FIRST BANCORP /PR/
Form S-1/A
December 08, 2010

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As filed with the Securities and Exchange Commission on December 8, 2010

Registration No. 333-169399

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

Amendment No. 5
to
Form S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

FIRST BANCORP.
(Exact name of registrant as specified in its charter)

Puerto Rico	**6022**	**66-0561882**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

1519 Ponce de León Avenue, Stop 23
Santurce, Puerto Rico 00908
(787) 729-8200
(Address, including zip code and telephone number, including area code, of registrant s principal executive offices)

Lawrence Odell
Executive Vice President and General Counsel
First BanCorp.
1519 Ponce de León Avenue, Stop 23
Santurce, Puerto Rico 00908
(787) 729-8109
(Name, address, including zip code and telephone number, including area code, of agent for service)

Copies to:

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New York, NY 10017

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Stock, $0.10 par value per share	$402,500,000.00	$28,698.25

(1) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended, and includes shares of common stock that the underwriters have an option to purchase to cover over allotments, if any.

(2) A registration fee of $40,997.50 has been paid previously in connection with this Registration Statement.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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EXPLANATORY NOTE

This Amendment No. 5 to the Registration Statement on Form S-1 (Registration No. 333-169399) of First BanCorp. (the Registrant) is being filed primarily to incorporate by reference into the preliminary prospectus constituting Part I of the Registration Statement the Registrant s Current Reports on Form 8-K, which were filed with the Securities and Exchange Commission on December 6, 2010 and December 8, 2010, respectively. No other changes or additions are being made hereby to the preliminary prospectus constituting Part I of the Registration Statement or to Items 13, 14, 15, 16 or 17 of Part II of the Registration Statement.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION: DATED DECEMBER 8, 2010

PRELIMINARY PROSPECTUS

Shares

Common Stock

First BanCorp. is the holding company for FirstBank Puerto Rico, a Puerto Rico-chartered commercial bank headquartered in San Juan, Puerto Rico.

We are offering post-reverse stock split (as defined below) shares of our common stock representing an aggregate offering price of $350 million. Our common stock is traded on the New York Stock Exchange under the symbol FBP. On December 1, 2010, the last reported sale price of our common stock on the New York Stock Exchange was $0.25 per pre-reverse stock split share.

Before the registration statement of which this prospectus is a part is declared effective, we will effect a reverse stock split (the reverse stock split) in the range of between one new share of common stock for 10 old shares of common stock and one new share of common stock for 20 old shares of common stock, which is the range that our stockholders approved at our Special Meeting of Stockholders on August 24, 2010. The number of authorized shares of common stock will remain the same after the reverse stock split. Once the ratio for the reverse stock split is determined, except where we state otherwise, all of the numbers and prices of shares presented in this prospectus will be restated on a post-reverse stock split basis.

The public offering price for each share of our post-reverse stock split shares of common stock will be determined by a negotiation between us and the underwriters based upon market conditions, an estimate of the change in the market price of our common stock as a result of the reverse stock split and other factors on the day we price the shares. In the usual case, as a result of a reverse stock split (all other things being equal), the market price of common stock may not rise proportionally to the decrease in outstanding shares resulting from the reverse stock split. While it is not possible to predict the impact of the reverse stock split in our case, consideration of the impact of the reverse stock split will be necessary in determining the number of post-reverse stock split shares to include in this offering.

We previously offered to issue shares of common stock for gross proceeds of $500 million. In connection with our decision to lower the size of the offering of shares of common stock for gross proceeds of $350 million, the United States Department of the Treasury (the U.S. Treasury) agreed to amendments to the terms of the Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series G, $1,000 liquidation preference per share (Series G Preferred Stock), which revise the terms under which we can compel the conversion of the Series G Preferred Stock into shares of common stock. The revised terms require that we sell shares of common stock for gross proceeds of $350 million, rather than $500 million, and provide for the issuance of approximately 438.7 million shares of common stock upon the mandatory conversion based on an initial conversion rate of 1034.1975 shares of common stock for each share of Series G Preferred Stock (calculated by dividing $750, or a discount of 25% from the $1,000 liquidation preference per share of Series G Preferred Stock, by the initial conversion price of $0.7252 per share, which is subject to adjustment). Previously, the discount was 35% from the $1,000 liquidation value.

Investing in our common stock involves risks. See Risk Factors beginning on page 24 to read about factors you should consider before you make your investment decision.

	Per post-reverse stock split share	**Total**
Price to public	$	$
Underwriting discount	$	$
Proceeds, before expenses, to First BanCorp.	$	$

We have granted the underwriters a 30-day option to purchase up to additional post-reverse stock split shares of common stock (equal to 15% of the total number of shares we are offering) solely to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any securities commission of any state or other jurisdiction has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

These securities are not savings accounts, deposits, or other obligations of any bank and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

The underwriters expect to deliver the common stock to purchasers on or about , 2010, subject to customary closing conditions.

Sole Book-Running Manager

Lead Manager
UBS Investment Bank

The date of this prospectus is , 2010

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We have not authorized anyone to provide any information other than that contained or incorporated by reference in this prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you.

This prospectus and any applicable prospectus supplement are not offers to sell nor are they seeking an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus and any applicable prospectus supplement is complete and correct only as of the date on the front cover of such documents, regardless of the time of the delivery of such documents or any sale of these securities. In this prospectus, First BanCorp, we, us, and our refer to the consolidated operations of First BanCorp., and references to a company name refer solely to such company.

For investors outside the United States: Neither we nor any of the underwriters have taken any action to permit a public offering of the shares of our common stock or the possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

This prospectus includes statistical and other industry and market data that we obtained from industry publications and research, surveys and studies conducted by third parties. Industry publications and third party research, surveys and studies generally indicate that their information has been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. While we believe these industry publications and third party research, surveys and studies are reliable, we have not independently verified such data.

