

FEDERAL TRUST CORP  
Form 424B4  
May 15, 2008  
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to Rule 424(b)(4)  
File No. 333-150051

**PROSPECTUS**

**36,842,105 Shares of Common Stock**

**Subscription Rights to Purchase up to 15,788,825**

**Shares of Common Stock at \$0.95 per share**

**Warrants to Purchase 10,000,000**

**Shares of Common Stock at \$0.95 per share**

We are distributing, at no charge to our shareholders, non-transferable subscription rights to purchase up to 15,788,825 shares of our common stock, par value \$0.01 per share. Subscription rights will be distributed to persons who owned shares of our common stock as of 5:00 p.m. Eastern Time, on May 6, 2008, the record date of the rights offering.

Each subscription right will entitle you to purchase 1.6732 shares of our common stock at the subscription price of \$0.95 per share, which we refer to as the basic subscription privilege. If you fully exercise your basic subscription privilege and other shareholders do not fully exercise their basic subscription privileges, you will be entitled to exercise an over-subscription privilege, subject to certain limitations and subject to allotment, to purchase a portion of the unsubscribed shares of our common stock at the same subscription price of \$0.95 per share. To the extent you properly exercise your over-subscription privilege for an amount of shares that exceeds the number of the unsubscribed shares available to you, any excess subscription payments received by the subscription agent will be returned to you, without interest, as soon as practicable following the expiration of the rights offering. Funds we receive from subscribers in the rights offering will be held in escrow by the subscription agent until the rights offering is completed or canceled.

The subscription rights will expire if they are not exercised by 5:00 p.m., Eastern Time, on June 12, 2008. We reserve the right to extend the expiration date one or more times, but in no event will we extend the rights offering beyond June 27, 2008.

We have separately entered into standby purchase agreements with certain institutional investors and high net worth individuals, pursuant to which these investors and individuals have severally agreed to acquire from us, at the subscription price of \$0.95 per share, up to 24,623,646 shares of common stock, and pursuant to which we have agreed to provide two of these investors a total of 10,000,000 warrants that would entitle these investors to purchase in the future 10,000,000 shares of our common stock at \$0.95 per share. The number of shares available for sale to standby purchasers will depend on the number of shares subscribed for in the rights offering. However, in no event will we issue fewer than 21,053,280 shares to standby purchasers. If 15,788,825 shares are purchased in the rights offering, then only 21,053,280 shares will be sold to the standby purchasers. The maximum number of shares that may be sold in the rights offering and to standby purchasers is 36,842,105.

We reserve the right to cancel the rights offering at any time. In the event the rights offering is cancelled, all subscription payments received by the subscription agent will be returned, without interest or penalty, as soon as practicable.

You should carefully consider whether to exercise your subscription rights prior to the expiration of the rights offering. All exercises of subscription rights are irrevocable. Our Board of Directors is making no recommendation regarding your exercise of the subscription rights. The subscription rights may not be sold, transferred or assigned and will not be listed for trading on the American Stock Exchange or any other stock exchange or market or on the OTC Bulletin Board.

Our common stock is traded on the American Stock Exchange under the trading symbol FDT. The last reported sales price of our shares of common stock on May 9, 2008 was \$1.05 per share.

**OFFERING SUMMARY**

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Price: \$0.95 per share

Number of shares	31,578,948	36,842,105
Gross offering proceeds	\$ 30,000,000	\$ 35,000,000
Estimated offering expenses excluding selling agent commissions and expenses	\$ 589,500	\$ 589,500
Selling agent commissions and expenses <sup>(1)</sup>	\$ 2,194,622	\$ 2,194,622
Selling agent commissions and expenses per share <sup>(1)</sup>	\$ 0.07	\$ 0.06
Net proceeds	\$ 27,215,878	\$ 32,215,878
Net proceeds per share	\$ 0.86	\$ 0.87

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- (1) We have engaged Stifel, Nicolaus & Company, Incorporated as our financial and marketing advisor and information agent in connection with the rights offering and the offering to standby purchasers. This is not an underwritten offering. Stifel, Nicolaus & Company, Incorporated is not obligated to purchase any of the shares of common stock that are being offered for sale. Please see Plan of Distribution Financial Advisor for a discussion of Stifel, Nicolaus & Company, Incorporated's compensation for the rights offering and the offering to standby purchasers.

**This investment involves risks, including the possible loss of principal.**

**Please read Risk Factors beginning on page 16.**

*These securities are not deposits, savings accounts or other obligations of any bank and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Neither the Securities and Exchange Commission, the Office of Thrift Supervision, nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.*

## Stifel Nicolaus

The date of this prospectus is May 12, 2008.

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You should rely only on the information contained in this prospectus. We have not, and our agent, Stifel, Nicolaus & Company, Incorporated, has not, authorized anyone to provide you with different information. The information contained in this prospectus is accurate only as of the date of this prospectus regardless of the time of delivery of this prospectus or any exercise of the subscription rights. Our business, financial condition, results of operations and prospects may have changed since those dates. We are not making an offer of these securities in any state or jurisdiction where the offer is not permitted.

In the prospectus we rely on and refer to information and statistics regarding the banking industry and the banking market in Florida. We obtained this market data from independent publications or other publicly available information. Although we believe these sources are reliable, we have not independently verified and do not guarantee the accuracy and completeness of this information.

Unless the context indicates otherwise, all references in this prospectus to *we*, *our* and *us* refer to Federal Trust Corporation and our subsidiaries, Federal Trust Bank and Federal Trust Mortgage Company; except that in the discussion of our subscription rights and capital stock and related matters these terms refer solely to Federal Trust Corporation and not to any of our subsidiaries.

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**QUESTIONS AND ANSWERS RELATING TO THE RIGHTS OFFERING**

**What is the rights offering?**

We are distributing, at no charge, to holders of our shares of common stock, non-transferable subscription rights to purchase shares of our common stock. You will receive one subscription right for each share of common stock you owned as of 5:00 p.m., Eastern Time, on May 6, 2008, the record date. Each subscription right entitles the holder to a basic subscription privilege and an over-subscription privilege, which are described below. The shares to be issued in the rights offering, like our existing shares of common stock, will be traded on the American Stock Exchange under the symbol FDT.

**What is the offering to the standby purchasers?**

We have entered into separate standby purchase agreements with certain institutional investors and high net worth individuals, pursuant to which we have agreed to sell, and these investors and individuals have severally agreed to purchase from us, up to 24,623,646 shares of our common stock. We have also agreed to provide two of these investors a total of 10,000,000 warrants that would entitle these investors to purchase up to 10,000,000 shares of our common stock at \$0.95 per share. The standby purchase commitments are subject to certain conditions as set forth in the standby purchase agreements. The number of shares available for sale to the standby purchasers will depend on the number of shares subscribed for in the rights offering. The standby purchase agreements assure that in no event will we issue fewer than 21,053,280 shares and 10,000,000 warrants, in the aggregate, to standby purchasers. The price per share paid by the standby purchasers for such common stock, and the exercise price of the warrants, will be equal to the subscription price paid by our shareholders in the rights offering. We have also agreed to provide each of two of the standby purchasers the right to select one candidate for appointment to the boards of directors of Federal Trust Corporation and Federal Trust Bank. Subject to receipt of regulatory approval, we have also agreed to provide each of these two standby purchasers the right to select one individual who will have observer rights at these board meetings. In the event we terminate the standby purchase agreements because our Board of Directors determines, in the exercise of its fiduciary duties, that it is not in the best interests of Federal Trust Corporation and our shareholders to go forward with the stock offerings, then we will pay the standby purchasers liquidated damages totaling \$3.3 million. See The Rights Offering Standby Commitments.

**Why are we conducting the stock offerings?**

We will refer to the rights offering and the offering to standby purchasers collectively as the stock offerings. We are conducting the stock offerings to raise equity capital to improve Federal Trust Bank's capital position, and to retain additional capital at Federal Trust Corporation for general corporate purposes. Our Board of Directors has chosen to raise capital through a rights offering to give our shareholders the opportunity to limit ownership dilution by permitting them to buy additional shares of our common stock, and has chosen to raise additional capital through the sale of shares to standby purchasers to improve the likelihood of success of our capital-raising efforts. There can be no assurance of the amount of dilution that a shareholder may experience from the stock offerings or that the stock offerings will be successful. Furthermore, we cannot assure you that we will not need to seek additional financing or engage in additional capital offerings in the future.

**What is the basic subscription privilege?**

The basic subscription privilege of each subscription right gives our shareholders the opportunity to purchase 1.6732 shares of our common stock at a subscription price of \$0.95 per share. We have granted to you, as a shareholder of record as of 5:00 p.m., Eastern Time, on the record date, one subscription right for each share of our common stock you owned at that time. Fractional shares of our common stock resulting from the exercise of the basic subscription privilege will be eliminated by rounding down to the nearest whole share. For example, if you owned 100 shares of our common stock as of 5:00 p.m., Eastern Time, on the record date, you would have received 100 subscription rights and would have the right to purchase 167 shares of common stock for \$0.95 per share. You may exercise all or a portion of your basic subscription privilege or you may choose not to exercise any subscription

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rights at all. However, if you exercise less than your full basic subscription privilege, you will not be entitled to purchase any additional shares by using your over-subscription privilege.

