FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-10-24** | Period of Report: **1994-09-30**
SEC Accession No. 0000863517-94-000010

(HTML Version on secdatabase.com)

FILER

NORTHEAST FEDERAL CORP

CIK:**863517**| IRS No.: **061288154** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-10571** | Film No.: **94554738**
SIC: **6035** Savings institution, federally chartered

Mailing Address
50 STATE HOUSE SQUARE
HARTFORD CT 06103

Business Address
50 STATE HOUSE SQ
HARTFORD CT 06103
2032801000

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1994

OR

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

For the transition period from N/A to

File Number: 1-10571

NORTHEAST FEDERAL CORP.
(Exact name of registrant as specified in its charter)

Delaware	06-1288154
(State or other jurisdiction of organization)	(I.R.S. Employer Identification Number)
50 State House Square Hartford, Connecticut	06103
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 203/280-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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

The number of shares outstanding for each of the registrant's classes of common stock issued and outstanding as of October 21, 1994.

Common Stock, $.01 par value -- 13,553,970

NORTHEAST FEDERAL CORP.

FORM 10-Q

INDEX

	PAGE NO.
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Consolidated Statement of Operations for the three and nine months ended September 30, 1994 and 1993....................	1
Consolidated Statement of Financial Condition at September 30, 1994, December 31, 1993, and September 30, 1993.............................	2
Consolidated Statement of Cash Flows for the nine months ended September 30, 1994 and 1993.......................................	3

Notes to the Consolidated Financial Statements...... 4-5

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition for the Fiscal Quarter Ended September 30, 1994.................... 6

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.................................. 27

Item 2. Changes in Securities.............................. 29

Item 3. Defaults Upon Senior Securities.................... 29

Item 4. Submission of Matters to a Vote of Security Holders. 29

Item 5. Other Information.................................. 29

Item 6. Unaudited Exhibits and Reports on Form 8-K......... 30

PART I

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

<TABLE>

NORTHEAST FEDERAL CORP.
CONSOLIDATED STATEMENT OF OPERATIONS
(In Thousands Except Per Share Amounts)

<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1994	1993	1994	1993
<S>	<C>	<C>	<C>	<C>
Interest income:				
Loans	$ 16,645	$ 36,141	$ 60,370	$ 112,044
Mortgage-backed securities	24,780	13,685	63,526	40,593
Investment securities	4,388	2,470	10,722	8,625
Rhode Island covered assets	1,708	2,331	5,010	6,977
Other	472	389	1,626	775
Total interest income	47,993	55,016	141,254	169,014
Interest expense:				
Deposits	23,510	29,899	76,742	92,819
Federal Home Loan Bank advances	2,889	3,940	7,735	9,478
Other borrowings	6,691	3,436	13,002	10,037
Total interest expense	33,090	37,275	97,479	112,334
Net interest income	14,903	17,741	43,775	56,680
Provision for loan losses	1,000	3,450	3,800	20,300
Net interest income after provision for loan losses	13,903	14,291	39,975	36,380
Non-interest income:				
Fees for services	2,747	2,594	5,572	7,732
Gain on sale of securities, net	2,362	254	6,649	4,705
Gain (loss) on sale of loans, net	(56)	866	13,849	1,564
Other non-interest income	470	18	9,566	53
Total non-interest income	5,523	3,732	35,636	14,054
Non-interest expenses:				
Compensation and benefits	6,320	7,988	20,853	24,582
Occupancy and equipment, net	3,315	3,898	13,108	11,945
Other general and administrative	4,032	4,862	13,202	14,350
SAIF insurance fund and OTS assessments	2,073	2,429	6,709	5,985
Real estate and other assets acquired in settlement of loans	958	3,276	12,917	14,894
Total non-interest expenses	16,698	22,453	66,789	71,756

Income (loss) before income taxes.........	2,728	(4,430)	8,822	(21,322)
Income tax expense (benefit).......................	146	(2,526)	(295)	(10,127)
Net income (loss).........................	$ 2,582	$ (1,904)	$ 9,117	$ (11,195)
Preferred stock dividend requirements.............	$ 892	$ 820	$ 2,621	$ 3,663
Net income (loss) applicable to common stockholders	$ 1,690	$ (2,724)	$ 6,496	$ (14,858)
Net income (loss) per common share:				
Primary and fully diluted.......................	$ .12	$ (.20)	$ .46	$ (1.53)

<FN>

See accompanying Notes to the Consolidated Financial Statements

/TABLE

<TABLE>

NORTHEAST FEDERAL CORP.
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
(In Thousands Except Share Amounts)

<CAPTION>

<S>	September 30, 1994 <C>	December 31, 1993 <C>	September 30, 1993 <C>
ASSETS			
Cash and due from banks...........................	$ 26,881	$ 51,705	$ 34,920
Interest-bearing deposits.........................	-	-	25
Federal funds sold................................	4,270	23,510	2,300
Securities purchased under agreements to resell...	-	60,000	-
Investment securities, net........................	205,178	42,612	47,949
Investment securities, available-for-sale, net....	140,751	162,854	158,028
Mortgage-backed securities, net...................	1,756,200	1,330,886	1,056,066
Mortgage-backed securities, available for sale, net...	22,964	12,886	13,022
Loans, net..	961,755	1,876,181	2,276,087
Loans available-for-sale, net.....................	4,975	46,076	40,263
Rhode Island covered assets.......................	86,826	105,625	112,030
Interest and dividends receivable.................	17,190	17,540	18,262
Real estate and other assets acquired in settlement of loans..................................	16,725	74,962	73,172
Premises and equipment, net.......................	27,279	32,368	32,638
Prepaid expenses and other assets.................	78,711	82,822	77,959
Total assets..............................	$3,349,705	$3,920,027	$3,942,721
LIABILITIES AND STOCKHOLDERS' EQUITY			
Retail deposits...................................	$2,375,460	$2,952,082	$2,988,457
Brokered deposits.................................	-	25,135	25,714
Federal Home Loan Bank advances...................	262,892	373,000	388,000
Securities sold under agreements to repurchase....	468,728	294,809	294,809
Uncertificated debentures.........................	40,305	38,442	36,675
Advance payments by borrowers for taxes and insurance......................................	22,802	28,337	25,544
Other liabilities.................................	44,386	75,709	57,731
Total liabilities.........................	3,214,573	3,787,514	3,816,930
Commitments and Contingencies			
Stockholders' equity:			
Serial preferred stock, $.01 par value, 15,000,000 shares authorized:			
$8.50 Cumulative Preferred Stock, Series B, 419,868 shares at September 30, 1994 and 394,199 shares at December 31, 1993 and 385,996 shares at September 30, 1993 issued and outstanding.......................	4	4	4
Common stock, $.01 par value, 25,000,000 shares			

authorized: 13,553,970 shares at September 30, 1994, 13,499,078 shares at December 31, 1993 and 13,488,025 shares at September 30, 1993 issued and outstanding	136	135	135
Additional paid-in capital	188,673	185,960	185,099
Net unrealized gain on debt and equity securities	2,330	9,462	-
Accumulated deficit	(53,061)	(59,557)	(55,775)
Stock dividend distributable	892	838	820
Unallocated employee stock ownership plan shares	(3,842)	(4,329)	(4,492)
Total stockholders' equity	135,132	132,513	125,791
	$3,349,705	$3,920,027	$3,942,721

<FN>

See accompanying Notes to the Consolidated Financial Statements

/TABLE

<TABLE>

NORTHEAST FEDERAL CORP.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In Thousands)

<CAPTION>

	Nine Months Ended September 30, 1994	1993
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	$ 9,117	$ (11,195)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	4,352	3,933
Amortization of fees, discounts, and premiums, net	6,658	169
Provision for loan losses	3,800	20,300
Provision for losses on REO	9,579	8,760
Gain on sale of securities	(6,649)	(4,731)
Gain on sale of loans	(13,849)	(1,564)
Loss on sale of other assets	164	255
Loss on early extinguishment of debt	-	26
Gain on sale of branches	(9,695)	-
Decrease in interest and dividends receivable	350	3,080
Loans available-for-sale, originated	(65,547)	(153,397)
Proceeds from sales of loans available-for-sale	103,377	148,182
Increase (decrease) in accrued interest payable on deposits	(770)	123
(Increase) decrease in prepaid expenses and other assets	4,111	(3,236)
Increase (decrease) in other liabilities	(24,105)	6,174
Total adjustments	11,776	28,074
Net cash provided by operating activities	20,893	16,879
Cash flows from investing activities:		
Loans originated	(124,726)	(427,735)
Net decrease in loans due to sale of branches	1,805	-
Proceeds from sales of loans	843,578	11,484
Principal collected on loans	177,859	299,000
Net decrease in Rhode Island covered assets	18,799	39,798
Purchases of mortgage-backed securities	(718,206)	(320,017)
Purchases of mortgage-backed securities available-for-sale.	(14,131)	-
Proceeds from sales of mortgage-backed securities available-for-sale	-	39,831
Principal collected on mortgage-backed securities	309,455	149,251
Purchases of investment securities	(167,611)	-
Proceeds from sales of investment securities	-	15,015
(Purchases) redemptions of FHLB stock	(487)	554
Proceeds from maturities of investment securities	5,396	8,805
Purchases of investment securities available-for-sale	(337,649)	(200,583)
Proceeds from sales of investment securities available-for-sale	286,332	126,229
Proceeds from maturities of investment securities available-for-sale	68,057	87,539
Proceeds from sales of real estate and other assets acquired in settlement of loans	58,587	65,484
Net (purchases) sales of premises and equipment	367	(2,568)

Net cash provided by (used in) investing activities...	407,425	(107,913)
Cash flows from financing activities:		
Net decrease in retail deposits...	(63,366)	(216,741)
Sale of deposits...	(503,113)	-
Net decrease in brokered deposits...	(24,813)	-
Increase (decrease) in advance payments by borrowers for taxes and insurance...	(5,535)	3,810
Increase in securities sold under agreements to repurchase.	173,919	3,795
Net increase in short-term FHLB advances...	36,492	70,000
Proceeds from long-term FHLB advances...	6,400	213,000
Repayments of long-term FHLB advances...	(153,000)	(35,000)
Retirement of convertible subordinated debentures...	-	(586)
Reduction of ESOP debt guarantee...	384	486
Preferred Stock Conversion costs...	-	(1,401)
Issuance of 401-K stock shares...	115	188
Proceeds from exercise of stock options...	135	140
Net cash provided by (used) in financing activities...	(532,382)	37,691
Net decrease in cash and cash equivalents...	(104,064)	(53,343)
Cash and cash equivalents at beginning of period...	135,215	90,588
Cash and cash equivalents at end of period...	$ 31,151	$ 37,245

<FN>

See accompanying Notes to the Consolidated Financial Statements

/TABLE

NORTHEAST FEDERAL CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1994

1) Presentation of Financial Information

The unaudited consolidated financial statements presented herein should be read in conjunction with the consolidated financial statements of Northeast Federal Corp. for the year ended December 31, 1993, as presented in the Annual Report on Form 10-K. In the opinion of management, the accompanying financial information reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial condition and results of operations of Northeast Federal Corp. in conformity with generally accepted accounting principles. Certain reclassi fications have been made to prior year's financial statements to conform to the September 30, 1994 presentation.