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About This Prospectus

This prospectus is part of a registration statement that we filed with Securities and Exchange Commission (the SEC). When required, we will file prospectus supplements to update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the headings Additional Information and Incorporation By Reference.

Additional Information

As permitted by SEC rules, this prospectus omits certain information that is included in the registration statement and its exhibits. Since the prospectus may not contain all of the information that you may find important, you should review the full text of these documents. If we have filed a contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement in this prospectus, including statements incorporated by reference as discussed below, regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

We file annual, quarterly and special reports and other information with the SEC. You may read and copy any document we file with the SEC at the SEC s public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings are also available to the public from the SEC s web site at *http://www.sec.gov*.

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Incorporation by Reference

The SEC allows us to incorporate by reference the information we file with the SEC, which means we can disclose important information to you by referring to these documents. The information included in the following documents is incorporated by reference and is considered a part of this prospectus. The most recent information that we file with the SEC automatically updates and supersedes previously filed information.

We hereby incorporate by reference into this prospectus the following documents that we have filed with the SEC:

Our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 2, 2010;

Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010, June 30, 2010 and September 30, 2010 filed with the SEC on May 10, 2010, August 9, 2010 and November 9, 2010, respectively;

Our Current Reports on Form 8-K filed with the SEC on February 3, 2010 (excluding Item 2.02 and Exhibit 99.2 of Item 9.01), April 29, 2010 (excluding Items 2.02 and 9.01, as amended by Form 8-K/A filed with the SEC on May 3, 2010), June 4, 2010, July 2, 2010, July 7, 2010, July 15, 2010, July 16, 2010, July 20, 2010, August 17, 2010, August 18, 2010, August 23, 2010, August 24, 2010, August 26, 2010, October 26, 2010 (excluding the three paragraphs immediately following the bullets under the section heading Third Quarter Highlights beginning on the first page of Exhibit 99.1), November 24, 2010, December 2, 2010, December 6, 2010 and December 8, 2010;

Our Proxy Statement for the Annual Meeting of Stockholders held on April 27, 2010 filed with the SEC on April 6, 2010; and

Our Proxy Statement for the August 24, 2010 Special Meeting of Stockholders filed with the SEC on August 2, 2010.

You may request a copy of these filings, other than an exhibit to a filing (unless that exhibit is specifically incorporated by reference into that filing), at no cost, by writing to us at the following address: First BanCorp., Attention: Lawrence Odell, Secretary, P.O. Box 9146, San Juan, Puerto Rico, 00908-0146. Telephone requests may be directed to: (787) 729-8109. E-mail requests may be directed to lawrence.odell@firstbankpr.com. You may also access this information at our website at *www.firstbankpr.com* by viewing the SEC Filings subsection of the Investor Relations menu. No additional information on our website is deemed to be part of or incorporated by reference into this prospectus. We have included our website address in this prospectus solely as an inactive textual reference.

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PROSPECTUS SUMMARY

This summary does not contain all of the information you should consider before investing in our common stock. This prospectus includes or incorporates by reference information about the shares we are offering as well as information regarding our business and detailed financial data. Before you decide to invest in our common stock, you should read the entire prospectus carefully, including the Risk Factors section and any information incorporated by reference herein.

First BanCorp

OUR COMPANY

Founded in 1948, First BanCorp is the second-largest publicly owned financial holding company in Puerto Rico as measured by total assets as of September 30, 2010. We are subject to regulation, supervision and examination by the Federal Reserve Bank of New York (the Federal Reserve) and the Board of Governors of the Federal Reserve System. First BanCorp was incorporated under the laws of the Commonwealth of Puerto Rico to serve as the bank holding company for FirstBank Puerto Rico (FirstBank). We are a full-service provider of financial services and products with operations in Puerto Rico, the mainland United States (the U.S.), the United States Virgin Islands (the USVI) and the British Virgin Islands (the BVI and together with the USVI, the Virgin Islands). As of September 30, 2010, we had total assets of $16.7 billion, total deposits of $12.5 billion and total stockholders equity of $1.3 billion.

We provide a wide range of financial services for retail, commercial and institutional clients. We control two wholly owned subsidiaries: FirstBank, a Puerto Rico-chartered commercial bank, and FirstBank Insurance Agency, Inc., a Puerto Rico-chartered insurance agency (FirstBank Insurance Agency).

FirstBank is subject to the supervision, examination and regulation of both the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico (the OCIF) and the Federal Deposit Insurance Corporation (the FDIC). Deposits are insured through the FDIC Deposit Insurance Fund. In addition, within FirstBank, the operations in the USVI are subject to regulation and examination by the United States Virgin Islands Banking Board and, in the BVI, operations are subject to regulation by the British Virgin Islands Financial Services Commission. FirstBank Insurance Agency is subject to the supervision, examination and regulation of the Office of the Insurance Commissioner of the Commonwealth of Puerto Rico and operates six offices in Puerto Rico.

FirstBank conducts its business through its main office located in San Juan, Puerto Rico, forty-eight full service banking branches in Puerto Rico, fourteen branches in the USVI and the BVI and ten branches in the State of Florida.

In addition to the banking operations of FirstBank, we provide, through directly or indirectly owned subsidiaries, small loan origination services in Puerto Rico and the USVI, residential mortgage loan origination services, local municipal bond underwriting services and insurance services in Puerto Rico and the USVI.

BUSINESS SEGMENTS

We have six operating segments: Commercial and Corporate Banking, Mortgage Banking, Consumer (Retail) Banking and Treasury and Investments in Puerto Rico; United States Operations; and Virgin Islands Operations. Each of our six operating segments is described below:

Commercial and Corporate Banking

The Commercial and Corporate Banking segment consists of our lending and other services across a broad spectrum of industries ranging from small businesses to large corporate clients. FirstBank has developed expertise in industries including healthcare, tourism, financial institutions, food and beverage, income-producing real estate

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and the public sector. The Commercial and Corporate Banking segment offers commercial loans, including commercial real estate (CRE) and construction loans, and other products such as cash management and business management services. A substantial portion of this portfolio is secured by the underlying value of the real estate collateral and personal guarantees of the borrowers.