If you hold a Federal Trust Corporation stock certificate, the number of rights you may exercise pursuant to your basic subscription privilege is indicated on the enclosed rights certificate. If you hold your shares in the name of a custodian bank, broker, dealer or other nominee, you will not receive a rights certificate. Instead, the Depository Trust Company (DTC) will issue one subscription right to the nominee record holder for each share of our common stock that you own at the record date. If you are not contacted by your custodian bank, broker, dealer or other nominee, you should contact your nominee as soon as possible.

### **What is the over-subscription privilege?**

In the event that you purchase all of the shares of our common stock available to you pursuant to your basic subscription privilege, you may also choose to purchase a portion of any shares of our common stock that are not purchased by our other shareholders through the exercise of their basic subscription privileges. You should indicate on your rights certificate how many additional shares you would like to purchase pursuant to your over-subscription privilege. Limitations on the amount of common stock that may be subscribed for pursuant to your over-subscription privilege are described below under the heading "Are there any limits on the number of shares I may purchase in the rights offering or own as a result of the rights offering?"

If sufficient shares of common stock are available, we will seek to honor your over-subscription request in full. If, however, over-subscription requests exceed the number of shares of common stock available, we will allocate the available shares of common stock among shareholders who over-subscribed by multiplying the number of shares requested by each shareholder through the exercise of their over-subscription privileges by a fraction that equals (x) the number of shares available to be issued through over-subscription privileges divided by (y) the total number of shares requested by all subscribers through the exercise of their over-subscription privileges. As described above for the basic subscription privilege, we will not issue fractional shares through the exercise of over-subscription privileges.

In order to properly exercise your over-subscription privilege, you must deliver the subscription payment related to your over-subscription privilege at the time you deliver payment related to your basic subscription privilege. Because we will not know the actual number of unsubscribed shares prior to the expiration of the rights offering, if you wish to maximize the number of shares you purchase pursuant to your over-subscription privilege, you will need to deliver payment in an amount equal to the aggregate subscription price for the maximum number of shares of our common stock that may be available to you. For that calculation, you must assume that no other shareholder, other than you and the standby purchasers, who have agreed to exercise their basic subscription privileges for an aggregate of approximately 1,698,216 shares, will subscribe for any shares of our common stock pursuant to their basic subscription privilege. See "The Rights Offering" "The Subscription Rights" "Over-Subscription Privilege."

### **How was the \$0.95 per share subscription price determined?**

In determining the subscription price, our Board of Directors considered a number of factors, including: the price at which our shareholders might be willing to participate in the rights offering, historical and current trading prices for our common stock, the need for liquidity and capital, negotiations with standby purchasers, and the desire to provide an opportunity to our shareholders to participate in the rights offering on a pro rata basis. In conjunction with its review of these factors, our Board of Directors also reviewed our history and prospects, including our past and present earnings, our prospects for future earnings, our current financial condition and regulatory status. We expect to receive a fairness opinion from our financial advisor with respect to the consideration to be paid to Federal Trust Corporation prior to the closing of the stock offerings, but we have not received a fairness opinion as of the date of this prospectus. The subscription price is not necessarily related to our book value, net worth or any other established criteria of value and may or may not be considered the fair value of our common stock to be offered in the rights offering. You should not assume or expect that, after the stock offerings, our shares of common stock will trade at or above the \$0.95 purchase price.

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### **Am I required to exercise all of the subscription rights I receive in the rights offering?**

No. You may exercise any number of your subscription rights, or you may choose not to exercise any subscription rights. If you do not exercise any subscription rights, the number of shares of our common stock you own will not change. However, if you choose not to exercise your basic subscription rights in full, your ownership interest in Federal Trust Corporation will be diluted as a result of the stock offerings, and if you fully exercise your basic subscription rights, but do not exercise a certain level of over-subscription rights, you will experience dilution as a result of the sale of shares to standby purchasers. In addition, if you do not exercise your basic subscription privilege in full, you will not be entitled to participate in the over-subscription privilege. See **Risk Factors** **Risks Related to the Rights Offering** The stock offerings may reduce your percentage ownership in Federal Trust Corporation.

### **How soon must I act to exercise my subscription rights?**

If you received a rights certificate and elect to exercise any or all of your subscription rights, the subscription agent must receive your completed and signed rights certificate and payments prior to the expiration of the rights offering, which is June 12, 2008, at 5:00 p.m., Eastern Time. If you hold your shares in the name of a custodian bank, broker, dealer or other nominee, your nominee may establish a deadline prior to 5:00 p.m. Eastern Time, on June 12, 2008 by which you must provide it with your instructions to exercise your subscription rights and payment for your shares. Our Board of Directors may, in its discretion, extend the rights offering one or more times, but in no event will the expiration date be later than June 27, 2008. Our Board of Directors may cancel the rights offering at any time. In the event that the rights offering is cancelled, all subscription payments received will be returned, without interest, as soon as practicable.

Although we will make reasonable attempts to provide this prospectus to holders of subscription rights, the rights offering and all subscription rights will expire at 5:00 p.m., Eastern Time on June 12, 2008 (unless extended), whether or not we have been able to locate each person entitled to subscription rights.

### **May I transfer my subscription rights?**

No. You may not sell, transfer or assign your subscription rights to anyone. Subscription rights will not be listed for trading on the American Stock Exchange or any other stock exchange or market or on the OTC Bulletin Board. Rights certificates may only be completed by the shareholder who receives the certificate.

### **Are we requiring a minimum subscription to complete the stock offerings?**

There is no individual minimum purchase requirement in the rights offering. However, we cannot complete the stock offerings unless we receive aggregate subscriptions of at least \$30.0 million (31,578,948 shares) of common stock in the stock offerings. This includes purchases by the standby purchasers of up to 24,623,646 shares of our common stock.

### **Has our Board of Directors made a recommendation to our shareholders regarding the rights offering?**

Our Board of Directors is making no recommendation regarding your exercise of the subscription rights. Shareholders who exercise subscription rights risk investment loss on new money invested. We cannot predict the price at which our shares of common stock will trade; therefore, we cannot assure you that the market price for our common stock will be above the subscription price or that anyone purchasing shares at the subscription price will be able to sell those shares in the future at the same price or a higher price. You are urged to make your decision based on your own assessment of our business and the rights offering. Please see **Risk Factors** for a discussion of some of the risks involved in investing in our common stock.

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### **Are there any limits on the number of shares I may purchase in the rights offering or own as a result of the rights offering?**

A person, together with certain related persons, may not purchase more than \$3.8 million (4,000,000 shares) of our common stock, and a person, together with certain related persons, may not own more than 4,000,000 shares of our common stock as a result of purchases in the rights offering. These limitations do not apply to certain of the standby purchasers. See [The Rights Offering Limit on How Many Shares of Common Stock You May Purchase in the Rights Offering](#).

In addition, with the exception of the issuance of shares to certain of our standby purchasers, we will not issue shares of our common stock pursuant to the exercise of basic subscription rights or over-subscription rights, or to any shareholder or standby purchaser who, in our sole opinion, could be required to obtain prior clearance or approval from or submit a notice to any state or federal bank regulatory authority to acquire, own or control such shares if, as of June 12, 2008, such clearance or approval has not been obtained and/or any applicable waiting period has not expired. If we elect not to issue shares in such a case, the unissued shares will become available to satisfy over-subscriptions by other shareholders pursuant to their subscription rights and will thereafter be available to standby purchasers.

### **How do I exercise my subscription rights if I own shares in certificate form?**

If you hold a Federal Trust Corporation stock certificate and you wish to participate in the rights offering, you must take the following steps:

deliver payment to the subscription agent; and

deliver a properly completed and signed rights certificate, and related subscription documents, to the subscription agent. In certain cases, you may be required to provide additional documentation or signature guarantees.

Please follow the delivery instructions on the rights certificate. Do not deliver documents to Federal Trust Corporation. You are solely responsible for completing delivery to the subscription agent of your subscription documents, rights certificate and payment. We urge you to allow sufficient time for delivery of your subscription materials to the subscription agent so that they are received by the subscription agent by 5:00 p.m. Eastern Time, on June 12, 2008.

If you send a payment that is insufficient to purchase the number of shares you requested, or if the number of shares you requested is not specified in the forms, the payment received will be applied to exercise your subscription rights to the full extent possible based on the amount of the payment received, subject to the availability of shares under the over-subscription privilege and the elimination of fractional shares. Any excess subscription payments received by the subscription agent will be returned, without interest, as soon as practicable following the expiration of the rights offering.

### **What form of payment is required to purchase the shares of our common stock?**

As described in the instructions accompanying the rights certificate, payments submitted to the subscription agent must be made in full United States currency by:

bank check or bank draft payable to Registrar and Transfer Company, drawn upon a United States bank;

postal, telegraphic or express money order payable to Registrar and Transfer Company; or



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wire transfer of immediately available funds to the account maintained by Registrar and Transfer Company. You may not remit personal checks of any type.

### **What should I do if I want to participate in the rights offering, but my shares are held in the name of a custodian bank, broker, dealer or other nominee?**

If you hold your shares of common stock through a custodian bank, broker, dealer or other nominee, then your nominee is the record holder of the shares you own. If you are not contacted by your nominee, you should contact your nominee as soon as possible. Your nominee must exercise the subscription rights on your behalf for the shares of common stock you wish to purchase. You will not receive a rights certificate. Please follow the instructions of your nominee. Your nominee may establish a deadline that may be before the 5:00 p.m., Eastern Time, June 12, 2008 expiration date that we have established for the rights offering.