2) Supplemental Disclosure of Cash Flow Information

For purposes of the consolidated statement of cash flows, cash and due from banks, interest-bearing deposits, and federal funds sold, if any, are considered cash and cash equivalents.

<TABLE>
<CAPTION>

	Nine Months Ended September 30,	
	1994	1993
	(In Thousands)	
<S>	<C>	<C>
Cash paid during the periods for:		
Interest on retail deposits...	$ 76,330	$ 91,466
Interest on brokered deposits...	1,182	1,231
Interest on borrowings...	20,634	17,730
Income taxes...	633	1,784
Cash received during the periods for:		
Interest and dividends...	141,604	172,094
Non-cash items:		
Loans securitized into mortgage-backed securities...	20,402	53,964
Transfers of loans to (from) available-for-sale...	(1,839)	1,777
Transfers of mortgage-backed securities to available-for-sale...	-	81
Transfers of investment securities to available-for -sale...	-	40,809
Real estate and other assets acquired in settlement		

of loans	9,934	48,296
Payment in kind on uncertificated debentures	1,843	1,688
Payment in kind on Series B preferred stock	2,567	3,430
Conversion of $2.25 cumulative convertible preferred stock	-	38,339
Net unrealized gains on debt and equity securities available-for-sale	(12,296)	-

</TABLE>

NORTHEAST FEDERAL CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1994

3) Commitments and Contingencies

At September 30, 1994, outstanding commitments to originate adjustable rate and fixed rate mortgage loans amounted to $8.1 million and $3.8 million, respectively. At September 30, 1994, Northeast Savings, F.A. also had commitments to originate $1.9 million in home equity loans, $1.1 million in income property loans, and $5.6 million in residential construction loans, and to fund $17.5 million in unused consumer credit lines and $8.3 million in undisbursed residential construction loans. In addition, at September 30, 1994, Northeast Savings, F.A. also had commitments to buy $26.0 million of mortgage-backed securities and commitments to sell $3.2 million of loans available-for-sale.

Northeast Savings, F.A. is involved in litigation arising in the normal course of business. Although the legal responsibility and financial impact with respect to such litigation cannot presently be ascertained, management does not anticipate that any of these matters will result in the payment of damages by Northeast Savings, F.A. that, in the aggregate, would be material in relation to the consolidated results of operation or financial position of Northeast Federal Corp.

4) Significant Transactions

As previously mentioned, the Company has signed a definitive agreement for the acquisition of Northeast Federal Corp. and Northeast Savings by Shawmut National Corp. Shawmut is expected to file applications for regulatory approval of the merger during the fourth quarter of 1994. The shareholders' meeting to vote on the merger most likely will be scheduled in the first quarter of 1995. The agreements are discussed further in Management's Discussion and Analysis of Results of Operations and Financial Condition.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE FISCAL QUARTER ENDED SEPTEMBER 30, 1994

GENERAL

Northeast Federal Corp. is a unitary savings association holding company engaged in the financial services industry only through its wholly-owned subsidiary, Northeast Savings, F.A. Throughout the following discussion, the terms "Northeast Federal" or "Company" refer to the consolidated entity, including Northeast Federal Corp., Northeast Savings, F.A. and its subsidiaries. The terms "Association" and "Northeast Savings" refer to Northeast Savings, F. A. and its subsidiaries.

As previously announced, the Company has signed a definitive agreement for the acquisition of Northeast Federal Corp. and Northeast Savings by Shawmut National Corp. Shawmut has agreed to exchange shares of Shawmut common stock having a stock price of $10 7/8 for each share of outstanding Northeast Federal Corp.'s stock for a total transaction price of approximately $172.1 million if Shawmut National's stock price at the time of closing is between $21.47 and $26.24. Shawmut is expected to file applications for regulatory approval of the merger during the fourth quarter of 1994. Northeast now anticipates that shareholders will receive proxy materials relating to its acquisition in the fourth quarter. The shareholders' meeting to vote on the merger most likely will be scheduled in the first quarter of 1995. With the signing of the agreement, virtually all of Northeast Federal Corp.'s stock options became fully vested and exercisable and were considered outstanding in the calculation of earnings per share.

As previously announced, in July and August 1994, the Company also sold its four San Diego, California branches and its single branch on Cape Cod with total deposits of $102.0 million.

In addition, for several years, a primary focus of Northeast Savings' business plan has been to meet and exceed all regulatory capital requirements. During the quarter ended June 30, 1994, Northeast Savings met the definition of a well-capitalized thrift and remained well-capitalized at September 30, 1994. During the quarter, the Company's core capital ratio improved to 5.18% at September 30, 1994, compared to 4.07% at September 30, 1993. Tangible core capital and risk-based capital have improved to 5.18% and 15.23% at September 30, 1994 compared to 4.06% and 10.22% at September 30, 1993.

RESULTS OF OPERATIONS

Northeast Federal had a net income of $2.6 million for the three months ended September 30, 1994, resulting in a primary and fully diluted net income per common share of $0.12 after preferred stock

dividend requirements. For the same quarter in 1993, the Company reported a net loss of $1.9 million or a primary and fully diluted net loss per common share of $0.20 after preferred stock dividend requirements.

Northeast Federal had net income of $9.1 million for the nine months ended September 30, 1994, resulting in a primary and fully diluted net income per common share of $0.46 after preferred stock dividend requirements. This net income for the first three quarters of 1994 compares to projections made by the Company in May 1994 that it would earn between $9 and $11 million in 1994 or $0.40 to $0.50 per common share after preferred stock dividend requirements. The Company has not revised its earnings projection for 1994 and expects results for the twelve months ended December 31, 1994 to be within the high end of the range previously announced.

Interest Income and Expense

Total interest income was $48.0 million and $55.0 million for the quarters ended September 30, 1994 and 1993, respectively. The decrease in total interest income was due primarily to a decrease in average interest-earning assets to $3.2 billion from $3.8 billion for the quarters ended September 30, 1994 and 1993, respectively, offset by an increase of 22 basis points in the weighted average yield earned on interest-earning assets, to 6.02% for the quarter ended September 30, 1994 from 5.80% for the same quarter in 1993. In addition, the decrease in total interest income was impacted by a shift in the composition of the Company's assets. For the quarter ended September 30, 1993, single-family residential real estate loans earning an average rate of 6.01%, comprised 58.8% of average earning assets, while mortgage-backed securities, earning an average rate of 5.02%, made up only 28.7% of average earning assets. However, in late 1993 in order to mitigate credit risk and to enhance its risk-based capital ratios, the Company converted over $300 million of loans into mortgage-backed securities. In addition, a large portion of the proceeds from the March 1994 sale of $876.1 million of primarily California residential loans was invested in mortgage-backed securities. As a consequence, for the quarter ended September 30, 1994, single-family residential real estate loans earning an average rate of 6.51% comprised only 27.4% of average earning assets, while mortgage-backed securities earning an average of 5.64% totaled 55.0% of average earning assets.

Total interest expense was $33.1 million for the three months ended September 30, 1994, compared to $37.3 million for the same three months in the previous year. Total interest expense was lower due primarily from a decrease in average interest-bearing liabilities to $3.2 billion from $3.8 billion for the quarters ended September 30, 1994 and 1993, respectively, offset by an increase of 28 basis

points in the cost of funds to 4.13% for the quarter ended September 30, 1994 from 3.85% for the same quarter in 1993.

Net interest income totaled $14.9 million for the quarter ended September 30, 1994, $2.8 million lower than the $17.7 million reported for the same quarter of the previous year. The interest rate spread also decreased, averaging 1.89% for the three months ended September 30, 1994, compared to 1.95% for the three months ended September 30, 1993. Net interest rate margins for the three-month periods ended September 30, 1994 and 1993 were 1.91% and 1.90%, respectively. The interest rate spread is calculated by subtracting the average rate paid for average total interest-bearing liabilities from the average rate earned on average total interest-earning assets. The interest rate margin is calculated by dividing annualized net interest income by average total interest-earning assets.

Provision for Loan Losses
- -------------------------
The provision for loan losses for the quarter ended September 30, 1994 was $1.0 million, compared to $3.5 million for the quarter ended September 30, 1993. The decrease in the provision was due primarily to a securitization of $337 million in single-family residential loans in November 1993 and to the March 1994 sale of $876.1 million of adjustable rate single-family residential real estate loans, $40.5 million of which were non-performing. As a result of these transactions, virtually all of the Company's California loans were sold and the single-family residential loan portfolio decreased to $865.0 million at September 30, 1994. Net charge-offs for the quarter ended September 30, 1994 were $905,000 compared to $3.2 million for the quarter ended September 30, 1993, due primarily to the reduced risk in the portfolio. At September 30, 1994 and December 31 and September 30, 1993, non-accrual loans totaled $30.5 million, $67.5 million, and $72.7 million.

The allowance for loan losses at September 30, 1994 was $11.7 million, compared to $28.2 million at September 30, 1993. The activity in the allowance for loan losses for the three months ended September 30, 1994 and 1993 is as follows:
<TABLE>
<CAPTION>

	Three Months Ended September 30, 1994	1993
	(Dollars in Thousands)	
<S>	<C>	<C>
Balance, beginning of period......................	$11,603	$28,019
Provision for loan losses.........................	1,000	3,450
Charge-offs:		
Single-family residential real estate loans.....	(926)	(3,239)
Consumer loans.................................	(39)	(86)
Income property loans..........................	(20)	-
Total charge-offs............................	(985)	(3,325)
Recoveries:		
Single-family residential real estate loans.....	-	-
Consumer loans.................................	77	83
Income property loans..........................	3	-
Total recoveries.............................	80	83
Net charge-offs.................................	(905)	(3,242)
Balance, end of period...........................	$11,698	$28,227
Ratio of net charge-offs during the period to average loans outstanding during the period:		
Single-family residential real estate loans.....	.11%	.15%
Consumer loans.................................	(.11)	.01
Income property loans..........................	.02	-
Total net charge-offs during the period to average loans outstanding during the period....................................	.09%	.14%

</TABLE>

In addition to the impact of the $337 million securitization and $876.1 million loan sale, management believes that the decrease in single-family residential loan net charge-offs is indicative of a declining level of non-performing assets and a stabilization of housing values in the Company's primary market areas.