Mortgage Banking

The Mortgage Banking segment conducts its operations mainly through FirstBank and its mortgage origination subsidiary, FirstMortgage, Inc (FirstMortgage). These operations consist of the origination, sale and servicing of a variety of residential mortgage loans products. Originations are sourced through different channels such as FirstBank branches, mortgage bankers and in association with new project developers. FirstMortgage focuses on originating residential real estate loans, some of which conform to Federal Housing Administration (FHA), Veterans Administration (VA) and Rural Development (RD) standards. Loans originated that meet FHA standards qualify for FHA s insurance program whereas loans that meet VA and RD standards are guaranteed by their respective federal agencies.

The Mortgage Banking segment also acquires and sells mortgages in the secondary markets. More than 90% of FirstBank s residential mortgage loan portfolio consists of fixed-rate, fully amortizing, full documentation loans. FirstBank is not actively engaged in offering negative amortization loans or option adjustable rate mortgage loans.

Consumer (Retail) Banking

The Consumer (Retail) Banking segment consists of our consumer lending and deposit-taking activities conducted mainly through FirstBank s branch network and loan centers in Puerto Rico. Loans to consumers include auto, boat and personal loans and lines of credit. Deposit products include interest bearing and non-interest bearing checking and savings accounts, individual retirement accounts and retail certificates of deposit (CDs). Retail deposits gathered through each branch of FirstBank s retail network serve as one of the funding sources for its lending and investment activities. Credit card accounts are issued under FirstBank s name through an alliance with a nationally recognized financial institution, which bears the credit risk.

Treasury and Investments

The Treasury and Investments segment is responsible for our treasury and investment management functions. In the treasury function, which includes funding and liquidity management, the Treasury and Investments segment sells funds to the Commercial and Corporate Banking segment, the Mortgage Banking segment and the Consumer (Retail) Banking segment to finance their respective lending activities and purchases funds gathered by those segments.

United States Operations

The United States Operations segment consists of all banking activities conducted by FirstBank in the U.S. mainland. FirstBank provides a wide range of banking services to individual and corporate customers primarily in southern Florida through its ten branches and two specialized lending centers. Our success in attracting core deposits in Florida has enabled us to become less dependent on brokered deposits. The United States Operations segment offers an array of both retail and commercial banking products and services. Consumer banking products include checking, savings and money market accounts, retail CDs, internet banking services, residential mortgages, home equity loans and lines of credit, automobile loans and credit cards through an alliance with a nationally recognized financial institution, which bears the credit risk.

The commercial banking services include checking, savings and money market accounts, CDs, internet banking services, cash management services, remote data capture and automated clearing house, or ACH, transactions. Loan products include the traditional commercial and industrial (C&I) and CRE products, such as lines of credit, term loans and construction loans.

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Virgin Islands Operations

The Virgin Islands Operations segment consists of all banking activities conducted by FirstBank in the USVI and BVI, including retail and commercial banking services, with a total of fourteen branches serving St. Thomas, St. Croix, St. John, Tortola and Virgin Gorda. The Virgin Islands Operations segment is driven by its consumer, commercial lending and deposit-taking activities. Since 2005, FirstBank has been the largest bank in the USVI as measured by total assets.

CURRENT SITUATION

Like many financial institutions across the U.S., our operations have been adversely affected by sustained adverse economic conditions that have affected Puerto Rico and the U.S. The economy in Puerto Rico continues to be challenging, although the year-over-year economic activity and recent employment increases in the services, financial activities and tourism industries suggest some improvement. The Government Development Bank for Puerto Rico Economic Activity Index (GDB-EAI), which is a coincident index consisting of four major monthly economic indicators, namely total payroll employment, total electric power consumption, cement sales and gas consumption, monitors the actual trend of Puerto Rico s economy. The GDB-EAI reflected a decrease in the rate of contraction of Puerto Rico s economy in the ten-month period ended October 31, 2010 as compared to the ten-month period ended October 31, 2009, suggesting that economic activity has been stabilizing. In October 2010, it reflected the largest month-over-month improvement since October 2006 and the largest year-over-year improvement since April 2008. In addition, on November 29, 2010, Standard & Poor s revised its outlook from stable to positive on the general obligation rating of BBB- for the Commonwealth of Puerto Rico.

The adverse economic conditions have negatively affected our capital position and reduced our profitability, particularly as a result of the dramatic reductions in the underlying collateral values of real estate for our secured loans. Since the beginning of 2009, we have taken a number of steps to enable us to emerge from the current adverse economic conditions as a stronger organization:

Capital Ratios. As of September 30, 2010, FirstBank s capital ratios exceeded the minimum established capital ratios required for a well-capitalized depository institution, with approximately $336 million and $659 million of capital in excess of that required to satisfy the minimum ratios for total capital to risk-weighted assets and Tier 1 capital to risk-weighted assets, respectively. We recently completed an offer to exchange newly issued shares of our common stock for any and all of the issued and outstanding shares of Noncumulative Perpetual Monthly Income Preferred Stock, Series A through E, and an exchange of shares of our Series F Preferred Stock (as defined below) that we previously had sold to the U.S. Treasury, plus dividends accrued thereon, for shares of Series G Preferred Stock. See Our Strategy Strengthen our Capital Position. The exchange offer improved the quality of our capital position by substantially increasing tangible common equity and enhanced our ability to meet any new capital requirements. As of September 30, 2010, our Tier 1 common equity to risk-weighted assets ratio increased from 2.86% as of June 30, 2010 to 6.62% and our tangible common equity to tangible assets ratio increased from 2.57% as of June 30, 2010 to 5.21%. See Regulatory and Other Capital Ratios and Non-GAAP Data. Further, we believe the completion of the exchange offer improves our ability to operate in the current economic environment, access the capital markets to fund strategic initiatives or other business needs and absorb any future credit losses.