### **When will I receive my new shares?**

If you purchase stock in the rights offering by submitting a rights certificate and payment, we will mail you a stock certificate as soon as practicable after the expiration date of the rights offering. If your shares as of May 6, 2008 were held by a custodian bank, broker, dealer or other nominee, and you participate in the rights offering, you will not receive stock certificates for your new shares. Your nominee will be credited with the shares of common stock you purchase in the rights offering as soon as practicable after the expiration of the rights offering.

### **After I send in my payment and rights certificate, may I cancel my exercise of subscription rights?**

No. All exercises of subscription rights are irrevocable unless the rights offering is terminated, even if you later learn information that you consider to be unfavorable to the exercise of your subscription rights. You should not exercise your subscription rights unless you are certain that you wish to purchase shares of our common stock in the rights offering.

### **Are there any conditions to completing the rights offering?**

Yes. We must meet the following conditions to complete the rights offering:

We must sell the minimum offering amount of at least \$30.0 million (31,578,948 shares) of common stock in the stock offerings, which includes the purchases by the standby purchasers of up to 24,623,646 shares of our common stock.

Our shareholders as of May 6, 2008 must approve an amendment to our Restated Articles of Incorporation to increase the number of authorized shares of common stock to 65,000,000. Our Restated Articles of Incorporation currently authorize us to issue 15,000,000 shares of common stock, which is less than the sum of our current outstanding shares plus the number of shares we are offering for sale in the stock offerings. At our 2008 Annual Meeting of Shareholders, which is scheduled to be held on June 16, 2008, we are submitting a proposal to shareholders to amend the Restated Articles of Incorporation.

Our shareholders as of May 6, 2008 must approve the issuance of shares and warrants to standby purchasers. At our 2008 Annual Meeting of Shareholders, we are submitting a proposal to our shareholders to approve the issuance of shares and warrants to the standby purchasers.

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### **Will our directors and officers participate in the rights offering?**

We expect our directors and officers, together with their affiliates, will subscribe for, in the aggregate, 305,267 shares of common stock in the rights offering. The purchase price paid by them will be \$0.95 per share, the same paid by all other persons who purchase shares of our common stock in the stock offerings. Following the stock offerings, our directors and executive officers, together with their affiliates, are expected to own 633,724 shares of common stock, or 1.5% of our total outstanding shares of common stock if we sell 31,578,948 shares of stock in the stock offerings, including shares they currently own in Federal Trust Corporation.

### **Are the standby purchasers receiving any compensation for the standby commitments?**

No. The standby purchasers are not receiving compensation for their standby commitments. However, two of the standby purchasers are each receiving up to \$150,000 for payment of reimbursable expenses. In addition, in connection with their purchase of shares of common stock, we are issuing an aggregate of 10,000,000 warrants with an exercise price of \$0.95 per share to these two standby purchasers.

### **What agreements do we have with the standby purchasers?**

Each of the standby purchasers executed a non-disclosure agreement and accordingly gained access to certain nonpublic information about us and participated in discussions with our management. In addition, the standby purchasers performed a due diligence review of Federal Trust Corporation and subsequently negotiated and executed standby purchase agreements.

### **How many shares will the standby purchasers own after the stock offerings?**

After the stock offerings, the standby purchasers will own between 22,068,231 shares of our common stock (47.7% of our outstanding shares) and 25,638,597 shares of our common stock (up to 62.5% of our outstanding shares), depending on how many shares of common stock we sell in the stock offerings. The standby purchasers will also hold warrants to purchase 10,000,000 shares (24.4% of our outstanding shares if we sell 31,578,948 shares in the stock offerings).

### **What effects will the stock offerings have on our outstanding common stock?**

As of May 6, 2008, we had 9,436,305 shares of our common stock issued and outstanding. Assuming no options are exercised prior to the expiration of the rights offering and assuming all shares are sold in the rights offering and to standby purchasers, we expect approximately 46,278,410 shares of our common stock will be outstanding immediately after completion of the rights offering and the closing of the transactions contemplated by the standby purchase agreements.

The issuance of shares of our common stock in the stock offerings will dilute, and thereby reduce, your proportionate ownership in our shares of common stock unless you fully exercise your basic subscription privilege and a certain level of your over-subscription privilege. The exercise of warrants to be issued in the stock offerings would further dilute your proportionate ownership. In addition, the issuance of shares of our common stock at the subscription price, which is less than the market price as of May 9, 2008, will likely reduce the price per share of shares held by you prior to the stock offerings.

### **How much will we receive in net proceeds from the stock offerings?**

We expect that the aggregate stock offering proceeds, net of expenses, to be between \$27.2 million and \$32.2 million. Subject to Office of Thrift Supervision approval of or non-objection to the capital plan we intend to adopt, described in Supervision and Regulation Cease and Desist Orders, we intend to invest between \$10.0 million and \$20.0 million of the net proceeds in Federal Trust Bank to improve its regulatory capital position, and retain the remainder of the net proceeds. The net proceeds we retain may be used for the payment of dividends on trust preferred securities, the repayment of debt and general corporate purposes and further investment in Federal

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Trust Bank, if required by the Office of Thrift Supervision or if we otherwise determine to make such a further investment. Please see Use of Proceeds.

### **Are there risks in exercising my subscription rights?**

Yes. The exercise of your subscription rights involves risks. Exercising your subscription rights involves the purchase of additional shares of our common stock and should be considered as carefully as you would consider any other equity investment. Among other things, you should carefully consider the risks described under the heading Risk Factors in this prospectus.

### **If the rights offering is not completed, will my subscription payment be refunded to me?**

Yes. The subscription agent will hold all funds it receives in a segregated bank account until completion of the rights offering. If the rights offering is not completed, all subscription payments received by the subscription agent will be returned, without interest, as soon as practicable. If your shares are held in the name of a custodian bank, broker, dealer or other nominee, it may take longer for you to receive the refund of your subscription payment because the subscription agent will return payments through the record holder of your shares.

### **What fees or charges apply if I purchase shares of the common stock in the rights offering?**

We are not charging any fee or sales commission to issue subscription rights to you or to issue shares to you if you exercise your subscription rights (other than the subscription price). If you exercise your subscription rights through a custodian bank, broker, dealer or other nominee, you are responsible for paying any fees your nominee may charge you.

### **What is the role of Stifel, Nicolaus & Company, Incorporated in the stock offerings?**

We have entered into an agreement with Stifel, Nicolaus & Company, Incorporated, pursuant to which Stifel, Nicolaus & Company, Incorporated is acting as our financial advisor and marketing and information agent in connection with the stock offerings and will use its best efforts to assist us in soliciting the exercise of subscription rights for the purchase of shares of our common stock and in soliciting the standby purchasers. Stifel, Nicolaus & Company, Incorporated is not acting as an underwriter and is not obligated to purchase any shares of our common stock in the stock offerings. We have agreed to pay certain fees to, and expenses of, Stifel, Nicolaus & Company, Incorporated.

### **Who should I contact if I have other questions?**

If you have other questions regarding Federal Trust Corporation, Federal Trust Bank or the stock offerings, please contact our information agent, Stifel, Nicolaus & Company, Incorporated, at (866) 779-2408 (toll free), Monday through Friday (except bank holidays), between 10:00 a.m. and 4:00 p.m., Eastern Time.

If you have any questions regarding completing a rights certificate or submitting payment in the rights offering, please contact our subscription agent for the rights offering, Registrar and Transfer Company, at (800) 368-5948 (toll free), Monday through Friday (except bank holidays), between 10:00 a.m. and 4:00 p.m., Eastern Time.

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**SUMMARY**

*The following summary contains basic information about us and the rights offering. Because it is a summary, it may not contain all of the information that is important to you. For additional information before making a decision to invest in our shares of common stock, you should read this prospectus carefully, including the consolidated financial statements, the notes to the consolidated financial statements and the sections entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, The Rights Offering and Risk Factors.*

**Federal Trust Corporation**

Federal Trust Corporation is a savings and loan holding company, headquartered in Sanford, Florida. Our primary subsidiary, Federal Trust Bank, is a federally chartered savings bank that operates 11 full service branch offices located in Central Florida as set forth on the map on the inside cover of this prospectus. Through Federal Trust Bank, we offer a range of lending services to small- to medium-sized businesses and individuals located in our market areas, including real estate, construction, commercial and consumer loans. We fund our lending services with an array of deposit products, including checking, savings and money market accounts and certificates of deposit. Until April 2008, we operated a residential mortgage company, Federal Trust Mortgage Company, where we originated residential mortgage loans, purchased and sold mortgage loans in the secondary market, and serviced residential mortgage loans, including loans in Federal Trust Bank's loan portfolio. In April 2008, the operations of Federal Trust Mortgage Company were consolidated into Federal Trust Bank, and will operate as a department of Federal Trust Bank. At December 31, 2007, we had consolidated assets of \$690.3 million, deposits of \$481.7 million and stockholders' equity of \$39.7 million.

Federal Trust Corporation's executive offices are located at 312 West 1<sup>st</sup> Street, Sanford, Florida 32771. Our telephone number at this address is (407) 323-1833. Our website is [www.federaltrust.com](http://www.federaltrust.com). Information on our website is not incorporated in this prospectus and is not part of this prospectus.