Factors considered in determining the adequacy of the allowance for loan losses were management's judgment regarding prevailing and anticipated economic conditions, historical loan loss experience in relation to outstanding loans, the diversification and size of the loan portfolio, the results of the most recent regulatory examinations available to the Association, the overall loan portfolio quality, and the level of loan charge-offs. Although management believes that the allowance for loan losses was adequate at September 30, 1994, based on the quality of the loan portfolio at that date, further additions to the allowance may be necessary if a change in market conditions were to occur.

The following table shows the allocation of the allowance for loan losses to the various types of loans and the allowance as a percent of such loans.
<TABLE>
<CAPTION>

	September 30, 1994		December 31, 1993		September 30, 1993	
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Single-family residential real estate loans	$ 8,844	1.08%	$25,751	1.47%	$25,319	1.21%
Consumer loans	300	0.80	300	.85	300	.77
Income property loans	2,066	2.65	800	1.11	1,000	1.27
Unallocated	488	*	1,420	*	1,608	*
Total allowance	$11,698	1.20%	$28,271	1.45%	$28,227	1.20%

<FN>
* For purposes of this analysis, the unallocated portion of the allowance for loan losses has been included in the single-family residential real estate allocation.
</FN>
</TABLE>

Non-performing Assets

The risks and uncertainties involved in originating loans may result in loans becoming non-performing assets. Non-performing assets include non-accrual loans and real estate and other assets acquired in settlement of loans (REO). The following table presents the Association's non-performing assets and restructured loans at the dates indicated:
<TABLE>
<CAPTION>

	September 30, 1994	December 31, 1993	September 30, 1993
	(Dollars in Thousands)		
<S>	<C>	<C>	<C>
Non-accrual loans:			
Single-family residential real estate	$ 28,227	$ 65,770	$ 69,159
Consumer	1,070	1,315	1,381
Income property	1,184	377	2,189
Total non-accrual loans	30,481	67,462	72,729
REO:			
Single-family residential	11,420	57,165	57,281
Hotels	-	6,453	6,398
Apartment building	-	5,270	4,468
Office and industrial complexes, land	3,088	3,357	2,441
Real estate brokerage operations	1,413	1,744	1,957
Residential subdivisions	804	973	627
Total REO	16,725	74,962	73,172
Total non-performing assets	$ 47,206	$ 142,424	$ 145,901
Restructured loans	$ -	$ 1,641	$ 2,749
Total non-accrual loans as a percent of total gross loans receivable	3.08%	3.44%	3.09%

Total non-performing assets as a

percent of total assets	1.41%	3.63%	3.70%

</TABLE>

Non-accrual loans. Non-accrual loans are loans on which the accrual of interest has been discontinued. The Association's policy is to discontinue the accrual of interest on loans when there is reasonable doubt as to its collectibility. Interest accruals on loans are normally discontinued whenever the payment of interest or principal is more than ninety days past due, or earlier when conditions warrant it. For example, although a loan may be current in payments, the Association discontinues accruing interest on that loan when a foreclosure is brought about by other owner defaults. When the interest accrual on a loan is discontinued, any previously accrued interest is reversed. A non-accrual loan may be restored to an accrual basis when principal and interest payments are current and full payment of principal and interest is expected.

At September 30, 1994 and December 31 and September 30, 1993, the Association had no loans more than ninety days past due on which it was accruing interest.

At September 30, 1994, December 31 and September 30, 1993, non-accrual loans were $30.5 million, $67.5 million, and $72.7 million, respectively. The decrease in non-accrual loans between December 31, 1993 and September 30, 1994 was due primarily to the March 1994 loan sale as well as an overall decline in delinquencies. The decreases in non-accrual loans between September 30, 1993 and December 31, 1993 was due primarily to foreclosures of the underlying collateral securing the loans, which resulted in transfers to the REO balance, and to payoffs and reinstatements of non-accrual loans. Virtually all residential mortgage non-accrual loans are collateralized by properties with an original loan-to-value ratio of 80% or less. At September 30, 1994 and December 31 and September 30, 1993, single-family residential non-accrual loans were 92.6%, 97.5%, and 95.1%, respectively, of total non-accrual loans.

Activity within the non-accrual loan portfolio was as follows:

<TABLE>
<CAPTION>

	Three Months Ended September 30,	
	1994	1993
	(In Thousands)	
Beginning balance	$ 31,885	$ 81,882
New non-performing loans	5,203	17,715
Net charge-offs	(10)	(67)
Returned to accrual status	(1,127)	(4,293)
Loan sales	-	(3,870)
Payoffs	(4,595)	(5,499)
Transfers to REO through foreclosure	(875)	(13,139)
Ending balance	$ 30,481	$ 72,729

</TABLE>

The allowance for loan losses as a percentage of non-accrual loans by loan category is as follows:

<TABLE>
<CAPTION>

	September 30, 1994	December 31, 1993	September 30, 1993
Single-family residential real estate*	33.06%	41.31%	38.93%
Consumer	28.04	22.81	21.72
Income property	174.49	212.20	45.68
Total allowance to total non-accrual loans	38.38%	41.91%	38.81%

<FN>

* For purposes of this analysis, the unallocated portion of the allowance for loan losses has been included in the single-family residential real estate allocation.

</FN>
</TABLE>

The decrease in the ratio for single-family residential real estate from December 31, 1993 to September 30, 1994 was due to the lower credit risk in the portfolio, resulting from the aforementioned securitization and loan sale which included $40.5 million of non-accrual loans. While the portion of the allowance allocated to income property loans increased from $800,000 at December 31, 1993 to $2.1 million at September 30, 1994, the ratio related to income property loans decreased due to a $900,000 loan which went into non-accrual status during the quarter ended September 30, 1994.

Real estate and other assets acquired in settlement of loans. REO was $16.7 million, $75.0 million, and $73.2 million at September 30, 1994 and December 31 and September 30, 1993, respectively. The $58.2 million decrease in REO from December 31, 1993 to September 30, 1994 was due to sales of California single-family residential REO totaling $41.1 million, including three single transaction sales totaling $27.2 million, the sale of two hotels included in income property REO totaling $6.0 million, as well as to other REO sales, and a decrease in the level of foreclosures. Included in income property REO of $3.9 million at September 30, 1994 were an industrial building, one retail/commercial office, one single-family residential subdivision, and one property zoned for residential development. Also included in income property REO was a residential subdivision purchased as part of the Rhode Island acquisition.

The activity in the Association's REO is presented in the following table:

<TABLE>
<CAPTION>

	Three Months Ended September 30,	
	1994	1993
<S>	<C>	<C>
Beginning balance.............	$ 26,568	$ 96,423
Foreclosures, net.............	875	13,139
Capitalized expenses..........	397	375
Less:		
Sales.......................	(10,030)	(35,743)*
Valuation adjustments........	(496)	(1,058)
Mortgage insurance receipts..	(48)	(124)
Other.......................	(541)	160
Ending balance................	$ 16,725	$ 73,172

<FN>
* During the quarter ended September 30, 1993, $30.3 million of REO was sold in a single transaction. The total loss on the sale was $6.8 million, which was partially offset by a provision of $6.0 million recorded in June in anticipation of the sale. Excluding this sale, sales of REO for the quarter ended September 30, 1993 totaled $11.4 million.
</FN>
</TABLE>

Delinquent Loans

While non-accrual loans are generally loans which are more than ninety days past due, delinquent loans are all loans more than thirty days past due, including non-accrual loans. The following table presents the principal amount of the Association's delinquencies by loan types at the dates indicated:

<TABLE>
<CAPTION>

	September 30, 1994				December 31, 1993			
	30-59 days	60-89 days	90-days and over	Total	30-59 days	60-89 days	90-days and over	Total
	(Dollars in Thousands)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Single-family residen-								

tial real estate....	$ 17,184	$ 3,778	$ 28,227	$ 49,189	$ 30,497	$ 13,139	$ 65,770	$109,406
Consumer.............	590	73	1,070	1,733	438	82	1,315	1,835
Income property.......	-	-	1,184	1,184	2,825	993	377	4,195
Total.............	$ 17,774	$ 3,851	$ 30,481	$ 52,106	$ 33,760	$ 14,214	$ 67,462	$115,436
Percent of total gross loan portfolio......	1.80%	.39%	3.08%	5.27%	1.72%	.73%	3.44%	5.89%
Percent of total assets..............	.53%	.11%	.91%	1.56%	.86%	.36%	1.72%	2.94%

<CAPTION>

	September 30, 1993			
	30-59 days	60-89 days	90-days and over	Total
	(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>
Single-family residential real estate....	$ 39,343	$ 11,749	$ 69,159	$120,251
Consumer.............	345	234	1,381	1,960
Income property.......	37	920	2,189	3,146
Total.............	$ 39,725	$ 12,903	$ 72,729	$125,357
Percent of total gross loan portfolio......	1.69%	.55%	3.09%	5.32%
Percent of total assets..............	1.01%	.33%	1.84%	3.18%

</TABLE>

Non-interest Income

Non-interest income totaled $5.5 million and $3.7 million for the quarters ended September 30, 1994 and 1993, respectively. For the same respective quarters, net gains on sales of securities totaled $2.4 million and $254,000. The $2.1 million increase in net gains on sales of securities resulted from realized capital gains allocated to the Association by two limited partnerships in which the Association invested and which are held in the available-for-sale portfolio. Fee income remained relatively unchanged, totaling $2.7 million and $2.6 million for the quarters ended September 30, 1994 and 1993, respectively.

Non-interest Expense

Total non-interest expense was $16.7 million and $22.5 million for the quarters ended September 30, 1994 and 1993, respectively. General and administrative expenses (compensation and benefits, occupancy and equipment, and other general and administrative expenses), were $13.7 million and $16.7 million for the quarters ended September 30, 1994 and 1993, respectively. The decrease of $3.0 million was due to lower general and administrative expenses as a result of the aforementioned sale of ten of the Association's

branches during the second quarter and five branches during this quarter, and the closing of the California and Colorado mortgage offices during the first quarter. The Association's ratio of general and administrative expenses to average total assets decreased to 1.63% from 1.67% from the same quarter in the prior year. Expenses relating to REO decreased significantly in the September 30, 1994 quarter to $958,000 from $3.3 million for the same quarter in the prior year. In addition, the level of REO decreased to $16.7 million at September 30, 1994 from $73.2 million a year earlier.

Income Taxes and Extraordinary Items

Income tax expense totaled $146,000 for the three-month period ended September 30, 1994 and represents federal and state tax expense. In the tax benefit at September 30, 1993 is a settlement with the State of New York for the years ended December 31, 1984 through December 31, 1990 which resulted in a one-time benefit of $660,000, net of Federal tax expense. In the tax expense recorded for the quarter ended September 30, 1994 is a $1.0 million reversal of the deferred tax valuation allowance.