Regulatory Agreements. On June 4, 2010, we announced that FirstBank had agreed to a Consent Order (the Order) issued by the FDIC and OCIF, dated as of June 2, 2010, and we had entered into a Written Agreement with the Federal Reserve, dated as of June 3, 2010 (the Written Agreement and collectively with the Order, the Agreements). The Agreements require us and FirstBank to take certain actions to, among other things, develop and adopt plans to attain certain capital levels and reduce non-performing and classified assets that have impacted FirstBank s financial condition and performance. We have submitted our capital plan setting forth how we plan to improve our capital positions to comply with the above mentioned Agreements over time. Specifically, the capital plan

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details how we will achieve a total capital to risk-weighted assets ratio of at least 12%, a Tier 1 capital to risk-weighted assets ratio of at least 10% and a leverage ratio of at least 8%. In addition to the capital plan, we have submitted to our regulators a liquidity and brokered deposit plan, including a contingency funding plan, a non-performing asset reduction plan, a budget and profit plan, a strategic plan and a plan for the reduction of classified and special mention assets. Further, we have reviewed and enhanced our loan review program, various credit policies, our treasury and investments policy, our asset classification and allowance for loan and lease losses and non-accrual policies, our charge-off policy and our appraisal program. The Agreements also require the submission to the regulators of quarterly progress reports.

Deleverage. We have deleveraged our balance sheet in order to preserve capital, principally by selling investments and reducing the size of the loan portfolio. Significant decreases in assets have been achieved mainly through the non-renewal of matured commercial loans, such as temporary loan facilities to the Puerto Rico government, and through the charge-off of portions of loans deemed uncollectible. In addition, a reduced volume of loan originations has contributed to this deleveraging strategy.

During the first nine months of 2010, we reduced our investment portfolio by approximately $1.3 billion, while our loan portfolio decreased by $1.8 billion. The net reduction in securities and loans has reduced our total assets to $16.7 billion as of September 30, 2010, a decrease of $2.9 billion from December 31, 2009. This decrease in securities and loans allowed a reduction of $3.6 billion in wholesale funding as of September 30, 2010, including repurchase agreements, advances, and brokered CDs.

During the third quarter of 2010, we achieved a reduction of $1.0 billion in investment securities mostly as a result of a balance sheet repositioning strategy that resulted in the sale during August of $1.2 billion in investment securities combined with the early termination of repurchase agreements, which, given the yield and cost combination of the instruments, eliminated assets that were providing no positive marginal contribution to earnings.

Asset Quality. We have strengthened our processes to enhance asset quality through the implementation of stricter loan approval processes. In addition, the responsibilities of our Special Assets Group, which reports directly to our chief executive officer, have been expanded to include management of all activities related to our classified credits and non-performing assets for the commercial business with the purpose of improving their quality or disposing of the assets. See Our Strategy Improve our Profitability. Our Special Assets Group focuses on strategies for the accelerated reduction of non-performing assets through note sales, troubled debt restructurings, loss mitigation programs, sales of real estate owned and sales of loans through special purpose vehicles. In addition to the management of the resolution process for problem loans, the Special Assets Group oversees collection efforts for all loans to prevent migration to the non-performing and or classified status. Therefore, the Special Assets Group not only implements a remediation strategy, but also provides preventive oversight at a corporate level to reduce non-performing migration trends within the commercial loan portfolio.

As a result of these strategies, FirstBank has reduced delinquencies within the 30 to 89 days past due range and the level of non-performing loans as of September 30, 2010, when compared to the first quarter of 2010. Total non-performing loans decreased by $133.3 million to $1.51 billion when compared to $1.64 billion as of March 31, 2010. This decrease was mainly a function of charge-off activity and the sale of non-performing loans. During the first nine months of 2010, we sold non-performing assets totaling approximately $198.9 million, which includes $157.4 million of non-performing loans, and $41.5 million of real estate owned properties.

Our entire construction portfolio has been transferred to the Special Assets Group and is in the workout phase. Strategies are being implemented to expedite the resolution of problem loans through restructurings, note sales and short sales, among others. The portfolio is increasingly moving into the project completion phase. During the third quarter of 2010, $109.1 million of construction loans were converted to CRE loans, of which $78 million have Puerto Rico government guarantees. We expect additional conversions of construction loans to commercial loans or CRE loans in the amounts of $9.8 million in the fourth quarter of 2010 and $133.1 million in 2011. Absorption rates on residential construction projects in Puerto Rico, that is, the rates at which newly constructed units are sold, have increased for the third consecutive quarter from 6% in the third quarter of 2009 to 11% in the fourth quarter of 2009 to 17% in the first quarter of 2010 and to 18% in the second quarter of 2010. As a key initiative to increase the absorption rate in residential construction projects, we have engaged in discussions with developers to review the sales strategies and to reduce the sale price per unit. In addition, we believe that absorption rate may increase as a result of recent legislation enacted in Puerto Rico. In September, the Puerto Rico government enacted a housing stimulus package that provides various incentives to buyers of residences in Puerto Rico. See Recent Developments. With respect to non-performing residential construction loans, we are providing mortgage financing incentives for buyers of the units.

The United States Operations segment has also had success in substantially reducing its construction loan portfolio and the level of non-performing assets. The construction portfolio in Florida has been reduced to $107 million as of September 30, 2010 from $981 million as of June 30, 2006 when construction lending in this segment was halted. Non-performing assets in Florida decreased by $189 million, or 49%, from $384 million as of December 31, 2009 to $195 million as of September 30, 2010.

With respect to the residential mortgage portfolio, delinquencies appear to be stabilizing as reflected by a $19.1 million, or 4%, reduction in residential non-performing loans over the last two quarters. As part of its asset quality initiatives for the residential mortgage portfolio, FirstBank developed a loss mitigation program in 2007 focused on providing homeownership preservation assistance. In 2010, FirstBank expanded the loss mitigation program, dedicated additional personnel and engaged a third party to further expand our resources in this area.