**Cease and Desist Orders**

The Office of Thrift Supervision recently concluded examinations of the operations of Federal Trust Corporation and Federal Trust Bank. The Office of Thrift Supervision noted weaknesses and failures relating primarily to our real estate lending practices and asset quality, and their impact on our capital and earnings. We have taken action and implemented procedures that management believes will address the weaknesses identified by the Office of Thrift Supervision. However, the Office of Thrift Supervision has presented cease and desist orders to Federal Trust Corporation and Federal Trust Bank, which are designed to ensure that the weaknesses noted in the recently concluded examinations are properly addressed. We have negotiated the terms of these enforcement orders with the Office of Thrift Supervision and have stipulated to the issuance of the orders. The orders provide that:

we must submit for review and approval by the Office of Thrift Supervision a capital plan to raise additional capital for Federal Trust Bank by July 15, 2008 and, if the additional capital cannot be raised by such date, to enter into a merger agreement with a merger or acquisition partner by August 31, 2008;

Federal Trust Bank must submit for review and approval or non-objection by the Office of Thrift Supervision a detailed business plan to strengthen and improve Federal Trust Bank's operations, earnings, liquidity and capital;

Federal Trust Bank must submit quarterly reports to the Office of Thrift Supervision regarding compliance with the business plan;

until the Office of Thrift Supervision has approved or provided its non-objection to Federal Trust Bank's business plan, Federal Trust Bank will not be permitted to increase its current levels of

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construction loans, acquisition and development loans, non-residential permanent mortgage loans, land loans and certain other loans without the prior approval of the Office of Thrift Supervision;

until the Office of Thrift Supervision has approved or provided its non-objection to Federal Trust Bank's business plan, Federal Trust Bank will not be permitted to increase its total assets during any quarter in excess of an amount equal to the net interest credited on deposit liabilities during the quarter without the prior approval of the Office of Thrift Supervision;

Federal Trust Bank must submit for review and approval or non-objection by the Office of Thrift Supervision an asset review program that will (i) strengthen and ensure the timely identification and proper classification of problem assets, (ii) ensure adequate and proper levels of the allowance for loan and lease losses, and (iii) establish individualized resolution plans for problem assets;

Federal Trust Bank will not be permitted to declare a dividend without the prior written approval of the Office of Thrift Supervision;

Federal Trust Bank must revise its legal lending limit policies and procedures to ensure compliance with applicable law and devise an action plan to correct any legal lending limit violations;

Federal Trust Bank will not be permitted to enter into, renew or modify any agreements with us or enter into affiliated transactions with us, without prior approval of the Office of Thrift Supervision;

Federal Trust Bank will not be permitted to enter into any third-party contracts for services outside the normal course of business without prior review and approval of the Office of Thrift Supervision;

the Board of Directors of Federal Trust Bank must submit a plan to strengthen the Board of Directors' oversight of management and Federal Trust Bank's operations;

the Board of Directors of Federal Trust Bank must conduct a review of Federal Trust Bank's lending functions and assess the qualifications, experience and proficiency of Federal Trust Bank's management and lending staff; and

the Board of Directors of Federal Trust Bank must establish a committee comprised of non-employee directors to monitor and coordinate Federal Trust Bank's compliance with the provisions of its enforcement order.

See Risk Factors Risks Related to Our Business We have stipulated to cease and desist orders with the Office of Thrift Supervision. These orders will significantly restrict our operations. The failure to comply with these orders can result in significant penalties.

### **Additional Operating Restrictions**

As a result of the loan loss provisions recorded during the year ended December 31, 2007, Federal Trust Bank's risk-based capital ratio fell below the amount required for the "well capitalized" designation for bank regulatory purposes. As a result, Federal Trust Bank was considered "adequately capitalized" as of December 31, 2007, with tier 1 leverage, tier 1 risk-based and total risk-based capital ratios of 5.77%, 8.32% and 9.57%, respectively. Because Federal Trust Bank does not qualify for the "well capitalized" designation, it is subject to restrictions on its operations in addition to those that are being imposed through the cease and desist order, described above. These restrictions include the inability to accept brokered deposits and the inability to expand our branch network without regulatory approval. Furthermore, as a result of the Federal Home Loan Bank of Atlanta's



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assessment of our recent financial condition, we will not have access to additional advances nor will we be able to renew existing advances from the Federal Home Loan Bank.

On April 25, 2008, Federal Trust Corporation and Federal Trust Bank were notified by the Office of Thrift Supervision that the following regulatory and supervisory restrictions apply to Federal Trust Corporation and Federal Trust Bank, some of which restrictions are similar to those included in the cease and desist orders:

Federal Trust Corporation and Federal Trust Bank are not eligible to have applications or notices processed by the Office of Thrift Supervision on an expedited basis;

Federal Trust Corporation and Federal Trust Bank are required to provide prior notice to the Office of Thrift Supervision for additions or changes to directors or senior executive officers;

all employment contracts or compensation arrangements, including severance payments, to directors and senior executive officers are subject to prior review by the Office of Thrift Supervision;

the ability of Federal Trust Corporation and Federal Trust Bank to make any compensatory payments to any person previously affiliated with Federal Trust Corporation or Federal Trust Bank following such person's termination of employment is restricted by applicable federal regulation; and

Federal Trust Bank's growth is restricted in that it may not increase its assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities.

In addition, the Office of Thrift Supervision has placed the following restrictions on Federal Trust Corporation and Federal Trust Bank, some of which restrictions are similar to those included in the cease and desist orders:

Federal Trust Bank may not pay any dividends or make any form of capital distribution without the prior written approval of the Office of Thrift Supervision, and Federal Trust Corporation may not request or accept any dividend or any form of capital distribution from Federal Trust Bank without the prior written approval of the Office of Thrift Supervision;

Federal Trust Corporation may not declare or pay any dividend without the prior written approval of the Office of Thrift Supervision, and Federal Trust Corporation must request Office of Thrift Supervision approval for the payment of a dividend in writing at least 30 calendar days prior to the proposed dividend declaration date;

Federal Trust Corporation may not issue any debt securities or otherwise incur any additional debt without the prior written approval of the Office of Thrift Supervision; and

Federal Trust Corporation may not make any payments of any kind, or in any form, to any person or entity in an amount exceeding \$5,000 in any calendar month without the prior written approval of the Office of Thrift Supervision.

Federal Trust Corporation has received Office of Thrift Supervision approval to pay certain fees and expenses in connection with the stock offerings.

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See Risk Factors Risks Related to Our Business An inability to improve our regulatory capital position could adversely affect our operations and The Office of Thrift Supervision has placed additional restrictions on our operations.



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### **Recent Financial Performance**

Our net income has declined in recent years, from \$4.4 million for the year ended December 31, 2005, to \$3.4 million for the year ended December 31, 2006, to a net loss of \$14.2 million for the year ended December 31, 2007. The net loss for the year ended December 31, 2007 was caused primarily by a significant increase in non-performing assets, which necessitated a provision for loan losses of \$16.4 million, compared to a provision for loan losses of \$639,000 for the year ended December 31, 2006. In addition, we experienced a decline in net interest income to \$11.7 million for the year ended December 31, 2007 compared to \$15.7 million for the year ended December 31, 2006, due to net interest margin compression associated with a higher cost of deposits as well as increased foregone interest income resulting from non-accrual loans. Non-interest expense was \$19.5 million for the year ended December 31, 2007, compared to \$12.5 million for the year ended December 31, 2006, primarily as a result of expenses associated with working out our non-performing assets and charges associated with the termination of our former Chief Executive Officer.

See **Risk Factors** **Risks Related to Our Business** We experienced an operating loss during the year ended December 31, 2007 and we may not return to profitability in the future and **Management's Discussion and Analysis of Financial Condition and Results of Operations** for a further discussion of our recent financial performance. See **Recent Developments** for a summary of our financial results as of and for the three months ended March 31, 2008.

### **Business Strategy**

Our business strategy is to take the measures required in the enforcement orders of the Office of Thrift Supervision while building a profitable, well capitalized, full-service community bank with operations in Central Florida. We intend to focus on providing excellent customer service, expanding our product offerings, originating quality loans in our market area, and increasing the amount of deposits we receive from our local markets. The following are highlights of our business strategy:

*New executive management team members.* To execute on our strategy, we have made significant changes to our executive management team over the last year and assembled a team of bankers with significant depth and breadth, including 68 years of combined experience in the banking industry. In September of 2007, we hired Dennis T. Ward, our President and Chief Executive Officer, to provide the leadership to implement our revitalized business plan. In the last year, we also hired our Executive Vice President and Senior Loan Officer, Mark E. McRae, and our Senior Vice President and Chief Credit Officer, Lindsay Sandham.

*Build core relationships with customers and enhance our sales culture.* The primary goal of our management team is to build core relationships and better utilize our existing franchise to generate future growth when economic conditions improve. During 2007, we hired a new sales manager for our branch offices, implemented new training procedures for our staff and focused our efforts on developing a broader range of financial products, in order to establish a framework for an enhanced business and sales culture that will better enable us to serve our customers.

*Increase loan originations in local markets with better credit underwriting standards while remaining focused on the effective management of non-performing assets.* We believe that our renewed focus on in-market retail and small business loan originations, coupled with our recently strengthened underwriting policies and procedures, will help us originate higher-quality loans with favorable risk-adjusted returns. In light of current market conditions in Florida, we have spent considerable effort and resources on the early identification and quantification of potential problem assets. Our new management team is working aggressively toward resolving our non-performing loans and has established a team experienced in resolving problem assets and managing the workout process to minimize net charge-offs, including the recent hiring of an experienced loan workout specialist who will focus full time on the workout and resolution of non-performing and classified assets.