The Company recorded no extraordinary items for the three-month periods ended September 30, 1994 and 1993.

NINE MONTHS 1993 COMPARED TO NINE MONTHS 1992

For the nine months ended September 30, 1994, the Company reported net income of $9.1 million, which resulted in a primary and fully diluted net income per common share of $0.46 after preferred stock dividend requirements. For the same nine-month period in 1993, the Company reported a net loss of $11.2 million, or a primary and fully diluted net loss per common share of $1.53 after preferred stock dividend requirements.

Total interest income for the nine months ended September 30, 1994 and 1993 was $141.3 million and $169.0 million, respectively. The decrease in interest income was due partly to a decline of 36 basis points from 6.01 at September 30, 1993 in the average yield on interest-earning assets, as well as to the factors discussed previously in the quarterly Results of Operations.

Total interest expense was also lower, $97.5 million for the nine-month period ended September 30, 1994, compared to $112.3 million for the same nine months in 1993. The decrease was due to both lower average balances on interest-bearing liabilities and a lower average cost of funds. The cost of funds averaged 3.89% and 3.95% for the nine-month periods ended September 30, 1994 and 1993, respectively. The lower average cost of funds resulted principally from lower average rates paid on retail deposits.

Net interest income totaled $43.8 million for the nine months ended September 30, 1994, a $12.9 million reduction due to volume from the $56.7 million reported for the same nine months last year. The interest rate spread averaged 1.76% and 2.06% for the nine months ended September 30, 1994 and 1993, respectively. For the same respective periods, the interest rate margins were 1.74% and 2.00%.

The activity in the allowance for loan losses for the nine months ended September 30, 1994 and 1993 was as follows:
<TABLE>
<CAPTION>

	Nine Months Ended September 30,	
	1994	1993
	(Dollars in Thousands)	
<S>	<C>	<C>
Balance, beginning of period......................	$28,271	$ 21,020
Provision for loan losses.........................	3,800	20,300
Charge-offs:		
Single-family residential real estate loans.....	(4,490)	(11,974)
Consumer loans..................................	(223)	(334)
Income property loans...........................	(105)	(1,094)
Total charge-offs.............................	(4,818)	(13,402)
Recoveries:		
Single-family residential real estate loans.....	210	10
Consumer loans..................................	232	299
Income property loans...........................	3	-
Total recoveries..............................	445	309
Net charge-offs...................................	(4,373)	(13,093)
Other...	(16,000)*	-
Balance, end of period............................	$ 11,698	$ 28,227
Ratio of net charge-offs during the period to average loans outstanding during the period:		
Single-family residential real estate loans.....	.37%	.54%
Consumer loans..................................	(.03)	.08
Income property loans...........................	.14	1.36
Total net charge-offs during the period to average loans outstanding during the		

period....................................	.35%	.56%
	=====	======

<FN>
* Represents reduction of allowance allocated to loans sold.
</FN>
</TABLE>

Decreases in charge-offs on single-family residential loans and income property loans were discussed previously in the quarterly Results of Operations.

Total non-interest income totaled $35.6 million and $14.1 million for the nine-months ended September 30, 1994 and 1993, respectively. The increase in non-interest income resulted principally from the March 1994 sale of $876.1 million of adjustable rate single-family residential real estate loans and the aforementioned branch sale, partially offset by a first quarter valuation adjustment of $3.5 million to the Association's purchased mortgage servicing rights, which was recorded in anticipation of selling a portion of such rights due to the high cost of servicing the portfolio.

Non-interest expense totaled $66.8 million and $71.8 million for the nine-month periods ended September 30, 1994 and 1993. Included in REO expense for the nine months ended September 30, 1994 was a $7.0 million valuation adjustment recorded to facilitate an

accelerated sale of California single-family residential REO and $2.5 million in writedowns of REO. For the same nine months last year, REO expense included a $6.0 million provision for loss in anticipation of the sale in a single transaction of a portion of the Company's residential REO portfolio. Other factors affecting non-interest expense were discussed previously in the quarterly Results of Operations. Even though non-interest expense for the nine-month period ended September 30, 1994 decreased from the same period last year, the Company's ratio of annualized general and administrative expenses increased to 1.79% from 1.71% at September 30, 1994 and 1993, respectively, due to lower average asset balances.

Income tax benefit totaled $295,000 for the nine-month period ended September 30, 1994. Included in the tax benefit is a reversal of $4.0 million of the deferred tax valuation allowance. The reversal was based on a re-evaluation of the realizability of the Company's deferred tax asset. Management believes that it is more likely than not that the Company will realize this tax benefit. Included in the tax benefit at September 30, 1993 is a settlement with the State of New York for the years ended December 31, 1984 through December 31, 1990 which resulted in a one-time benefit of $660,000, net of Federal tax expense.

There were no extraordinary items for the nine month periods ended September 30, 1994.

REGULATORY CAPITAL
- ------------------

The OTS capital requirements have three separate measures of capital adequacy: the first is a tangible core capital requirement of 1.5% of tangible assets; the second is a core capital requirement of 3% of adjusted total assets; and the third is a risk-based capital requirement that is 8% of risk-weighted assets. An institution must have a leverage (core) ratio of 4% or greater (unless it has a composite one CAMEL rating) in order to be considered adequately capitalized under the Prompt Corrective Action rules. Northeast Savings met the definition of a well-capitalized thrift during the quarter ended June 30, 1994 and remains well-capitalized at September 30, 1994.

The following table reflects the regulatory capital position of the Association as well as the current regulatory capital requirements at September 30, 1994 and 1993:

<TABLE>
<CAPTION>

	September 30, 1994		September 30, 1993	
Regulatory Capital Requirement	Actual Regulatory Capital	Fully Phased-in Regulatory Capital Required	Actual Regulatory Capital	Fully Phased-in Regulatory Capital Required

(Dollars In Thousands)				
<S>	<C>	<C>	<C>	<C>
Tangible core capital	$173,497	$ 50,238	$160,326	$ 59,230
Percent	5.18%	1.50%	4.06%	1.50%
Core capital	$173,639	$133,975	$160,928	$157,970
Percent	5.18%	4.00%	4.07%	4.00%
Risk-based capital	$185,337	$ 97,347	$183,442	$143,651
Percent	15.23%	8.00%	10.22%	8.00%

</TABLE>

RHODE ISLAND COVERED ASSETS

On May 8, 1992, the Association acquired $315.0 million in assets of four Rhode Island financial institutions which were in receivership proceedings under the jurisdiction of the Superior Court of Providence County, Rhode Island. Transactions completed in conjunction with the acquisition of the assets of the financial institutions are described in detail in the Company's Form 10-K.

Since, as described in the Company's December 31, 1993 Form 10-K, the Association is protected against losses relative to the contractual provisions of the loans acquired from the Rhode Island institutions, including loans foreclosed upon by the Association subsequent to acquisition (the Rhode Island covered assets), the Association maintains these assets separately. At September 30, 1994, the Association's portfolio of Rhode Island covered assets was as follows:

<TABLE>
<CAPTION>

	September 30, 1994*	December 31, 1993*	September 30, 1993*
		(In Thousands)	
<S>	<C>	<C>	<C>
Loans:			
Single-family residential real estate loans....	$ 31,253	$ 37,101	$ 37,268
Consumer loans................................	15,873	20,393	21,929
Income property loans.........................	34,043	39,976	42,082
Commercial loans..............................	1,087	1,335	1,369
Total loans..............................	82,256	98,805	102,648
REO..	4,570	6,820	9,382
Total covered assets......................	$ 86,826	$ 105,625	$ 112,030

<FN>
* Net of credit and interest adjustments
</FN>
</TABLE>

The Rhode Island loans have delinquency rates which are generally higher than those previously experienced by the Association on its other lending activities. Since the Association is protected against losses on these loans, based on contractual provisions, the Rhode Island non-accrual loans are also segregated from the Association's other non-accrual loans. Following is a table of Rhode Island non-accrual loans:
<TABLE>
<CAPTION>

	September 30, 1994	December 31, 1993	September 30, 1993
		(In Thousands)	
<S>	<C>	<C>	<C>
Loans:			
Single-family residential real estate loans....	$ 2,224	$ 2,718	$ 3,124
Consumer loans................................	878	1,045	1,348
Income property loans.........................	2,346	4,145	4,489
Commercial loans..............................	-	30	29

Total....................................	$ 5,448	$ 7,938	$ 8,990

</TABLE>

FINANCIAL CONDITION

Total assets were $3.3 billion at September 30, 1994 compared to $3.9 billion at December 31 and September 30, 1993. Asset size and composition have generally been determined by seeking the optimal balance among regulatory capital requirements, liquidity, yield, and risk.

Since 1989, the Company has pursued the operating strategy of providing traditional thrift banking services, namely gathering retail deposits and investing those deposits in adjustable rate residential mortgages. In 1993, however, the Company adjusted this strategy in consideration of the prevailing interest rate and economic environment. The low interest rate environment of 1993 brought with it high prepayments on existing mortgages, extremely competitive rates on adjustable rate mortgages in some markets, and deposit disintermediation as bank deposits were transferred into alternative investments such as mutual funds.

As a result of these factors, beginning in the third quarter of 1993, the Company modified its operating strategy both with regard to lending and to balance sheet structure. This modified strategy was intended to reduce the Company's loan concentration in California, to reduce credit costs, and to increase the net interest margin. In September of 1993, the Association changed its strategy by sharply reducing the volume of adjustable rate mortgages (ARMs) originated for portfolio in California and by replacing the California ARM originations with 10 and 15 year fixed rate mortgages originated in the Northeast and with the purchase of both adjustable rate and 15 year fixed rate mortgage-backed securities (MBSs). California portfolio production was sharply curtailed in order to lower the concentration of California loans in the loan portfolio due to the fact that initial discounts on ARM rates in California exceeded the Association's pricing guidelines. Fixed rate mortgages with terms of 15 years or less were added to the portfolio in order to increase the net interest spread and to reduce the degree to which the Association's interest rate risk profile had become asset sensitive. MBSs were added to meet the remaining asset generation needs of the Company. Displacing whole loans, particularly those originated in California, with MBSs reduced credit risk and increased the risk-based capital ratio. In February 1994, the Company closed its loan origination offices in California and Colorado. In March 1994, the Company sold $876.1 million of single-family adjustable rate residential mortgage loans, $40.5 million of which were non-performing and 93% of which were secured by California properties. Finally, in a series of transactions during April and May 1994, three of which were single transactions totaling $27.2 million, the Company sold virtually all of its foreclosed assets in California.

