 31, 2001 and 2000, respectively.

(8) Fair Value of Financial Instruments

The following table represents the carrying amounts and fair values of the Company's financial instruments at December 31, 2001 and 2000 (in thousands):

	2001		20
	Carrying Value	Fair Value	Carrying Value
Residential mortgage loans, net	$933,168	$942,823	$970,398
Cash and Cash Equivalents	18,702	18,702	8,526
Accrued Interest Receivable	4,137	4,137	5,615

The carrying amounts in the table are included in the accompanying balance sheet under the captions residential mortgage loans, net, cash and cash equivalents and accrued interest receivable, respectively.

The following summary presents a description of the methodologies and assumptions used to estimate the fair value of the Company's financial instruments. Much of the information used to determine fair value is highly subjective. When applicable, readily available market information has been utilized. However, considerable judgment is required in estimating fair value for certain items. The subjective factors include, among other things, the estimated timing and amount of cash flows, risk characteristics, and interest rates, all of which are subject to change.

Residential mortgage loans, net: For the purpose of estimating fair value, residential mortgage loans are grouped by financial and risk characteristics including fixed and variable interest rate terms and by performing and non-performing categories. For performing residential mortgage loans, fair value is estimated by forecasting principal and interest payments, both scheduled and prepayments, and discounting these amounts using factors provided by secondary market sources. For nonperforming residential mortgage loans, fair value is estimated by discounting the forecasted cash flows using a rate commensurate with the risk associated with the estimated cash flows, or underlying collateral values. Because the Company owns the servicing rights associated with its portfolio of residential mortgage loans, fair value of residential mortgage loans has not been reduced by the value of the Servicing Agreement.

Short-term investments: The carrying value of short-term investments reflects fair value.

(9) Selected Quarterly Financial Data

The following table represents selected quarterly financial data for the years ended December 31, 2001 and 2000 (in thousands) (unaudited):

	Quarter Ended		
	December 31, 2001	September 30, 2001	June 30, 2001
Interest income (1)	$14,174	$15,960	$16,901
Total noninterest expense	27	59	12
Net income	$14,147	$15,901	$16,889

	Quarter Ended		
	December 31, 2000	September 30, 2000	June 30, 2000

Interest income (1)	$ 17,975	$17,674	$17,294
Total noninterest expense (income)	14	33	(26)
Net income	$ 17,961	$ 7,641	$17,320

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(1) Gross interest income less servicing fee expense

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