*Decrease reliance on wholesale funding sources.* Historically, we have relied significantly on brokered deposits and Federal Home Loan Bank advances in order to fund our loan portfolio. Given our current financial

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condition, the availability of funding sources is constrained in that we cannot renew, replace or accept brokered deposits without prior regulatory approval, and we cannot access additional advances or renew existing advances from the Federal Home Loan Bank. We are focused on replacing these more expensive and volatile funding options by leveraging our existing network of 11 branches to increase core deposits and lower cost transaction accounts.

In addition to our short-term objectives of resolving problem assets, and improving our liquidity and capital designation, our long-term goal is to transition our asset and liability mix to that of a traditional community bank. We believe that eliminating purchases of pooled residential real estate loans along with reducing our portfolio of large land acquisition, development and residential loans in favor of smaller commercial business loans, while establishing a lower cost deposit base through a strong retail banking franchise, will be critical to our ability to implement our long-term strategy.

See Management's Discussion and Analysis of Financial Condition and Results of Operations Business Strategy.

**Our Dividend Policy**

We discontinued paying cash dividends on our shares of common stock during the quarter ended September 30, 2007. Currently, we have no plans to resume the payment of cash dividends on our shares of common stock, and we are subject to Office of Thrift Supervision restrictions on our ability to pay dividends.

See Selected Consolidated Financial and Other Data and Market for the Common Stock and Dividend Information for information regarding our historical dividend payments.

**The Rights Offering**

Securities Offered	We are distributing to you, at no charge, one non-transferable subscription right for each share of our common stock that you owned as of 5:00 p.m., Eastern Time, on May 6, 2008, either as a holder of record or, in the case of shares held of record by custodian banks, brokers, dealers or other nominees on your behalf, as a beneficial owner of such shares.
Subscription Price	\$0.95 per share.
Record Date	5:00 p.m., Eastern Time, on May 6, 2008.
Expiration of the Rights Offering	5:00 p.m., Eastern Time, on June 12, 2008. We may extend the rights offering without notice to you until June 27, 2008.
Use of Proceeds	We expect the aggregate net proceeds from the stock offerings to be between \$27.2 million and \$32.2 million. We intend to use the proceeds of the stock offerings to invest in Federal Trust Bank to improve its regulatory capital position, to pay dividends on trust preferred securities, to repay debt and for general corporate purposes.
Basic Subscription Privilege	The basic subscription privilege of each subscription right will entitle you to purchase 1.6732 shares of our common stock at a subscription price of \$0.95 per share; however, fractional shares of our common stock resulting from the exercise of the basic subscription privilege will be eliminated by rounding down to the nearest whole share. The number of rights you may exercise appears on your rights certificate.

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Over-Subscription Privilege	In the event that you purchase all of the shares of our common stock available to you pursuant to your basic subscription privilege, you may also choose to subscribe for a portion of any shares of our common stock that are not purchased by our shareholders through the exercise of their basic subscription privileges. You may subscribe for shares of common stock pursuant to your over-subscription privilege, subject to the purchase and ownership limitations described below under the heading <b>Limitations on the Purchase of Shares</b> .
Limitations on the Purchase of Shares	A person, together with certain related persons, may not purchase more than \$3.8 million (4,000,000 shares) of our common stock, and a person, together with certain related persons, may not own more than 4,000,000 shares of our common stock as a result of purchases in the rights offering. These limitations do not apply to certain of our standby purchasers. See <b>The Rights Offering Limit on How Many Shares of Common Stock You May Purchase in the Rights Offering</b> .
	In addition, except for our issuance to certain of our standby purchasers, we will not issue shares of our common stock pursuant to the exercise of basic subscription rights or over-subscription rights, or to any shareholder or standby purchaser who, in our sole opinion, could be required to obtain prior clearance or approval from or submit a notice to any state or federal bank regulatory authority to acquire, own or control such shares if, as of June 12, 2008, such clearance or approval has not been obtained and/or any applicable waiting period has not expired.
Non-Transferability of Rights	The subscription rights may not be sold, transferred or assigned and will not be listed for trading on the American Stock Exchange or on any other stock exchange or market.
No Board Recommendation	Our Board of Directors is making no recommendation regarding your exercise of your subscription rights. You are urged to make your decision based on your own assessment of our business and the rights offering. Please see <b>Risk Factors</b> for a discussion of some of the risks involved in investing in our common stock.
Standby Purchase Agreements	In connection with the rights offering, we have entered into standby purchase agreements with certain institutional investors and high net worth individuals. Subject to certain conditions, the standby purchase agreements obligate us to sell, and require the standby purchasers to purchase from us, up to 24,623,646 shares of common stock, and further obligate us to issue to the standby purchasers an aggregate of 10,000,000 warrants to purchase shares of common stock. The number of shares available for sale to the standby purchasers will depend on the number of shares subscribed for in the rights offering. However, in no event will we issue fewer than 21,053,280 shares to the standby purchasers. The price per share paid by the standby purchasers for such common stock and the exercise price of the warrants will be equal to the subscription price paid by our shareholders in the rights offering. We have also agreed to provide each of two standby purchasers the right to select one candidate for appointment to the boards of directors of Federal Trust Corporation and Federal Trust Bank, and, subject to the receipt of regulatory approval, one individual who will have observer rights at these board meetings. In the event we terminate the standby purchase agreements because our Board of Directors determines, in the exercise of its fiduciary duties, that it is not in the best interests of Federal Trust Corporation and our shareholders to go forward with the stock offerings, then we will pay the standby purchasers liquidated damages totaling \$3.2 million.
Standby Purchasers	Our standby purchasers are Patriot Financial Partners, L.P., Sidhu Advisors FDT, LLC, Keefe Ventures Fund, LP, El Coronado Holdings, LLC, John Sheldon Clark and David Schwartz.

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No Revocation	All exercises of subscription rights are irrevocable, even if you later learn of information that you consider to be unfavorable to the exercise of your subscription rights. You should not exercise your subscription rights unless you are certain that you wish to purchase additional shares of our common stock at a subscription price of \$0.95 per share.
Minimum Offering	The offering is conditioned upon the receipt of minimum offering proceeds of \$30.0 million.
Purchase Intentions of Our Directors and Officers	Our directors and executive officers as a group, together with their affiliates, have indicated their intention to exercise rights to purchase, in the aggregate, approximately \$290,000 of our common stock in the rights offering.
Material U.S. Federal Income Tax Considerations	For U.S. federal income tax purposes, you should not recognize income or loss upon receipt or exercise of a subscription right. You should consult your own tax advisor as to the tax consequences to you of the receipt, exercise or lapse of the rights in light of your particular circumstances.
Extension and Cancellation	Although we do not presently intend to do so, we have the option to extend the rights offering expiration date, but in no event will we extend the rights offering beyond June 27, 2008. Our Board of Directors may cancel the rights offering at any time. In the event that the rights offering is cancelled, all subscription payments received by the subscription agent will be returned, without interest, as soon as practicable.
Procedures for Exercising Rights	To exercise your subscription rights, you must take the following steps:  <p style="margin-left: 40px;">If you hold a Federal Trust Corporation stock certificate, you may deliver payment and a properly completed and signed rights certificate to the subscription agent to be received before 5:00 p.m., Eastern Time, on June 12, 2008. You may deliver the documents and payment by hand delivery, U.S. mail or courier service. If U.S. mail is used for this purpose, we recommend using registered mail, properly insured, with return receipt requested.</p> <p style="margin-left: 40px;">If you are a beneficial owner of shares that are registered in the name of a custodian bank, broker, dealer or other nominee, you will not receive a rights certificate. You should instruct your nominee to exercise your subscription rights on your behalf. Please follow the instructions of your nominee, who may require that you meet a deadline earlier than 5:00 p.m., Eastern Time, on June 12, 2008.</p>
Subscription Agent	Registrar and Transfer Company.
Financial Advisor and Information Agent	Stifel, Nicolaus & Company, Incorporated is acting as our financial advisor and marketing and information agent in connection with the stock offerings. We have agreed to pay certain fees to, and expenses of, Stifel, Nicolaus & Company, Incorporated.
Shares Outstanding Before the Rights Offering	9,436,305 shares of our common stock were outstanding as of May 6, 2008.
Shares Outstanding After Completion of the Rights Offering	Assuming no options are exercised prior to the expiration of the rights offering and assuming all shares are sold in the rights offering and to standby purchasers, we expect approximately 46,278,410 shares of our common stock will be outstanding



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immediately after completion of the rights offering and the closing of the transactions contemplated by the standby purchase agreements.

American Stock            Shares of our common stock are currently listed for trading on the American Stock Exchange under the symbol FDT.

Exchange Symbol

**Risk Factors**

Before you exercise your subscription rights to purchase shares of our common stock, you should be aware that there are risks associated with your investment, including the risks described in the section entitled "Risk Factors" beginning on page 16 of this prospectus, and the risks that we have highlighted in other sections of this prospectus. You should carefully read and consider these risk factors together with all of the other information included in this prospectus before you decide to exercise your subscription rights to purchase shares of our common stock.