Retail deposits, the Association's least expensive source of funds, decreased to $2.4 billion at September 30, 1994, compared to $3.0 billion at December 31 and September 30, 1993. The decrease in deposits was due primarily to the aforementioned sale of ten of the Association's branches in the second quarter and 5 branches during this quarter, a total of $513 million in deposits. In addition, following the trend of low interest rates in the economy, the Association has experienced a significant reduction in its cost of retail deposits. These lower rates have caused some depositors who are struggling to preserve their former level of income to seek higher yields through alternative investments, and others to reduce their outstanding high interest rate liabilities. Others have withdrawn funds to meet their financial obligations due to a loss in personal income.

CAPITAL RESOURCES AND LIQUIDITY

The primary source of funds for the Association is retail deposits, while secondary sources include FHLB advances, other collateralized borrowings including repurchase agreements, debentures, and internally-generated cash flows resulting from the maturity, amortization, and prepayment of assets as well as sales of loans and securities from the available-for-sale portfolios.

The Association's ongoing principal use of capital resources remains the origination of single-family residential mortgage loans. The following table sets forth the composition of the Association's single-family residential mortgage loan originations for the periods indicated:

<TABLE>
<CAPTION>

	Three Months Ended September 30,				Nine Months Ended September 30,			
	1994		1993		1994		1993	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in Thousands)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Adjustable....	$ 17,601	69.57%	$115,970	64.79%	$ 55,461	40.66%	$414,189	73.33%
Fixed.........	7,699	30.43	63.029	35.21	80,944	59.34	150,608	26.67
Total.....	$ 25,300	100.00%	$178,999	100.00%	$136,405	100.00%	$564,797	100.00%

</TABLE>

The composition of the Association's residential mortgage loan portfolio at September 30, 1994, December 31, 1993, and September 30, 1993 was as follows:

<TABLE>
<CAPTION>

	September 30, 1994		December 31, 1993		September 30, 1993	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Adjustable.......	$ 755,380	87.33%	$1,701,978	92.21%	$2,113,286	94.70%
Fixed...........	109,603	12.67	143,812	7.79	118,161	5.30
Total........	$ 864,983	100.00%	$1,845,790	100.00%	$2,231,447	100.00%

</TABLE>

Total loans originated during the three months ended September 30, 1994 and 1993 were $49.6 million and $185.1 million, respectively. Total loan originations for the nine-month periods ended September 30, 1994 and 1993 were $184.4 million and $582.4 million, respectively. At September 30, 1994, the Association was committed to fund mortgage loans totaling $11.9 million, including $8.1 million in adjustable rate mortgages. The Association expects to fund such loans from its liquidity sources in 1994.

Net cash provided by operations during the nine months ended September 30, 1994 totaled $20.9 million. Adjustments to net income of $9.1 million provided $11.8 million of net cash, including proceeds from sales of loans available-for-sale of $103.4 million. The proceeds from sale of loans resulted principally from the sale of fixed rate loans which were originated by the Association with the intent to sell in the secondary market. In addition, loans originated for the available-for-sale portfolio utilized $65.6 million in cash. Remaining adjustments to net income utilized $26.0 million in cash.

Net cash provided by investing activities during the nine months ended September 30, 1994 totaled $407.4 million. Proceeds from sales of loans totaled $843.6 million. Principal collected on loans and mortgage-backed securities generated cash of $177.9 million and $309.5 million, respectively, while maturities of investment securities provided $73.5 million in cash. Proceeds from sales of investment securities available-for-sale totaled $286.3 million. Sales of REO generated $58.6 million in cash. Loans originated used $124.7 million of cash, while purchases of mortgage-backed securities and investment securities used cash of $732.3 million and $505.3 million, respectively. All other investing activities provided net cash of $20.5 million.

Net cash used in financing activities during the nine months ended September 30, 1994 totaled $532.4 million and resulted primarily from $503.1 million on the sale of deposits, other decreases in retail deposits from December 31, 1993 used $63.4 million in cash and include a $24.8 million reduction in brokered deposits. All other financing activities provided net cash of $58.9 million.

The liquidity of the Association is measured by the ratio of its liquid assets to the net withdrawable deposits and borrowings payable in one year or less. A portion of these liquid assets are in the form of non-interest bearing reserves required by Federal Reserve Board regulations. For total transaction account deposits of $46.8 million or less, regulations require a reserve of 3%. For total transaction account deposits in excess of $46.8 million, a 10% reserve is required. The Federal Reserve Board may adjust the latter reserve percentage within a range of 8-14%. The Association is also subject to OTS regulations which require the maintenance of a daily average balance of liquid assets equal to 5%. The ratio averaged 5.13% for the three months ended September 30, 1994, compared to 5.23% for the three months ended September 30, 1993. In addition to the regulatory requirements, the average liquidity ratio reflects management's expectations of future loan fundings, operating needs, and the general economic and regulatory climate. In addition, the Association is required by OTS regulations to maintain a daily average balance of short-term liquid assets of 1%. The ratio averaged 2.19% and 2.55% for the three months ended September 30, 1994 and 1993, respectively.

Each of the Company's sources of liquidity is vulnerable to various uncertainties beyond the control of the Company. Scheduled loan payments are a relatively stable source of funds, while loan prepayments and deposit flows vary widely in reaction to market conditions, primarily prevailing interest rates. Asset sales are influenced by general market interest rates and other unforeseen market conditions. The Company's ability to borrow at attractive rates is affected by its credit rating and other market conditions.

Increased capital remains a significant focus for the Association in continuing to meet the standards for a well-capitalized institution promulgated pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). The ability of the Company to make capital distributions is restricted by the limited cash resources of the Company and the ability of the Company to receive dividends from the Association. The Association's payment of dividends is subject to regulatory limitations, particularly the Prompt Corrective Action regulation, which prohibits the payment of a dividend if such payment would cause the Association to become undercapitalized. Also, the Company and the OTS entered into a Dividend Limitation Agreement as a part of the holding company approval process which prohibited the payment of dividends to the holding company without prior written OTS approval if the Association's capital is below its fully phased-in capital requirement or if the payment of such dividends would cause its capital to fall below its fully phased-in capital requirement.

On September 16, 1994, the Company's Board of Directors voted to declare a stock dividend payable on October 1, 1994 on the Company's $8.50 Cumulative Preferred Stock, Series B (the Series B Preferred Stock) of one share of Series B Preferred Stock for each

$100 of the amount of dividends payable on October 1, 1994, and accumulated and unpaid as of that date, to holders of record on September 16, 1994. On October 1, 1994, the Company paid the $892,220 of dividends then payable on the Series B Preferred Stock through the issuance of an additional 8,923 shares of Series B Preferred Stock.

In addition, the interest and principal repayment obligations on the 9% Debentures constitute an impediment to the Company's ability to pay cash dividends. The $40.3 million net balance of 9% Debentures at September 30, 1994 require annual interest payments of $3.6 million. In addition, the Company is required to repurchase 6 2/3% of the 9% Debentures outstanding as of March 1, 1998 in each year commencing on May 1, 1998. Prior to May 1, 1997, the Company may fulfill its interest payment obligation by the issuance of additional 9% Debentures. In meeting this interest obligation, the Company has issued an additional $6.8 million in 9% Debentures, which are included in the outstanding principal at September 30, 1994. Any such issuance, however, increases the aggregate annual interest obligation and also the amount of 9% Debentures required to be repurchased annually commencing May 1, 1998.

INTEREST RATE RISK MANAGEMENT

For the quarter ended September 30, 1993 through the quarter ended September 30, 1994, the Company's interest rate spread (Exhibit

99.3) decreased 6 basis points, averaging 1.89% and 1.95% for the quarters ended September 30, 1994 and 1993, respectively. However, for these same time frames, the Company's interest rate margin increased to 1.91% from 1.90%. The Company continually monitors the repricing characteristics of its interest-earning assets and interest-bearing liabilities. The Company's one-year gap (Exhibit 99.1) at September 30, 1994 was a positive $81.9 million, or 2.44% of assets, compared to a positive $557.7 million or 14.15% of assets at September 30, 1993. The Company's interest rate sensitivity analysis shows that the Company has little interest rate risk resulting from mismatches between asset and liability repricings beyond one year. Within one year, an excess of liability maturities and repricings in the first six months is offset by an excess of asset maturities and repricings in months seven through twelve.

Exhibit 99.1 does not indicate, however, the interest rate risk resulting from the several options which borrowers and depositors have nor does it indicate the risks resulting from assets and liabilities being tied to different interest rate indices. Borrowers have the option to prepay loans at any time and to have changes in rates on adjustable rate loans be constrained by periodic and lifetime caps. Depositors have the option to withdraw funds from certificates of deposit prior to maturity upon the payment of a penalty. The Company's interest rate risk is due primarily to the effect of these options, and particularly the

impact of periodic caps on adjustable rate loans. The Company is also subject to basis risk to the extent that borrowings indexed to the London Interbank Offered Rate (LIBOR) are used to fund assets not indexed to LIBOR. As of September 30, 1994, the Company had $36.4 million of borrowings indexed to LIBOR and $468.7 million of fixed rate borrowings, the rates on which were set initially off LIBOR. As of September 30, 1994, the Company had $9.5 million of earning assets indexed to LIBOR.

REGULATIONS
- -----------

Proposed Amendment to Minimum Regulatory Capital Regulations. The OTS recently proposed to amend its minimum regulatory capital regulations by revising the definition of the term "stockholders' equity" to incorporate a change in generally accepted accounting principles required by the Financial Accounting Standards Board (FASB). SFAS No. 115, "Accounting for Certain Debt and Equity Securities", which is effective for fiscal years beginning after December 15, 1993, and requires that most debt and equity securities be reported at fair value, rather than at amortized cost. With the implementation of SFAS No. 115, unrealized gains and losses on available-for-sale securities will be included in stockholders' equity under generally accepted accounting principles and therefore the value of stockholders' equity will fluctuate. Under the proposed rule, these unrealized gains and losses would be included in core capital for purposes of calculating a savings institution's leverage capital requirement and the OTS measures for prompt corrective action and could cause an institution's capital ratios to fluctuate based on changes in the value of the institution's debt and equity securities which are held-for-sale.

Interstate Banking. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the Interstate Act), which was recently passed by Congress, authorizes (1) interstate acquisitions of banks by bank holding companies without geographic limitation beginning one year after enactment of the Interstate Act, (2) interstate mergers between insured banks with different home states, subject to the ability of states to opt-out, and (3) any state to enact laws permitting de novo branching by banks with a home state other than such state. Specifically, beginning June 1, 1997, a bank may merge with a bank with a different home state as long as neither of the home states have opted out of interstate branching between the date of enactment of the Interstate Act and May 31, 1997. Once a bank has established branches in a state through an interstate merger transaction, such bank may establish and acquire additional branches at any location in that state where any bank involved in the interstate merger transaction could have established or acquired branches under applicable Federal or state law. The Interstate Act further provides that states may enact laws permitting interstate merger transactions prior to June 1, 1997. If a state opts out of interstate branching within the specified time period, no bank in any other state may establish a branch in that state, either through an acquisition or de novo.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

- --

In October 1994, the FASB issued Statement of Financial Accounting Standards No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures" (SFAS 118). This amends SFAS 114 to allow a creditor to use existing methods for recognizing interest income on an impaired loan by eliminating the provisions in SFAS 114 that describe how a creditor should report income on an impaired loan.