With respect to the consumer loan portfolio, performance of the portfolio has been stable since 2008. We continue to believe that this portfolio will remain stable.

Corporate Governance. We reorganized our management structure to better implement and execute our business strategies. In addition, since September of 2009 we have an independent chairman who is separate from the chief executive officer. Two new committees at the board level, a Strategic Planning Committee and a Compliance Committee, were established to provide ongoing monitoring of business strategies, financial targets and corporate objectives as well as compliance with regulatory Agreements.

We believe that these steps, together with our established, integrated and geographically diverse network, position us to emerge from the current adverse economic conditions as a stronger organization.

QUALITY OF LOAN PORTFOLIO

Loan Reviews

We regularly perform internal assessments of all loan portfolios. Our internal loan review unit (Loan Review) assesses a variety of factors, including the soundness of the loan structure, the value of the underlying collateral, the ability of the primary borrower to repay the debt as contracted, the accuracy of the risk ratings and the adherence to FirstBank s policies. Loan Review is an independent function and, as such, reports to the audit committee of our board of directors. Loan Review applies a risk-based approach in selecting commercial loans for review purposes. The scope of our annual plan to internally review loans, which is designed to include a representative mix of our commercial loan portfolio, encompasses nearly 65% of our total commercial loan portfolio as measured in dollars. The annual plan contemplates the quarterly review of those loans classified as special mention or worse and/or in non-accrual status and an annual review. The review of the retail credit portfolio (consumer, auto and mortgage loan portfolios) is accomplished through assessments performed by the Quality Assurance units (Quality Assurance) over a sample of loans.

Quality Assurance assesses compliance with FirstBank s retail credit policies and procedures, including documentation, and applicable laws and regulations. We believe that our loan review process is consistent with the requirement in the Order that FirstBank operate under an adequate and effective program of independent loan review.

In addition to our ongoing internal assessment of our loan portfolio, since October 2007 we have engaged an external loan review firm to review our Florida loan portfolio on a semi-annual basis. This firm typically reviews approximately 60% to 75% of our commercial loan portfolio in Florida, which includes construction, C&I and CRE loans and was $585 million in size at September 30, 2010. These loan reviews are designed to verify the accuracy of our internal risk-grading process and compliance with our loan policy and regulatory and accounting guidelines.

Stress Testing Analysis

For the last four years, FirstBank s operations have been adversely affected by sustained adverse economic conditions as a result of the recessionary environment in Puerto Rico, the Virgin Islands and the mainland U.S. During this period, FirstBank s loan portfolios have deteriorated as reflected in the significant reductions in collateral values and the higher delinquencies resulting from the reduced income generation capacity of its borrowers. We have conducted a detailed portfolio level credit stress test that assumes an economic outlook that is more adverse than the current environment, adjusted for the particular characteristics of our loan portfolio and markets in which we operate. Our analysis was generally consistent with the guidelines utilized for the Supervisory Capital Assessment Program (SCAP) analysis, which was intended to measure the financial strength of the nation s 19 largest financial institutions on a going forward basis. The 19 financial institutions were asked to project potential losses over a two-year period, however, our analysis projected losses over longer periods, as described below.

With respect to the residential mortgage portfolio, the analysis was performed by a third party consulting firm based on market information from such firm s database and FirstBank s portfolio specific information provided by management. With our concurrence, the consultants used risk characteristics of the portfolio such as historical loss migration by region, vintage, rank and credit scores to analyze the performance of the portfolio at the individual loan level. These factors were analyzed under the assumption of a continued recessionary environment where there is a prolonged decline in the House Price Index (HPI) and foreclosures are approximately 5% compared to the current 3.1% level. HPI was stressed by applying an additional reduction from current price levels of 20% in year one, 10% in year two and 5% in year three, leveling off in year four and with a 3% recovery in year five. The model also provided for risk adjusted prepayment curves, default curves and loss severity curves. Management believes that the cumulative effect of the additional reduction in HPI in addition to the reductions that have already been experienced in our markets applied a significant level of stress to the portfolio.

With respect to the construction, CRE and C&I portfolios, we performed a stress test with the assistance of a consultant by applying stress factors, as described below, to a representative sample of loans from FirstBank s respective loan portfolios in Puerto Rico. The statistical sample selection achieved a 95% confidence level with a 5% margin of error. The resulting coverage of the sample, measured in dollars, was 34% of the construction portfolio, 43% of the CRE portfolio and 15% of the C&I portfolio. The results obtained on the tested samples were then applied by FirstBank s credit risk group to the overall loan portfolios.

For the construction portfolio, severity was measured by reducing absorption rates by 50% and property selling prices by 40% from those reflected on recent appraisals. For land loans, recent appraised collateral values were reduced by 35%. In the case of CRE loans secured by income producing properties, vacancy rates were increased to 25% coupled with the loss of the anchor tenant, and, for owner occupied properties, net operating income was reduced by 25%. For C&I loans, the severity factor was applied by reducing borrowers current net operating income by 25% and applying haircuts to existing collateral values between 10% and 50%, depending on the type of collateral. In the event the collateral on the loans included real estate

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properties, we applied a haircut of 20% to the appraised value with respect to appraisals older than two years at the time of the analysis. Loss factors were computed based on the deficiency reflected on all sampled loans where debt service coverage fell below 1.15x under the above stressed conditions. For the loan portfolios described herein, the appraisal, net operating income and vacancy rates information used for the stress analysis consisted of the most recent information available as of the third quarter of 2009 when the detailed testing of the sample was performed.

With respect to the consumer portfolio, which consists mostly of personal and auto loans, the stress analysis was performed internally by increasing the current loss rates by the worst percentage loss rate change experienced by FirstBank on each product type between 2005 through 2009 and generally an additional 20% related to bankruptcy increases. FirstBank does not have any credit card receivables and home equity loans amounted to only $29 million, or less than 2% of the consumer loan portfolio, as of September 30, 2010.