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**RISK FACTORS**

*An investment in our shares of common stock involves a number of risks. You should consider carefully the risks described below in evaluating an investment in the shares of common stock. If any of the events in the following risks actually occurs, or if additional risks and uncertainties not presently known to us or that we believe are immaterial, materialize, then our business, results of operations and financial condition could be materially adversely affected. In addition, the trading price of our shares of common stock could decline due to any of the events described in these risks.*

**Risks Related to Our Business**

*We have stipulated to cease and desist orders with the Office of Thrift Supervision. These orders will significantly restrict our operations. The failure to comply with these orders can result in significant penalties.*

The Office of Thrift Supervision recently concluded examinations of the operations of Federal Trust Corporation and Federal Trust Bank. The Office of Thrift Supervision noted weaknesses and failures relating primarily to our real estate lending practices and asset quality, and their effect on our capital and earnings. We have taken action and implemented procedures that management believes will address the weaknesses identified by the Office of Thrift Supervision. However, the Office of Thrift Supervision has presented cease and desist orders to Federal Trust Corporation and Federal Trust Bank, which are designed to ensure that the weaknesses noted in the recently concluded examinations are properly addressed. We have negotiated the terms of these enforcement orders with the Office of Thrift Supervision and have stipulated to the issuance of the orders. The orders provide that:

we must submit for review and approval by the Office of Thrift Supervision a capital plan to raise additional capital for Federal Trust Bank by July 15, 2008 and, if the additional capital cannot be raised by such date, to enter into a merger agreement with a merger or acquisition partner by August 31, 2008;

Federal Trust Bank must submit for review and approval or non-objection by the Office of Thrift Supervision a detailed business plan to strengthen and improve Federal Trust Bank's operations, earnings, liquidity and capital;

Federal Trust Bank must submit quarterly reports to the Office of Thrift Supervision regarding compliance with the business plan;

until the Office of Thrift Supervision has approved or provided its non-objection to Federal Trust Bank's business plan, Federal Trust Bank will not be permitted to increase its current levels of construction loans, acquisition and development loans, non-residential permanent mortgage loans, land loans and certain other loans without the prior approval of the Office of Thrift Supervision;

until the Office of Thrift Supervision has approved or provided its non-objection to Federal Trust Bank's business plan, Federal Trust Bank will not be permitted to increase its total assets during any quarter in excess of an amount equal to the net interest credited on deposit liabilities during the quarter without the prior approval of the Office of Thrift Supervision;

Federal Trust Bank must submit for review and approval or non-objection by the Office of Thrift Supervision an asset review program that will (i) strengthen and ensure the timely identification and proper classification of problem assets, (ii) ensure adequate and proper levels of the allowance for loan and lease losses, and (iii) establish individualized resolution plans for problem assets;

Federal Trust Bank will not be permitted to declare a dividend without the prior written approval of the Office of Thrift Supervision;

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Federal Trust Bank must revise its legal lending limit policies and procedures to ensure compliance with applicable law and devise an action plan to correct any legal lending limit violations;

Federal Trust Bank will not be permitted to enter into, renew or modify any agreements with us or enter into affiliated transactions with us, without prior approval of the Office of Thrift Supervision;

Federal Trust Bank will not be permitted to enter into any third-party contracts for services outside the normal course of business without prior review and approval of the Office of Thrift Supervision;

the Board of Directors of Federal Trust Bank must submit a plan to strengthen the Board of Directors' oversight of management and Federal Trust Bank's operations;

the Board of Directors of Federal Trust Bank must conduct a review of Federal Trust Bank's lending functions and assess the qualifications, experience and proficiency of Federal Trust Bank's management and lending staff; and

the Board of Directors of Federal Trust Bank must establish a committee comprised of non-employee directors to monitor and coordinate Federal Trust Bank's compliance with the provisions of its enforcement order.

In the event we are in material non-compliance with the terms of such cease and desist orders, the Office of Thrift Supervision has the authority to subject us to the terms of a more restrictive enforcement order, to impose civil money penalties on us and our directors and officers, and to remove directors and officers from their positions with Federal Trust Corporation and Federal Trust Bank.

***The Office of Thrift Supervision has placed additional restrictions on our operations.***

On April 25, 2008, Federal Trust Corporation and Federal Trust Bank were notified by the Office of Thrift Supervision that the following regulatory and supervisory restrictions apply to Federal Trust Corporation and Federal Trust Bank, some of which restrictions are similar to those included in the cease and desist orders:

Federal Trust Corporation and Federal Trust Bank are not eligible to have applications or notices processed by the Office of Thrift Supervision on an expedited basis;

Federal Trust Corporation and Federal Trust Bank are required to provide prior notice to the Office of Thrift Supervision for additions or changes to directors or senior executive officers;

all employment contracts or compensation arrangements, including severance payments, to directors and senior executive officers are subject to prior review by the Office of Thrift Supervision;

the ability of Federal Trust Corporation and Federal Trust Bank to make any compensatory payments to any person previously affiliated with Federal Trust Corporation or Federal Trust Bank following such person's termination of employment is restricted by applicable federal regulation; and

Federal Trust Bank's growth is restricted in that it may not increase its assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities.





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In addition, the Office of Thrift Supervision has placed the following restrictions on Federal Trust Corporation and Federal Trust Bank, some of which restrictions are similar to those included in the cease and desist orders:

Federal Trust Bank may not pay any dividends or make any form of capital distribution without the prior written approval of the Office of Thrift Supervision and Federal Trust Corporation may not request or accept any dividend or any form of capital distribution from Federal Trust Bank without the prior written approval of the Office of Thrift Supervision;

Federal Trust Corporation may not declare or pay any dividend without the prior written approval of the Office of Thrift Supervision, and Federal Trust Corporation must request Office of Thrift Supervision approval for the payment of a dividend in writing at least 30 calendar days prior to the proposed dividend declaration date;

Federal Trust Corporation may not issue any debt securities or otherwise incur any additional debt without the prior written approval of the Office of Thrift Supervision; and

Federal Trust Corporation may not make any payments of any kind, or in any form, to any person or entity in an amount exceeding \$5,000 in any calendar month without the prior written approval of the Office of Thrift Supervision.

Federal Trust Corporation has received Office of Thrift Supervision approval to pay certain fees and expenses in connection with the stock offerings.

### ***An inability to improve our regulatory capital position could adversely affect our operations.***

At December 31, 2007, Federal Trust Bank was classified as adequately capitalized, and not well capitalized. This further restricts our operations beyond restrictions that have been imposed by the cease and desist orders. As a result of our capital levels: (i) our loans to one borrower limit has been reduced, which affects the size of the loans that we can originate and also requires us to sell, participate, or refuse to renew loans that exceed our lower loans to one borrower limit, both of which could negatively impact our earnings; (ii) we cannot renew or accept brokered deposits without prior regulatory approval; (iii) we must obtain prior regulatory approval to undertake any branch expansion activities; and (iv) we will pay higher insurance premiums to the Federal Deposit Insurance Corporation, which will reduce our earnings. To mitigate or resolve these restrictions, we are attempting to raise additional capital through the stock offerings and reduce the amount of Federal Trust Bank's assets to improve our capital ratios to satisfy the well capitalized requirements. There is no assurance at this time, however, that we will be able to raise additional capital or reduce Federal Trust Bank's assets on favorable terms.

### ***A deterioration of our current non-performing loans or an increase in the number of non-performing loans will continue to have an adverse effect on our operations.***

Weakening economic conditions in the residential real estate sector have adversely affected, and may continue to adversely affect, our loan portfolio. Our ratio of non-performing assets to total assets increased significantly in 2007 to 6.9% at year end from 1.7% at December 31, 2006. If loans that are currently non-performing further deteriorate or loans that are currently performing become non-performing loans, we may need to increase our allowance for loan losses. Such an increase would have an adverse impact on our financial condition and results of operations.

### ***We may experience increased costs of liquidity in future periods as a result of our current financial condition.***

In recent periods, we have experienced an increase in non-performing assets, an increase in our allowance for loan losses and an increase in competition in our primary market area, as well as a decrease in interest rates. As a result of our recent financial condition, the Federal Home Loan Bank of Atlanta has decided not to provide us additional advances. Additionally, as a result of Federal Trust Bank being considered adequately capitalized, we

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may not accept brokered deposits without prior regulatory approval. Collectively, these factors reduce our liquidity and require us to seek alternative sources of liquidity to fund our operations and, in particular, the origination of new loans, the support of our continued growth and other strategic initiatives. Historically, we have had access to a number of alternative sources of liquidity, but given our financial performance and the recent downturn in the credit and liquidity markets, there is no assurance that we will have access to funding sources or whether terms will be favorable to us. If our funding costs increase, this will impede our growth and will have an adverse effect on our business, financial condition and results of operations.

### ***Our business is subject to the success of the local economies where we operate.***

Our success depends significantly upon the growth in population, income levels, deposits and housing starts in our primary market area of Orange, Seminole, Volusia, Lake, Flagler and Osceola Counties and throughout Florida. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. We are currently experiencing adverse economic conditions in some of our market areas, which affects the ability of our customers to repay their loans to us and could negatively affect our financial condition and results of operations. We are less able than larger institutions to spread the risks of unfavorable local economic conditions across a large number of diversified economies and are thus disproportionately impacted. Moreover, we cannot give any assurance that we will benefit from any market growth or favorable economic conditions in our primary market areas if they do materialize in the future.