SFAS 118 does not change the provisions in SFAS 114 that require a creditor to measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent. As a result, SFAS 118 affects only the classification of income (or expense) that results from changes in the net carrying amount of the loan, not the total amount of income (or expense) recognized.

SFAS 118 also acknowledges that a creditor's policies for recognizing interest income and for charging off loans may result in a recorded investment in an impaired loan that is less than the present value of expected future cash flows discounted at the loan's effective interest rate (or the observable market price of the loan or the fair value of the collateral). In those cases, this statement affects both the classification and the total amount of income (or expense) recognized.

SFAS 118 amends the disclosure requirements in SFAS 114 to require information about how a creditor recognizes interest income related to impaired loans. This proposed amendment, effective upon issuance, has no impact on the financial position or results of operation of the Company.

In October 1994, the FASB issued Statement of Financial Accounting Standards No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments" (SFAS 119). SFAS 119 requires improved disclosures about derivative financial instruments - futures, forward, swap, or option contracts, or other financial instruments with similar characteristics. It also amends existing requirements of SFAS 105, "Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk," and SFAS 107, "Disclosures about Fair Value of Financial Instruments."

SFAS 119 requires disclosures about amounts, nature, and terms of derivative financial instruments that are not subject to SFAS 105 because they do not result in off-balance-sheet risk of accounting loss. It requires that a distinction be made between financial instruments held or issued for the purpose of trading (including dealing or other activities reported in a trading account and measured at fair value) and financial instruments held or issued

for purposes other than trading. It also amends SFAS 105 and 107 to require that distinction in certain disclosures required by those Statements.

For derivative financial instruments held or issued for trading, SFAS 119 requires disclosure of average, maximum, and minimum aggregate fair values and net trading gains or losses. For derivative financial instruments held or issued for purposes other than trading it would require disclosure about those purposes, about how the instruments are reported in financial statements, and - - if the purpose is hedging anticipated transactions - about the anticipated transactions, the amounts of hedging gains and losses deferred, and the transactions or other events that result in recognition of the deferred gains or losses in income. SFAS 119 also encourages, but does not require, quantitative information about interest rate or other market risks of derivative financial instruments, and also of other assets and liabilities, that is consistent with the way the entity manages or adjusts risks and that is useful for comparing the results of applying the entity's strategies to its objectives for holding or issuing the derivative financial instruments.

SFAS 119 also amends SFAS 107 to require that fair value information be presented without combining, aggregating, or netting the fair value of separate financial instruments of a different class and be presented in one location, together with the related carrying amounts, in a form that makes it clear whether the amounts are favorable (assets) or unfavorable (liabilities).

SFAS 119 is effective for financial statements issued for fiscal
years ending after December 15, 1994, except for entities with less
than $150 million in total assets. For those entities, the
effective date would be for financial statements issued for fiscal
years ending after December 15, 1995. Since the proposed
Derivative Statements is a disclosure document only, it would have
no impact on the financial position or results of operation of the
Company.

Selected Ratios and Statistics
- ------------------------------
The Company's annualized return on average assets was .31% for the
quarter ended September 30, 1994, compared to (0.19)% for the
quarter ended September 30, 1993. The annualized return on average
common equity was 7.33% for the three months ended
September 30, 1994, versus (12.38)% for the same period in 1993.

For the nine-month periods ended September 30, 1994 and 1993, the
Company's annualized return on average assets was .35% and (.38)%
respectively. The return on average common equity for the same
respective periods was 9.51% and (25.76)%.

PART II

ITEM 1 - LEGAL PROCEEDINGS
- --------------------------
On December 6, 1989, Northeast Savings filed a complaint in the
United States District Court for the District of Columbia against
the FDIC and the OTS, as successor regulatory agencies to the FSLIC
and the FHLBB. It was the position of the Association in the
litigation that the denial by the OTS and the FDIC of core capital
treatment of the adjustable rate preferred stock and the
elimination from capital, subject to limited inclusion during a
phaseout period, of supervisory goodwill constitutes a breach of
contract, as well as a taking of the Association's property without
just compensation or due process of law in violation of the Fifth
Amendment to the United States Constitution. The Association
sought a determination by the court to this effect and to enjoin
the defendants and their officers, agents, employees and attorneys,
and those persons in active concert or participation with them,
from enforcing the provisions of FIRREA and the OTS regulations or
from taking other actions that are inconsistent with their
contractual obligations to Northeast Savings. The suit sought an
injunction requiring the OTS and FDIC to abide by their contractual
agreements to recognize as regulatory capital the supervisory
goodwill booked by Northeast Savings as a result of its 1982
acquisition from the FSLIC of three insolvent thrifts. On July 16,
1991, the district court ruled that it lacked jurisdiction over the
action but that Northeast Savings could bring a damages action
against the government in the United States Claims Court. On July
8, 1992, the Association moved to voluntarily dismiss its appeal of
the district court decision dismissing its action seeking
injunctive relief. This motion was made with a view toward
refiling the Association's lawsuit against the government in the
United States Claims Court, so as to seek damages against the
United States rather than injunctive relief against the OTS and
FDIC. This motion was made for two reasons. First, by virtue of
the Association's greatly improved financial and regulatory capital
condition, including its compliance with all fully phased-in
capital requirements, and its tangible capital position exceeding
four percent, the Association determined that it was no longer in
need of injunctive relief. Rather, the Association determined that
it was now in its best interest to pursue a damages claim against
the United States in the Claims Court. Second, the Association
sought to dismiss its appeal and refile in the Claims Court because
of the adverse decision of the Court of Appeals for the D.C.
Circuit in another "supervisory goodwill" case, TransOhio Savings
----
Bank, et al. v. Director, OTS, et al., 967 F.2d 598 (June 12,
- -------------------------------------
1992). Neither the OTS nor the FDIC opposed the Association's
motion. The D.C. Circuit granted the Association's motion to
voluntarily dismiss its appeal on July 9, 1992.

On August 12, 1992, Northeast Savings refiled its action in the
United States Claims Court, Northeast Savings, F.A. v. United
----
States, No. 92-550. Note that, effective October 29, 1992, the
- ------

United States Claims Court was renamed the United States Court of Federal Claims. Northeast Savings' complaint seeks monetary relief against the United States on theories of breach of contract, taking of property without just compensation, and deprivation of property without due process of law. The United States has not yet filed an answer to the Complaint. On May 25, 1993, a three-judge panel of the Federal Circuit Court of Appeals ruled against the plaintiffs in three other consolidated "supervisory goodwill" cases, holding that the thrift institutions had not obtained an "unmistakable" promise from the government that it would not change the law in such a manner as to abrogate its contractual obligations and that the plaintiffs therefore bore the risk of such a change in the law. *Winstar Corp. v. United States*, No. 92-5164. On August 18, 1993, however, the full Federal Circuit, acting in response to a Petition for Rehearing with Suggestion for Rehearing In Banc filed by two of the three plaintiffs in these cases, vacated the May 25 panel decision, ordered the panel opinion withdrawn, and ordered that the case be reheard by the full Court. Oral argument in the *Winstar* case was held on February 10, 1994. On June 3, 1993, the Court of Federal Claims entered an order staying proceedings in Northeast Savings' case pending further action by the Federal Circuit in the *Winstar* case or any action taken by the Supreme Court on any petition for a writ of certiorari in that case.

Another supervisory goodwill case, *Resolution Trust Corporation v. FSLIC* (the Resolution Trust Corporation), was recently decided by the Court of Appeals of the 10th Circuit (the 10th Circuit Court of Appeals) in favor of the purchasers of Security Federal from the FSLIC, whose purchase was made prior to FIRREA. Pursuant to an arrangement with the FSLIC, the purchasers infused $6 million into Security Federal, an insolvent institution, and thereby saved the FSLIC the cost of liquidating Security Federal. Even with such capital infusion, were it not for the treatment of supervisory goodwill as capital, Security Federal would have remained significantly under-capitalized at the time, and thereby would have had to have been liquidated by the FSLIC.

As a result of the restriction on the use of supervisory goodwill as capital pursuant to FIRREA and resulting OTS regulations, the OTS determined that Security Federal was insolvent and in February 1990 ordered the purchasers to infuse additional capital into it. In March of 1990, the purchasers notified the OTS that they were rescinding the agreement to acquire the institution, tendered their stock to the OTS, and requested the return of their capital contribution. The OTS refused the tender, and the purchasers filed suit seeking rescission and restitution for breach of contract. In *Resolution Trust Corporation*, the FDIC and the OTS appealed a district court's summary judgment ruling in favor of the purchasers for breach of contract, holding that the treatment of goodwill as regulatory capital was an express term of the overall contractual agreement. The 10th Circuit Court of Appeals affirmed the lower court's ruling and stated that "[b]ecause the Agencies breached their agreement to treat supervisory goodwill...as assets for regulatory purposes, we [the Court] agree that the investors [i.e. purchasers] properly rescinded the agreement and thus are entitled to restitution."

The Association is involved in litigation arising in the normal course of business. Although the legal responsibility and financial impact with respect to such litigation cannot presently be estimated with certainty, management does not anticipate that any of these matters will result in the payment of damages by the Association that, in the aggregate, would be material in relation to the consolidated results of operations or financial position of the Company.

ITEM 2 - CHANGES IN SECURITIES

The ability of the Company to make capital distributions is restricted by the OTS Capital Distribution Regulation, the Prompt Corrective Action Regulation, and the Dividend Limitation Agreement entered into in connection with the OTS approval of the holding company reorganization. In general, the payment of dividends to the holding company without prior OTS approval is prohibited if the Association's capital is below its fully phased-in capital requirement or if the payment of such dividends would cause its capital to fall below its fully phased-in capital requirement and otherwise is subject to additional limitations as discussed more fully in Management's Discussion and Analysis - "Regulations".

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 AND REPORTS ON FORM 8-K

(a) Exhibits required by Securities and Exchange Commission Regulation S-K.

Exhibit No.	
11.1 -	Computation of net income (loss) per common share
27.0 -	Financial Data Schedule
99.1 -	Interest rate sensitivity analysis at September 30, 1994
99.2 -	Average balance sheet for the three months ended September 30, 1994 and 1993
99.3 -	Average balance sheet for the nine months ended September 30, 1994 and 1993.
99.4 -	Rate/Volume analysis for the three months ended September 30, 1994 and 1993
99.5 -	Rate/Volume analysis for the nine months ended September 30, 1994 and 1993.