Presented below is a comparison of FirstBank s stress test loss factors on the more adverse loss scenario described above as compared to the average of the highest and lowest SCAP factors of the institutions tested:

	FirstBank s more adverse loss factor	**Average of SCAP loss factor range on the more adverse(1)**
Residential Mortgage	9.74%	11.51%
Construction	48.84%	16.50%
CRE	18.75%	8.00%
C&I	7.35%	6.50%
Consumer	10.20%	10.00%

(1) Average of high/low cumulative two-year loss factors

The application of FirstBank s more adverse loss factors to the gross outstanding loan portfolios as of September 30, 2010 would represent additional losses of approximately $1.4 billion over the next two to five years in excess of the charge-offs we have already taken. Losses on the residential mortgage portfolio were estimated over five years while consumer losses were based on the average life of the portfolio, which approximates two and a half years. Construction, CRE and C&I losses are mostly expected to occur over two years. These losses are not considered forecasts of expected losses but a calculation of the loss impact on the loan portfolio based on a hypothetical exercise which assumes that market financial conditions deteriorate to the levels considered in the more adverse stress factors.

As of September 30, 2010, we had a total capital ratio of 13.26%, a Tier I capital ratio of 11.96% and a leverage ratio of 8.34%. We believe that the likelihood of the level of loan losses projected in the more adverse economic scenario is remote. Notwithstanding this view, we used stress testing to gauge the amount of regulatory capital that would be required in the event that the more adverse conditions were to prevail. In performing this analysis, we considered the current level of pre-tax, pre-provision earnings, the portion of the $608 million in allowance for loan losses as of September 30, 2010 available to absorb losses after allocating a normalized reserve level to the remaining loan portfolio, the time it would take for the losses to occur and the current level of capital. If we adjust our as adjusted and pro forma capital ratios as of September 30, 2010 disclosed in the section Regulatory and Other Capital Ratios, which give effect to the additional $350 million in capital from this offering, to reflect three years of the annualized 2010 level of pre-tax, pre-provision earnings, the assumed additional $1.4 billion of losses and the allocation of a portion of our allowance, our as adjusted and pro forma capital ratios would exceed currently established regulatory well-capitalized capital ratio requirements.

OUR STRATEGY

We developed and have been implementing a strategy to strengthen our capital position and improve our profitability, which have been adversely affected over the past few years as a result of the sustained adverse economic conditions that have affected Puerto Rico and the U.S. To implement this strategy, we have modified our business model to respond to economic conditions and to maintain our business on a sound course. We have undergone an extensive strategic exercise that has enabled us to identify opportunities to stabilize portfolios and increase revenues. The challenges ahead and current economic conditions mandate this new focus.

Since late 2009, we have developed and pursued a strategic plan that includes the following key features:

- capital preservation and optimization through the implementation of capital restructuring initiatives;
- enhanced and proactive management action plans on all loan portfolios across the entire credit cycle to improve asset quality, with the expectation of increased spreads and reduced portfolio risk;
- heightened efforts to grow core deposits and reduce dependency on brokered deposits, including increasing deposit growth through network optimization and core deposit penetration in commercial loan and government customers and in Florida and the Virgin Islands, which provide an additional source of funds to increase core deposits;
- initiatives to increase non-interest income through insurance fees and transaction banking services, among other things;
- initiatives to increase margins and loan yields through pricing rationalization; and
- continued operating efficiency improvements and expense reduction by expanding the specific initiatives and enhancing our technological infrastructure through targeted investments.

We believe that the recent consolidation of the Puerto Rico banking market provides a significant opportunity for us to grow organically and to capture market share as a wide gap currently exists between the market share leader and other banks in Puerto Rico. Given our franchise strengths and proven track record of growing organically, we are confident that we will capitalize on these opportunities and solidify our position in Puerto Rico. Our competitive strengths, which we believe will enable us to successfully implement our strategic plan and to accomplish these goals, and further details about our strategy are set forth below.

Our competitive strengths have enabled us to deliver positive pre-tax, pre-provision earnings during the past five years although we have had GAAP losses since 2009. See Non-GAAP Data. These strengths include:

- our position as the second largest financial holding company in Puerto Rico and as the largest bank in the USVI as measured by total assets as of September 30, 2010;
- FirstBank s recognized brand in Puerto Rico and the Virgin Islands, with consistent execution of a banking strategy focused on customer satisfaction and personalized service in both retail and commercial operations;
- a well-diversified operation with a wide range of financial services, including a diversified portfolio of products and services and over 630,000 retail and commercial customers who enable FirstBank to continue to grow and who provide FirstBank with opportunities to cross-sell its products;

an ability to attract new customers and to cross-sell products due to its strong market share in retail deposits, commercial lending, automobile lending, finance leasing, personal loans and small loans;

a high-quality technology and operating infrastructure that supports our customer focus while maintaining non-interest expenses at an efficient level;

an experienced management team; and

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Total	911	972
Lots Controlled:		
Lots owned:		
San Francisco Bay Area	1,368	1,874
Southland / Los Angeles	614	421
San Diego / Riverside	6,435	6,215
Sacramento	310	310
Washington D.C. Area	3,991	2,580
	12,718	11,400
Lots under option	17,030	11,483
Total	29,748	22,883

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(1) To conform to the current period s presentation, for the three months ended March 31, 2004, revenue excludes equity in earnings from housing and land joint ventures and gross margin excludes equity in earnings from housing and land joint ventures and includes interest expense.

(2) Net new orders for any period represent the aggregate of all homes ordered by customers, net of cancellations for consolidated projects.

(3) Backlog represents the number of new homes subject to pending sales contracts for consolidated projects.

Three Months Ended March 31, 2005 Compared with Three Months Ended March 31, 2004

Net Income

Net income for the three months ended March 31, 2005 was $19 million an increase of $9 million over the three months ended March 31, 2004. Our increase in net income for the three months ended March 31, 2005 was primarily attributable to increased housing margins as a result of continued strong market conditions in all our markets.