The market value of the real estate securing our loans as collateral has been adversely affected by the slowing economy and unfavorable changes in economic conditions in our market areas, and may be further adversely affected in the future. As of December 31, 2007, approximately 97.3% of our loans receivable were secured by real estate. Real estate values and real estate markets are generally affected by, among other things, changes in national, regional or local economic conditions; fluctuations in interest rates and the availability of loans to potential purchasers; changes in the tax laws and other governmental statutes, regulations and policies; and acts of nature. If real estate prices decline in any of our markets, the value of the real estate collateral securing our loans could be reduced, which could ultimately lead to an increase in loan losses. Any sustained period of increased payment delinquencies, foreclosures or losses caused by the adverse market and economic conditions, including a continued downturn in the real estate values in our markets will adversely affect the ultimate collectability of our loans and also affect our revenues, results of operations and financial condition.

### ***We experienced an operating loss during the year ended December 31, 2007 and we may not return to profitability in the future.***

We experienced a net loss of \$14.2 million for the year ended December 31, 2007. The loss for the year ended December 31, 2007 was caused primarily by a significant increase in non-performing assets, which necessitated a provision for loan losses of \$16.4 million, compared to a provision of \$639,000 for the year ended December 31, 2006. We charged off \$7.6 million of loans during 2007 (compared to \$39,000 during 2006), and non-accrual loans (generally loans 90 days or more past due in principal or interest payments) increased to \$38.2 million, or 6.4% of total loans at December 31, 2007, compared to \$12.0 million, or 1.9% of total loans at December 31, 2006. In addition, we experienced a decline in net interest income to \$11.7 million for the year ended December 31, 2007 compared to \$15.7 million for the year ended December 31, 2006, and we had non-interest expense of \$19.5 million for the year ended December 31, 2007, compared to \$12.5 million for the year ended December 31, 2006. Non-interest expense for 2007 included a \$2.9 million charge for the severance and retirement obligation related to the termination of our former Chief Executive Officer, which included \$1.1 million to be paid pursuant to the termination of his employment agreement and \$1.8 million pursuant to his supplemental retirement plan. We cannot assure you that we will generate net income or achieve profitability in the future.

### ***Future economic growth in our Florida market area is likely to be slower compared to previous years.***

The State of Florida's population growth has historically exceeded national averages. Consequently, the state has experienced substantial growth in population, new business formation and public works spending. Due to the moderation of economic growth and migration into our market area and the downturn in the real estate market,

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management believes that growth in our market area will be restrained in the near term. Growth in our mortgage loan portfolio has been adversely affected by a slowing in residential real estate sales activity in our markets. Specifically, in 2007, the inventory of homes for sale in our market area increased to nearly a three-year supply. A decrease in existing and new home sales decreases lending opportunities and negatively affects our income. Our customers who are builders and developers face greater difficulty in selling homes in markets where these trends are more pronounced. Consequently, we are facing a sharp increase in delinquencies and non-performing assets as these builders and developers are forced to default on their loans with us. We do not anticipate that the housing market will improve in the near-term, and accordingly, this could lead to additional valuation adjustments on our loan portfolios and real estate owned as we continue to reassess the market value of our loan portfolio, the losses associated with the loans in default and the net realizable value of real estate owned.

***We expect to grant stock options and/or adopt additional stock-based benefit plans after the stock offerings, which would increase our costs and reduce our income. Such awards may also dilute your ownership interest.***

Following the completion of the stock offerings, we expect to grant stock options to purchase shares of our common stock to our executive officers and employees. Under existing stock options plans, we have authority to grant up to 427,301 stock options to our executive officers and employees. In addition, in the future, we may adopt one or more new stock-based benefit plans under which our directors, executive officers and employees would be eligible to receive shares of common stock and/or stock options.

Public companies must expense the grant-date fair value of stock awards and stock options. In addition, if such awards or options are considered variable in nature, public companies must revalue their estimated compensation costs at each subsequent reporting period and may be required to recognize additional compensation expense at these dates. When we record an expense for the grant of stock options and other stock awards using the fair value method as described in applicable accounting rules, we may incur significant compensation and benefits expense.

Awards under stock-based benefit plans will be funded through either open market purchases of common stock or from the issuance of authorized but unissued shares of common stock. Shareholders would experience a reduction in ownership interest in the event newly issued shares are used to fund stock options or awards of common stock.

***We may not be able to continue to support the realization of our deferred tax asset.***

We calculate income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, which requires the use of the asset and liability method. In accordance with Statement of Financial Accounting Standards No. 109, we regularly assess available positive and negative evidence to determine whether it is more likely than not that our deferred tax asset balances will be recovered from reversals of deferred tax liabilities, potential utilization of net operating loss carrybacks, tax planning strategies and future taxable income. At December 31, 2007, our deferred tax asset was \$8.0 million, for which we have not established a valuation allowance. We recognized the deferred tax asset because management believes, based on detailed financial projections, that it is more likely than not, we will have sufficient future earnings to utilize this asset to offset future income tax liabilities. Realization of a deferred tax asset requires us to apply significant judgment and is inherently speculative because it requires the future occurrence of circumstances that cannot be predicted with certainty. We cannot assure you that we will achieve sufficient future taxable income as the basis for the ultimate realization of our deferred tax asset and therefore we may have to establish a full or partial valuation allowance at some point in the future. If we determine that a valuation allowance is necessary, this would require us to incur a charge to operations that would adversely affect our capital position. At December 31, 2007, we had \$4.7 million of allowable deferred tax assets for regulatory capital purposes, which is the amount that is expected to be recovered based on a two-year net operating loss carryback calculation. There is no assurance that we will be able to continue to recognize any or all of the deferred tax asset for regulatory capital purposes.

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***We make and hold in our portfolio a significant number of land acquisition, development and construction loans, which are considered to have greater credit risk than other types of loans typically made by financial institutions.***

We offer land acquisition, development and construction loans for builders and developers. As of December 31, 2007, approximately \$73.8 million, or 12.4%, of our gross loan portfolio represented loans for which the related property is neither presold nor preleased. The majority of these loans are for residential developments. These land acquisition, development and construction loans are considered more risky than other types of residential mortgage loans. The primary credit risks associated with land acquisition, development and construction lending are underwriting, project risks and market risks. Project risks include cost overruns, borrower credit risk, project completion risk, general contractor credit risk, and environmental and other hazard risks. Market risks are risks associated with the sale of the completed residential units. They include affordability risk, which means the risk of affordability of financing by borrowers, product design risk, and risks posed by competing projects. While we believe we have established adequate reserves on our financial statements to cover the credit risk of our land acquisition, development and construction loan portfolio, there can be no assurance that losses will not exceed our reserves, which could adversely impact our future earnings.

***Our allowance for loan losses may not be sufficient to absorb losses from loan defaults, which could have a material adverse effect on our business.***

Our success depends to a significant extent upon the quality of our assets, particularly loans. In originating loans, there is a substantial likelihood that credit losses will be experienced. The risk of loss will vary with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the quality of the collateral for the loan.

Our loan customers may not repay their loans according to the terms of these loans, and the collateral securing the payment of these loans may be insufficient to assure repayment. As a result, we may experience significant loan losses, which could have a material adverse effect on our operating results. Management makes various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. We maintain an allowance for loan losses in an attempt to cover any loan losses that may occur. In determining the size of the allowance, we primarily base our evaluation on a review of our loan portfolio and the known risks contained in the loan portfolio, composition and growth of the loan portfolio, Florida real estate values and economic factors. However, the determination of an appropriate level of loan loss allowance is an inherently difficult process and is based on numerous assumptions.

If our assumptions are wrong, our current allowance may not be sufficient to cover future loan losses, and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Significant additions to our allowance would materially decrease our net income. As a result of a difficult real estate market, we increased our provision for loan losses to \$16.4 million for the year ended December 31, 2007, from \$639,000 for the year ended December 31, 2006. We can make no assurance that our allowance will be adequate to cover future loan losses given current and future market conditions. In addition, our regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs, based on judgments different than those of our management. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory agencies would have a negative effect on our operating results.

***Our net interest income could be negatively affected by the Federal Reserve's recent interest rate adjustments, as well as by competition in our primary market area.***

As a financial institution, our earnings and cash flows are significantly dependent upon our net interest income, which is the difference between the interest income that we earn on interest-earning assets, such as loans and investment securities, and the interest expense that we pay on interest-bearing liabilities, such as deposits and borrowings. Therefore, any change in general market interest rates, including changes resulting from changes in the Federal Reserve's fiscal and monetary policies, affects us more than non-financial institutions and could influence

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not only the interest we receive on loans and investment securities and the interest we pay on deposits and borrowings, but also (1) our ability to originate loans and obtain deposits, (2) the fair value of our financial assets and liabilities, and (3) the average duration of our assets and liabilities. If the interest rates on deposits and other borrowings increase at a faster rate than the interest rates on our loans and other investments, our net interest income, and therefore earnings, would be adversely affected. Earnings could also be adversely affected if the interest rates on our loans and other investments fall more quickly than the interest rates on deposits and other borrowings.

In response to the dramatic deterioration of the subprime, mortgage, credit and liquidity markets, the Federal Reserve recently has taken action on seven occasions to reduce interest rates by a total of 325 basis points since September 2007, and may reduce rates again, which likely will reduce our net interest income for 2008. Any reduction in our net interest income would negatively affect our business, financial condition, liquidity, operating results, cash flows and/or the price of our securities.