(b) Reports on Form 8-K

None.

<TABLE>

Exhibit 11.1

NORTHEAST FEDERAL CORP.
COMPUTATION OF NET INCOME (LOSS) PER COMMON SHARE
(Dollars in Thousands, Except Per Share Amounts)

<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1994	1993	1994	1993
<S>	<C>	<C>	<C>	<C>
Primary income (loss) per common share:				
Net income (loss)..........................	$ 2,582	$ (1,904)	$ 9,117	$ (11,195)
Preferred stock dividend requirements......	(892)	(820)	(2,621)	(3,663)
Net income (loss) applicable to common stockholders for the calculation of primary income (loss)....................	$ 1,690	$ (2,724)	$ 6,496	$ (14,858
Weighted average shares outstanding...........	13,546,796	13,481,012	13,527,657	9,700,657

Unallocated ESOP shares	(497,196)	-	(497,196)	-
Dilutive effect of outstanding stock options	831,596	*	530,917	*
Dilutive effect of outstanding stock warrants	560,044	*	477,596	*
Weighted average shares, as adjusted, for the calculation of primary income (loss)	14,441,240	13,481,012	14,038,974	9,700,657
Primary income (loss) per common share	$ .12	$ (0.20)	$ .46	$ (1.53)
Fully diluted income (loss) per common share:				
Net income (loss)	$ 2,582	$ (1,904)	$ 9,117	$ (11,195)
Preferred stock dividend requirements	(892)	(820)	(2,621)	(3,663)
Interest expense on convertible subordinated debentures, net of tax	-	*	-	*
Net income (loss) applicable to common stockholders for the calculation of fully diluted income (loss)	$ 1,690	$ (2,724)	$ 6,496	$ (14,858)
Weighted average shares outstanding	13,546,796	13,481,012	13,527,657	9,700,657
Unallocated ESOP shares	(497,196)	-	(497,196)	-
Dilutive effect of outstanding stock options	840,488	*	540,674	*
Dilutive effect of outstanding stock warrants	563,333	*	489,413	*
Dilutive effect of shares issuable from assumed conversions of convertible preferred stock and convertible subordinated debentures	-	*	-	*
Weighted average shares, as adjusted, for the calculation of fully diluted income (loss)	14,453,421	13,481,012	14,060,548	9,700,657
Fully diluted income (loss) per common share	$ .12	$ (0.20)	$ .46	$ (1.53)

<FN>
* The outstanding common stock equivalents (stock options) and the assumed conversions of the convertible preferred stock and convertible subordinated debentures did not have a dilutive effect on the computation of fully diluted loss per common share.
</FN>
</TABLE>

The following table shows the computation of the adjusted weighted average shares for use in analysis of fully diluted earnings per share, assuming that all options, warrants and convertible securities qualify as common stock equivalents regardless of their dilutive effect on earnings:
<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1994	1993	1994	1993
<S>	<C>	<C>	<C>	<C>
Weighted average shares outstanding	13,546,796	13,481,012	13,527,657	13,454,375**
Unallocated ESOP shares	(497,196)	-	(497,196)	-
Dilutive effect of outstanding stock options	840,488	246,413	540,674	234,656
Dilutive effect of outstanding stock warrants	563,333	328,011	489,413	371,386
Dilutive effect of shares issuable from assumed:				
Conversions of convertible preferred stock	-	-	-	-
Convertible subordinated debentures	-	-	-	-
Weighted average shares, as adjusted	14,453,421	14,055,436	14,060,548	14,060,417

<FN>
** Reflects the actual conversion of convertible preferred stock as if it had occurred at the beginning of the period.
</FN>
/TABLE

<TABLE>

Exhibit 27.0

NORTHEAST FEDERAL CORP.
ARTICLE 9 FINANCIAL DATA SCHEDULE
(Dollars in Thousands, Except Per Share and Yield Amounts)

<S>	<C>
FISCAL-YEAR-END	DEC-31-1993
PERIOD END	SEPT-30-1994
CASH	26,881
INTEREST-BEARING DEPOSITS	-
FED FUNDS SOLD	4,270
TRADING ACCOUNT ASSETS	-
INVESTMENTS HELD-FOR-SALE	163,715
INVESTMENTS AT CARRYING VALUE	1,961,378
INVESTMENTS AT MARKET VALUE	1,961,378
LOANS	966,730
ALLOWANCE FOR LOSSES	11,698
TOTAL ASSETS	3,349,705
DEPOSITS	2,375,460
SHORT-TERM BORROWINGS	731,620
OTHER LIABILITIES	67,188
LONG-TERM DEBT	40,305
COMMON STOCK	136
PREFERRED STOCK - MANDATORY REDEMPTION	-
PREFERRED STOCK - NO MANDATORY REDEMPTION	4
OTHER STOCKHOLDERS' EQUITY	134,992
TOTAL LIABILITIES AND EQUITY	3,349,705
INTEREST INCOME - LOANS	60,370
INTEREST INCOME - INVESTMENTS	74,248
INTEREST INCOME - OTHER	6,636
TOTAL INTEREST INCOME	141,254
INTEREST EXPENSE - DEPOSITS	76,742
TOTAL INTEREST EXPENSE	97,479
NET INTEREST INCOME	43,775
PROVISION FOR LOAN LOSSES	3,800
GAINS ON INVESTMENT SECURITIES	6,649
TOTAL OTHER EXPENSES	66,789
INCOME BEFORE INCOME TAX	8,822
INCOME BEFORE EXTRAORDINARY ITEMS	9,117
EXTRAORDINARY ITEMS	-
CUMULATIVE CHANGE IN ACCOUNTING PRINCIPLES	-
NET INCOME	9,117
EPS-PRIMARY	.46
EPS-DILUTED	.46
INTEREST RATE SPREAD	1.76%
LOANS - NON-ACCRUAL	30,481
LOANS - PAST DUE	-
LOANS - TROUBLED DEBT RESTRUCTURING	-
LOANS - POTENTIAL PROBLEM	-
ALLOWANCE FOR LOAN LOSS - OPENING BALANCE	28,271
CHARGE-OFFS	4,818
RECOVERIES	445
ALLOWANCE FOR LOAN LOSS - CLOSING BALANCE	11,698
ALLOWANCE FOR LOAN LOSS - DOMESTIC	-
ALLOWANCE FOR LOAN LOSS - FOREIGN	-
ALLOWANCE FOR LOAN LOSS - UNALLOCATED	11,698

/TABLE

<TABLE>

Exhibit 99.1

NORTHEAST FEDERAL CORP.
INTEREST RATE SENSITIVITY ANALYSIS
(Dollars in Thousands)

<CAPTION>

	Interest Sensitivity Period					
	Within 6 Months	6 Months- 1 Year	Over 1- 5 Years	Over 5- 10 Years	Over 10 Years	Total
			(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
September 30, 1993						
Interest-earning assets:						
Interest-bearing deposits, federal funds sold and investment securities, net	$ 57,837	$ 37,695	$ 179,786	$ 41,097	$ 33,784	$ 350,199
Mortgage-backed securities, net	829,626	587,998	242,058	110,327	9,155	1,779,164
Loans, net:						
Single-family residential real estate loans:						
Adjustable rate	414,818	278,987	38,897	-	-	732,702

Fixed rate	14,110	9,582	57,445	13,970	7,107	102,214
Consumer loans	17,859	2,371	13,625	2,500	-	36,355
Income property loans	44,188	2,107	15,130	15,169	81	76,675
Commercial loans	-	-	-	-	-	-
Rhode Island covered assets	49,729	8,084	13,769	5,371	-	76,953
Total interest-earning assets	$1,428,167	$ 926,824	$ 560,710	$ 188,434	$ 50,127	$3,154,262
Interest-bearing liabilities:						
Deposits:						
NOW and Super NOW accounts	$ 43,731	2,998	$ 21,404	$ 21,262	$ 72,725	$ 162,120
Money market deposit accounts	300,175	-	-	-	-	300,175
Regular savings	158,643	5,863	41,860	41,581	142,227	390,174
Certificates of deposit	771,133	298,930	354,793	69,217	-	1,494,073
Total deposits	1,273,682	307,791	418,057	132,060	214,952	2,346,542
Borrowings:						
FHLB advances	222,892	-	40,000	-	-	262,892
Securities sold under agreements to repurchase	468,728	-	-	-	-	468,728
Long term borrowings	-	-	-	-	40,305	40,305
Advance payment by borrowers for taxes and insurance	-	-	-	-	22,802	22,802
Total borrowings	691,620	-	40,000	-	63,107	794,727
Total interest-bearing liabilities	$1,965,302	$ 307,791	$ 458,057	$ 132,060	$ 278,059	$3,141,269
Total interest-earning assets less interest-bearing liabilities for the period	$ (537,135)	619,033	$ 102,653	$ 56,374	$ (227,932)	$ 12,993
Cumulative total interest-earning assets less interest-bearing liabilities	$ (537,135)	81,898	$ 184,551	$ 240,925	$ 12,993	$ 12,993
Cumulative total interest-earning assets less interest-bearing liabilities as a percent of total assets	(16.04)%	2.44%	5.51%	7.19%	(0.39)%	(0.39)%

<FN>
For purposes of the above Interest Rate Sensitivity Analysis:

* Fixed rate assets are scheduled by actual maturity; adjustable rate assets are scheduled by the next repricing date; in both cases, assets that have prepayment options are adjusted for the Company's estimate of prepayments.
* NOW accounts are assumed to decay at a rate of 5% per year.
* Regular savings accounts decay assumptions used have the effect of repricing $152.6 million funds in excess of the historical average balance within six months. The historical average balance is assumed to decay at a rate of 5% per year.
* Loans do not include the allowance for loan loss of $11.7 million.
* Loans do not include non-accrual loans of $30.5 million.