Results of Operations

Housing revenues were $143 million for the three months ended March 31, 2005, an increase of $4 million over the three months ended March 31, 2004. The increase in housing revenue for the three months ended March 31, 2005 was due primarily to a 13% increase in our average selling price to $645,000, partially offset by a decrease in the number of homes closed. The increase in our average selling price is a result of house price appreciation in all our markets and product mix when compared to the three months ended March 31, 2004, however it is consistent with our average selling price for the full year 2004. Home closings declined in the San Francisco Bay Area and Southland/Los Angeles as a result of a short term decline in active selling communities.

The gross margin on housing revenues for the three months ended March 31, 2005 was $41 million or 29.0% compared with $31 million or 22.1% for the same period in 2004. The increase in the gross margin percentage is due to continued strong market conditions in all our markets and a higher concentration of home closings in San Diego / Riverside where our margins are the highest.

Land and other revenues totaled $9 million for the three months ended March 31, 2005, an increase of $5 million over the same period in 2004. The increase was primarily due to an increase in the number of lots sold and an increase in interest and other revenue. Our land revenues may vary significantly from period to period due to the timing and the nature of land sales as they generally occur on an opportunistic basis.

The gross margin on land and other revenues for the three months ended March 31, 2005 was $7 million compared with $2 million for the same period in 2004.

Equity in earnings from housing and land joint ventures for the three months ended March 31, 2005 was $7 million, an increase of $6 million over the same period in 2004. The increase was primarily attributable to the bulk sale of 41 lots in Southern California held in a joint venture, which contributed earnings of $5 million.

Other Expenses

Selling, general and administrative expense was $21 million for the three months ended March 31, 2005 compared with $16 million for the same period in 2004. The increase of $5 million was primarily a result of an increase in stock compensation expense of $2 million over the same period in 2004.

Sales Activity

Our net new orders for the three months ended March 31, 2005 totaled 517 units, a decrease of 50 units compared to the same period in 2004. The decrease in net new orders resulted from fewer homes available for sale in both our San Francisco Bay Area and Southland / Los Angeles markets, and partially offset by an increase in sales in the Washington D.C. Area.

Liquidity and Capital Resources

Financial Position

Our total assets as of March 31, 2005 were $1,069 million, a decrease of $13 million compared to December 31, 2004. The decrease is due primarily to a decrease in receivables and other assets and cash and cash equivalents offset by an increase in housing and land inventory. The increase in our housing and land inventory is due mainly to the acquisition of 300 lots for approximately $47 million and ongoing construction and development on homes in backlog.

Our total debt as of March 31, 2005 was $530 million, an increase of $18 million compared to December 31, 2004. Total debt as of March 31, 2005 consisted mainly of project specific financings which represent construction and development loans that are repaid from home and lot sales proceeds. As new homes are constructed, further loan facilities are arranged on a rolling basis. Our major project specific lenders are Bank of America, Housing Capital Corporation and Wells Fargo. Other debt comprises deferred compensation on which interest is paid at prime and loans outstanding relating to mortgages we originated which are repaid when the underlying mortgages are sold to permanent lenders. As of March 31, 2005, the average interest rate on our debt was 5.9% with maturities as follows:

	Maturities				
($ millions)	**2005**	**2006**	**2007**	**Post 2007**	**Total**
San Francisco Bay Area	$ 70	$	$	$	$ 70
Southland/Los Angeles	46	33			79
San Diego/Riverside	130	96	11		237
Washington D.C. Area	43	15	42	21	121
Other	4	10	6	3	23
Total	$ 293	$ 154	$ 59	$ 24	$ 530

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Cash Flow

Our principal uses of working capital include purchases of land, land development and home construction. Cash flows for each of our communities depend upon the applicable stage of the development cycle and can differ substantially from reported earnings. Early stages of development require significant cash outlays for land acquisitions, site approvals and entitlements, construction of model homes, roads, certain utilities and other amenities and general landscaping. Because these costs are capitalized, income reported for financial statement purposes during such early stages may significantly exceed cash flow. Later, cash flow can significantly exceed earnings reported for financial statement purposes, as cost of sales includes charges for substantial amounts of previously expended costs. A summary of lots owned and their stage of development at March 31, 2005 compared with the same period last year follows:

	2005	2004
Housing units and model homes	926	966
Lots ready for house construction	721	920
Graded lots and lots commenced grading	1,351	1,802
Undeveloped land	9,720	7,712
	12,718	11,400

Cash used in our operating activities during the three months ended March 31, 2005 was $84 million compared with $28 million for the same period in 2004. The increase in cash used was primarily a result of an increase in lots purchased and a decrease in accounts payable and other, partially offset by a decrease in receivables and other assets.

Cash provided by our investing activities in joint ventures for the three months ended March 31, 2005 was $10 million, compared with $3 million for the same period in 2004. The increase in cash flow is primarily due to the bulk sale of 41 lots in Southern California.

Cash provided by our financing activities for the three months ended March 31, 2005 was $12 million compared with $27 million for the same period in 2004.

Contractual Obligations and Other Commitments

We generally fund the development of our communities through the use of project specific financings. As of March 31, 2005, we had available project specific debt lines of $214 million that were available to complete land development and construction activities.

A total of $447 million of our project specific and other financings mature prior to the end of 2006. The high level of maturities in 2005 and 2006 is due to our expected project completions over this period. Although the level of our maturing debt is high, we expect to generate cash flow from our assets in 2005 and 2006 to repay these obligations. Our net debt to total capitalization ratio as of March 31, 2005, which is defined as total interest-bearing debt less cash divided by total interest-bearing debt less cash plus stockholders equity and minority interest, was 55% compared to 51% at December 31, 2004. For a description of the specific risks facing us if, for any reason, we are unable to meet these obligations, refer to the section of our Annual Report on Form 10-K for the year ended December 31, 2004 entitled Risk Factors Our Debt and Leverage Could Adversely Affect our Financial Condition.