</FN>
/TABLE

<TABLE>

Exhibit 99.2

NORTHEAST FEDERAL CORP.
AVERAGE BALANCE SHEET

<CAPTION>

	Three Months Ended September 30,					
	1994			1993		
	Average Balance	Interest Income/ Expense	Average Rate %	Average Balance	Interest Income/ Expense	Average Rate %
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS						
Interest-earning assets:						
Interest-bearing deposits and federal funds sold	$ 25,856	$ 472	7.30%	$ 45,554	$ 389	3.42%
Investment securities, net	334,870	4,388	5.24	190,765	2,470	5.18
Mortgage-backed securities, net	1,756,439	24,780	5.64	1,090,916	13,685	5.02

Loans, net:						
Real estate....................	872,883	14,213	6.51	2,233,069	33,566	6.01
Consumer.......................	36,166	799	8.84	40,681	895	8.80
Income property................	75,052	1,633	8.70	79,480	1,680	8.45
Total loans..................	984,101	16,645	6.77	2,353,230	36,141	6.14
Rhode Island covered assets.......	89,562	1,708	7.63	116,363	2,331	8.01
Total interest-earning assets.......	3,190,828	47,993	6.02%	3,796,828	55,016	5.80%
All other assets..................	154,765			205,171		
Total Assets.................	$3,345,593			$4,001,999		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Brokered deposits................	$ -	$ -	- %	$ 25,335	$ 609	9.54%
Retail deposits:						
Regular savings................	402,116	2,208	2.18	621,518	3,545	2.26
NOWs, Super NOWs and money market savings......	507,941	2,718	2.12	652,675	3,712	2.26
Certificates...................	1,512,899	18,584	4.87	1,759,179	22,033	4.97
Total deposits...............	2,422,956	23,510	3.85	3,058,707	29,899	3.88
Borrowings:						
FHLB advances..................	226,610	2,889	5.06	423,408	3,940	3.69
Securities sold under agreements to repurchase......	459,747	5,620	4.85	289,731	2,496	3.42
Other borrowings...............	69,008	1,071	6.16	68,896	940	5.41
Total borrowings.............	755,365	9,580	5.03	782,035	7,376	3.74
Total interest-bearing liabilities....................	3,178,321	33,090	4.13%	3,840,742	37,275	3.85%
All other liabilities..............	33,057			34,612		
Stockholders' Equity...............	134,215			126,645		
Total Liabilities and Stockholders' Equity........	$3,345,593			$4,001,999		
Net Interest Income................		$14,903			$ 17,741	
Interest Rate Spread...............			1.89%			1.95%
Interest Rate Margin...............			1.91%			1.90%

/TABLE

<TABLE>

Exhibit 99.3

NORTHEAST FEDERAL CORP.
AVERAGE BALANCE SHEET

<CAPTION>

	Nine Months Ended September 30,					
	1994			1993		
	Average Balance	Interest Income/ Expense	Average Rate %	Average Balance	Interest Income/ Expense	Average Rate %
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS						
Interest-earning assets:						
Interest-bearing deposits and federal funds sold.........	$ 41,874	$ 1,626	5.18%	$ 31,161	$ 775	3.32%
Investment securities, net........	290,590	10,722	4.92	227,229	8,625	5.06
Mortgage-backed securities, net...	1,639,492	63,526	5.17	1,015,603	40,593	5.33
Loans, net:						

Real estate....................	1,157,607	53,428	6.15	2,226,705	103,949	6.22
Consumer........................	35,468	2,318	8.71	44,227	2,929	8.83
Income property................	73,247	4,624	8.42	80,442	5,166	8.56
Total loans..................	1,266,322	60,370	6.36	2,351,374	112,044	6.35
Rhode Island covered assets.......	96,273	5,010	6.94	126,785	6,977	7.34
Total interest-earning assets.......	3,334,551	141,254	5.65%	3,752,152	169,014	6.01%
All other assets...................	183,263			222,379		
Total Assets.................	$3,517,814			$3,974,531		

LIABILITIES AND STOCKHOLDERS' EQUITY

Interest-bearing liabilities:						
Brokered deposits................	$ 12,095	$ 860	9.51%	$ 25,312	$ 1,809	9.56%
Retail deposits:						
Regular savings................	493,278	7,909	2.14	652,297	11,789	2.42
NOWs, Super NOWs and money market savings......	571,166	8,964	2.10	663,564	11,985	2.41
Certificates...................	1,661,596	59,009	4.75	1,770,004	67,236	5.08
Total deposits...............	2,738,135	76,742	3.75	3,111,177	92,819	3.99
Borrowings:						
FHLB advances..................	235,871	7,735	4.38	335,903	9,478	3.77
Securities sold under agreements to repurchase......	310,718	9,919	4.27	288,529	7,285	3.38
Other borrowings...............	66,129	3,083	6.23	66,092	2,752	5.57
Total borrowings.............	612,718	20,737	4.52	690,524	19,515	3.78
Total interest-bearing liabilities....................	3,350,853	97,479	3.89%	3,801,701	112,334	3.95%
All other liabilities..............	34,763			39,481		
Stockholders' Equity...............	132,198			133,349		
Total Liabilities and Stockholders' Equity........	$3,517,814			$3,974,531		
Net Interest Income................		$43,775			$ 56,680	
Interest Rate Spread...............			1.76%			2.06%
Interest Rate Margin...............			1.74%			2.00%

/TABLE

<TABLE> Exhibit 99.4

NORTHEAST FEDERAL CORP.
RATE/VOLUME ANALYSIS

<CAPTION>

	Three Months Ended September 30, 1994 vs. September 30, 1993 — Amount of Increase (Decrease) Due to Change in:			
	Volume	Rate	Rate/Volume	Total
	(In Thousands)			
<S>	<C>	<C>	<C>	<C>
Interest income:				
Interest-bearing deposits and federal funds sold..............	$ (168)	$ 443	$ (192)	$ 83
Investment securities, net.............	1,866	30	22	1,918
Mortgage-backed securities, net........	8,349	1,706	1,040	11,095
Loans, net:				
Single-family residential real estate............................	(20,445)	2,795	(1,703)	(19,353)
Consumer............................	(99)	4	(1)	(96)
Income property.....................	(94)	49	(2)	(47)

Total loans	(20,638)	2,848	(1,706)	(19,496)
Rhode Island covered assets	(537)	(112)	26	(623)
Total interest income	(11,128)	4,915	(810)	(7,023)
Interest expense:				
Deposits:				
Brokered deposits	(609)	-	-	(609)
Retail deposits:				
Regular savings	(1,251)	(132)	46	(1,337)
NOWs, Super NOWs and money market savings	(823)	(220)	49	(994)
Certificates	(3,085)	(424)	60	(3,449)
Total deposits	(5,768)	(776)	155	(6,389)
Borrowings:				
FHLB advances	(1,831)	1,458	(678)	(1,051)
Securities sold under agreements to repurchase	1,465	1,046	613	3,124
Other borrowings	2	129	-	131
Total borrowings	(364)	2,633	(65)	2,204
Total interest expense	(6,132)	1,857	90	(4,185)
Change in net interest income	$ (4,996)	$ 3,058	$ (900)	$ (2,838)

/TABLE

<TABLE>

Exhibit 99.5

NORTHEAST FEDERAL CORP.
RATE/VOLUME ANALYSIS

<CAPTION>

	Nine months Ended September 30, 1994 vs. September 30, 1993 — Amount of Increase (Decrease) Due to Change in:			
	Volume	Rate	Rate/Volume	Total
	(In Thousands)			
<S>	<C>	<C>	<C>	<C>
Interest income:				
Interest-bearing deposits and federal funds sold	$ 266	$ 435	$ 150	$ 851
Investment securities, net	2,405	(241)	(67)	2,097
Mortgage-backed securities, net	24,936	(1,241)	(762)	22,933
Loans, net:				
Single-family residential real estate	(49,909)	(1,178)	566	(50,521)
Consumer	(580)	(39)	8	(611)
Income property	(462)	(88)	8	(542)
Total loans	(50,951)	(1,305)	582	(51,674)
Rhode Island covered assets	(1,679)	(379)	91	(1,967)
Total interest income	(25,023)	(2,731)	(6)	(27,760)
Interest expense:				
Deposits:				
Brokered deposits	(945)	(9)	5	(949)
Retail deposits:				
Regular savings	(2,874)	(1,330)	324	(3,880)
NOWs, Super NOWs and money market savings	(1,669)	(1,571)	219	(3,021)
Certificates	(4,118)	(4,377)	268	(8,227)
Total deposits	(9,606)	(7,287)	816	(16,077)

Borrowings:				
FHLB advances	(2,823)	1,537	(457)	(1,743)
Securities sold under agreements to repurchase	560	1,926	148	2,634
Other borrowings	2	329	-	331
Total borrowings	(2,261)	3,792	(309)	1,222
Total interest expense	(11,867)	(3,495)	507	(14,855)
Change in net interest income	$ (13,156)	$ 764	$ (513)	$(12,905)

/TABLE

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.

NORTHEAST FEDERAL CORP.

Registrant

October 21, 1994

/s/ LYNNE M. CARCIA

Lynne M. Carcia
Senior Vice President and Controller
(Principal Accounting Officer)

<TABLE> <S> <C>

<ARTICLE> 9
<LEGEND>
(Dollars in Thousands, Except Per Share and Yield Amounts)
</LEGEND>
<MULTIPLIER> 1,000

<S> <C>
<PERIOD-TYPE> 9-MOS
<FISCAL-YEAR-END> DEC-31-1993
<PERIOD-END> SEP-30-1994
<CASH> 26,881
<INT-BEARING-DEPOSITS> 0
<FED-FUNDS-SOLD> 4,270
<TRADING-ASSETS> 0
<INVESTMENTS-HELD-FOR-SALE> 163,715
<INVESTMENTS-CARRYING> 1,961,378
<INVESTMENTS-MARKET> 1,961,378
<LOANS> 966,730
<ALLOWANCE> 11,698
<TOTAL-ASSETS> 3,349,705
<DEPOSITS> 2,375,460
<SHORT-TERM> 731,620
<LIABILITIES-OTHER> 67,188
<LONG-TERM> 40,305
<COMMON> 136
<PREFERRED-MANDATORY> 0
<PREFERRED> 4
<OTHER-SE> 134,992
<TOTAL-LIABILITIES-AND-EQUITY> 3,349,705
<INTEREST-LOAN> 60,370
<INTEREST-INVEST> 74,248
<INTEREST-OTHER> 6,636
<INTEREST-TOTAL> 141,254
<INTEREST-DEPOSIT> 76,742
<INTEREST-EXPENSE> 97,479
<INTEREST-INCOME-NET> 43,775
<LOAN-LOSSES> 3,800
<SECURITIES-GAINS> 6,649
<EXPENSE-OTHER> 66,789
<INCOME-PRETAX> 8,822
<INCOME-PRE-EXTRAORDINARY> 9,117
<EXTRAORDINARY> 0
<CHANGES> 0
<NET-INCOME> 9,117
<EPS-PRIMARY> $0.46
<EPS-DILUTED> $0.46
<YIELD-ACTUAL> 1.76

```
<LOANS-NON>                                                 30,481
<LOANS-PAST>                                                     0
<LOANS-TROUBLED>                                                 0
<LOANS-PROBLEM>                                                  0
<ALLOWANCE-OPEN>                                            28,271
<CHARGE-OFFS>                                                4,818
<RECOVERIES>                                                   445
<ALLOWANCE-CLOSE>                                           11,698
<ALLOWANCE-DOMESTIC>                                             0
<ALLOWANCE-FOREIGN>                                              0
<ALLOWANCE-UNALLOCATED>                                     11,698


</TABLE>
```