During the third quarter of 2004, we entered into an interest rate swap contract which effectively fixes $60 million of our variable rate debt at 5.89% until the contract expires in 2009. As of March 31, 2005, the fair market value of the contract was $1.4 million.

Off-Balance Sheet Arrangements

In the ordinary course of business, we use lot option contracts and joint ventures to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control lots for an extended period of time, until options expire and/or we are ready to construct homes or sell the land. This reduces our financial risk associated with land holdings. As of March 31, 2005, we had $56 million of primarily non-refundable option deposits and advanced costs. The total exercise price of these options is $692 million. Pursuant to FIN 46R, as defined in Note 1 to our consolidated financial statements included elsewhere in this Form 10-Q, we have consolidated $42 million of these option contracts.

Please see Note 2 to our consolidated financial statements included elsewhere in this Form 10-Q for additional information on our lot options.

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We also control 3,944 lots through joint ventures, formed to own housing and land assets with joint venture partners. As of March 31, 2005, our investment in housing and land joint ventures was $50 million. We have provided varying levels of guarantees of debt in our joint ventures. As of March 31, 2005, we had recourse guarantees of $4 million and limited maintenance guarantees of $75 million with respect to debt in our joint ventures.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of March 31, 2005, we had for these purposes $23 million in letters of credit outstanding and $302 million in performance bonds for these purposes. The cost to complete related to our letters of credit and performance bonds are $19 million and $151 million, respectively. We do not believe that any of these letters of credit or bonds are likely to be drawn upon.

Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the United States federal securities laws. The words may, believe, will, anticipate, expect, estimate, project, future, and o expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. The forward-looking statements in this quarterly report on Form 10-Q include, among others, statements with respect to:

- expected home closings and project completions and the timing thereof;
- expected lot supply;
- estimates of revenues and cash flows;
- the visibility on our future cash flow and earnings;
- sources of future growth;
- the effect of interest rate changes on our cash flows;
- the effect on our business of existing lawsuits; and
- whether or not our letters of credit or performance bonds will be drawn upon.

Undue reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results to differ materially from the anticipated future results expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forward in the forward-looking statements include, but are not limited to:

- changes in general economic, real estate and other conditions;
- mortgage rate changes;
- availability of suitable undeveloped land at acceptable prices;
- adverse legislation or regulation;

- ability to obtain necessary permits and approvals for the development of our land;
- availability of labor or materials or increases in their costs;
- ability to develop and market our master-planned communities successfully;
- confidence levels of consumers;
- ability to raise capital on favorable terms;
- adverse weather conditions and natural disasters;
- relations with the residents of our communities;
- risks associated with increased insurance costs or unavailability of adequate coverage;
- ability to obtain surety bonds;
- competitive conditions in the homebuilding industry, including product and pricing pressures; and
- additional risks and uncertainties, many of which are beyond our control, referred to in our Form 10-K for the year ended December 31, 2004 and our other SEC filings.

We undertake no obligation to publicly update any forward-looking statements unless required by law, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Exchange Rates

We conduct business in U.S. dollars only, so we are not exposed to currency risks.

Interest Rates

We are exposed to financial risks that arise from the fluctuations in interest rates. Our interest bearing assets and liabilities are mainly at floating rates, so we would be negatively affected, on balance, if interest rates increase. In addition, we have an interest rate swap contract which effectively frees $60 million of our variable rate debt at 5.89%. Based on our debt levels as of March 31, 2005, a 1% change up or down in interest rates would have either a positive or negative effect of approximately $5 million on our cash flows.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As of the end of our fiscal quarter ended March 31, 2005, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the United States Securities Exchange Act of 1934 (the Exchange Act)) was carried out under the supervision of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based upon that evaluation, the CEO and CFO have concluded that as of the end of such fiscal quarter our disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

It should be noted that while our management, including the CEO and CFO, believe our disclosure controls and procedures provide a reasonable level of assurance that such controls and procedures are effective, they do not expect that our disclosure controls and procedures or internal controls will prevent all error and all fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

There was no change in our internal control over financial reporting during the quarter ended March 31, 2005, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are party to various legal actions arising in the ordinary course of our business. We believe that none of these actions, either individually or in the aggregate will have a material adverse effect on our financial condition or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In February, 2003, our Board of Directors approved and announced our share repurchase program which allows us to repurchase up to $40 million of our outstanding common shares. In February 2005, our Board of Directors approved and announced an increase of $19 million in the share repurchase program. This program does not have an expiration date.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
January 1, 2005 to January 31, 2005 [1]	28,700	$ 33.29	28,700	$ 15,412,614
February 1, 2005 to February 28, 2005 [2]				$ 35,000,000
March 1, 2005 to March 31, 2005				$ 35,000,000
Total	28,700	$ 33.29	28,700	$ 35,000,000

(1) All shares were purchased pursuant to the publicly announced plan in open-market transactions.

(2) In February, our board of directors approved an increase in the share repurchase program to an aggregate of $35 million.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits.

31.1 Rule 13a-14(a) certification by Ian G. Cockwell, President and Chief Executive Officer.

31.2 Rule 13a-14(a) certification by Paul G. Kerrigan, Executive Vice President, Chief Financial Officer and Treasurer.

32.1 Section 1350 certification of the Chief Executive Officer and Chief Financial Officer.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on this 10th day of May, 2005.

BROOKFIELD HOMES CORPORATION

By: /s/ PAUL G. KERRIGAN
Paul G. Kerrigan
Executive Vice President, Chief Financial Officer and Treasurer

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EXHIBIT INDEX

Exhibit	Description
31.1	Rule 13a-14(a) certification by Ian G. Cockwell, President and Chief Executive Officer.
31.2	Rule 13a-14(a) certification by Paul G. Kerrigan, Executive Vice President, Chief Financial Officer and Treasurer.
32.1	Section 1350 certification of the Chief Executive Officer and Chief Financial Officer.

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