***Our ability to service our debt depends on capital distributions from Federal Trust Bank, which are subject to regulatory restrictions.***

Federal Trust Corporation is a savings and loan holding company and relies upon dividends from Federal Trust Bank to fund a significant portion of its operations. We use dividends from Federal Trust Bank to service our debt obligations, and our ability to service our debt is further subject to restrictions under our indentures and loan covenants. Federal Trust Bank's ability to pay dividends or make other capital distributions to Federal Trust Corporation is subject to the regulatory authority of the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. Because of Federal Trust Bank's operating losses for the year ended December 31, 2007, and because of additional operating restrictions that the Office of Thrift Supervision has placed on Federal Trust Bank and Federal Trust Corporation, Federal Trust Bank cannot pay dividends to Federal Trust Corporation without prior regulatory approval.

***Our business may suffer if we lose key employees.***

Our success is largely dependent on the personal contacts of our officers and employees in our market areas. If we lose key employees, temporarily or permanently, our business could be negatively impacted. In particular, our business would be adversely affected if our key employees went to work for our competitors. Our future success depends on the continued contributions of our existing senior management personnel, including our: President and Chief Executive Officer, Dennis T. Ward; Executive Vice President and Chief Financial Officer, Gregory E. Smith; Executive Vice President and Senior Loan Officer, Mark E. McRae; Executive Vice President, Branch Administration, Jennifer B. Brodnax; and Senior Vice President and Chief Credit Officer, Lindsay Sandham. We have entered into severance agreements with Messrs. Ward, Smith and McRae and Ms. Brodnax, which contain non-competition provisions to help alleviate some of this risk.

***We are subject to extensive laws and regulations that could limit or restrict our activities. Changes in such laws and regulations could have a negative effect on our business.***

As a unitary savings and loan holding company, Federal Trust Corporation is regulated primarily by the Office of Thrift Supervision. Our current subsidiaries are regulated primarily by the Office of Thrift Supervision, the Federal Deposit Insurance Corporation and the Florida Office of Financial Regulation. We operate in a highly regulated industry and are subject to examination, supervision and comprehensive regulation by various federal and state agencies. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, incurring debt, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth.

Such laws and regulations govern the activities in which companies may engage and are intended primarily for the protection of the federal deposit insurance fund and depositors. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on

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operations, the classification of assets and the adequacy of a financial institution's allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, could have a material effect on us.

Our business also is subject to laws, rules and regulations regarding the disclosure of non-public information about our customers to non-affiliated third parties. Our operations on the Internet are not currently subject to direct regulation by any government agency in the United States beyond regulations applicable to businesses generally. A number of legislative and regulatory proposals currently under consideration by the federal, state and local governmental organizations may lead to laws or regulations concerning various aspects of our business on the Internet, including: user privacy, taxation, content, access charges, liability for third-party activities and jurisdiction. The adoption of new laws or a change in the application of existing laws may decrease the use of the Internet, increase our costs or otherwise adversely affect our business.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability. Additionally, we cannot predict the effect of any legislation that may be passed at the state or federal level in response to the recent deterioration of the subprime, mortgage, credit and liquidity markets. Because government regulation greatly affects the business and financial results of all financial institutions and their holding companies, our cost of compliance could adversely affect our ability to operate profitably.

Our financial condition and results of operations are reported in accordance with accounting principles generally accepted in the United States of America. While not affecting economic results, future changes in accounting principles issued by the Financial Accounting Standards Board could affect our earnings as reported under accounting principles generally accepted in the United States of America. As a public company, we are also subject to the corporate governance standards set forth in the Sarbanes-Oxley Act of 2002, as well as applicable rules and regulations promulgated by the Securities and Exchange Commission and the American Stock Exchange. Complying with these standards, rules and regulations may impose administrative costs and burdens on us.

Additionally, political conditions could impact our earnings. Acts or threats of war or terrorism, as well as actions taken by the United States or other governments in response to such acts or threats, could impact the business and economic conditions in which we operate.

***Competition from financial institutions and other financial service providers may adversely affect our asset growth and profitability.***

Our primary market area is the urban areas of Orange, Seminole, Volusia, Lake, Flagler and Osceola Counties, Florida. The banking business in these areas is highly competitive and we experience competition from many other financial institutions. Our subsidiary, Federal Trust Bank, experiences competition in both lending and attracting funds from other banks, savings institutions, and non-bank financial institutions located within our market area, many of which are significantly larger institutions. Non-bank institutions competing for deposits and deposit type accounts include mortgage bankers and brokers, finance companies, credit unions, securities firms, money market funds, life insurance companies and mutual funds. For loans, we encounter competition from other banks, savings banks, finance companies, mortgage bankers and brokers, insurance companies, small loan and credit card companies, credit unions, pension trusts and securities firms.

We compete with these institutions both in attracting deposits and in making loans. In addition, to maintain or increase our customer base, we have to attract new customers from other existing financial institutions and from new residents entering our market area. Many of our competitors are well-established, larger financial institutions. While we believe we can and do successfully compete with these other financial institutions in our primary markets, we may face a competitive disadvantage as a result of our smaller size, lack of geographic diversification and inability to spread our marketing costs across a broader market. Although we compete by concentrating our marketing efforts in our primary markets with local advertisements, personal contacts, and greater flexibility and responsiveness in working with local customers, we can give no assurance that this strategy will be successful.

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*We rely on other companies to provide key components of our business infrastructure and failures in this infrastructure could interrupt our operations or increase the cost of doing business.*

Third parties provide key components of our business infrastructure such as banking services, processing, Internet connections and network access. Any disruption in such services provided by these third parties to handle current or higher volumes of use could adversely affect our ability to deliver products and services to clients and otherwise to conduct business. Technological or financial difficulties of a third party service provider could adversely affect our business to the extent those difficulties result in the interruption or discontinuation of services provided by that party. We may not be insured against all types of losses as a result of third party failures and our insurance coverage may be inadequate to cover all losses resulting from system failures or other disruptions. Failures in our business infrastructure could interrupt our operations or increase the cost of doing business.

*We may face risks with respect to future expansion and mergers or acquisitions.*

As a part of our strategy, in the future, we may seek to increase the size of our franchise through branch expansion and growth, and by aggressively pursuing business development opportunities. We may also consider and enter into new lines of business or offer new products or services. We also may receive future inquiries and have discussions with financial institutions that are interested in acquiring us. Acquisitions and mergers involve a number of risks, including:

the time and costs associated with identifying and evaluating potential merger and acquisition partners;

the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution may not be accurate;

the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;

our ability to finance an acquisition and possible dilution to our existing shareholders;

the diversion of our management's attention to the negotiation of a transaction, and the integration of the operations and personnel of the combining businesses;

entry into new markets where we lack experience;

the introduction of new products and services into our business;

the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and

the risk of loss of key employees and customers.

To carry out some of our expansion plans, we would be required to obtain permission from the Office of Thrift Supervision. Applications for the acquisition of existing thrifts and banks are submitted to the federal and state bank regulatory agencies for their approval. The future climate for regulatory approval is impossible to predict. Regulatory agencies could prohibit or otherwise significantly restrict our expansion plans, as well as those of our subsidiaries, which could limit our ability to increase revenue.



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Additionally, we may incur substantial costs to expand, and we can give no assurance that such expansion will result in the levels of profits we seek. There can be no assurance that, integration efforts for any future mergers or acquisitions will be successful. Also, we may issue equity securities, including common stock and securities

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convertible into shares of our common stock in connection with future acquisitions, which could cause ownership and economic dilution to our current shareholders. There is no assurance that, following any future merger or acquisition, our integration efforts will be successful or that our company, after giving effect to the acquisition, will achieve financial performance comparable to or better than our historical experience.

*Future sales of our common stock could further depress the price of our common stock.*

Sales of a substantial number of shares of our common stock in the public market by our shareholders, or the perception that such sales are likely to occur, could cause the market price of our common stock to decline.

*Various factors may make takeover attempts more difficult to achieve.*

Provisions of our Restated Articles of Incorporation and Bylaws, federal law and regulations, Florida law and various other factors may make it more difficult for companies or persons to acquire control of Federal Trust Corporation without the consent of our Board of Directors. You may want a takeover attempt to succeed because, for example, a potential acquiror could offer a premium over the then-prevailing price of our common stock. Factors that may discourage takeover attempts or make them more difficult include:

Florida statutes that restrict voting rights of shareholders who acquire certain amounts of our shares of common stock, that restrict transactions with certain shareholders and that allow a company to not require cumulative voting in the election of directors;

provisions in our Restated Articles of Incorporation that provide for staggered terms for our Board of Directors and that restrict transactions with certain shareholders;

provisions in our Bylaws regarding the timing and content of shareholder proposals and nominations and qualification for service on the Board of Directors; and

federal law and regulations that restrict the acquisition of control of a federal savings institution without prior written approval or non-objection from the Office of Thrift Supervision.

See [Restrictions on Acquisition of Federal Trust Corporation](#) for a complete discussion of the applicable restrictions on our ability to be acquired.

## **Risks Related to the Rights Offering**

*The future price of the shares of common stock may be less than the \$0.95 purchase price per share in the rights offering.*

If you exercise your subscription rights to purchase shares of common stock in the rights offering, you may not be able to sell them later at or above the \$0.95 purchase price in the rights offering. The actual market price of our common stock could be subject to wide fluctuations in response to numerous factors, some of which are beyond our control. These factors include, among other things, actual or anticipated variations in our costs of doing business, operating results and cash flow, the nature and content of our earnings releases and our competitors' earnings releases, changes in financial estimates by securities analysts, business conditions in our markets and the general state of the securities markets and the market for other financial stocks, changes in capital markets that affect the perceived availability of capital to companies in our industry, governmental legislation or regulation, currency and exchange rate fluctuations, as well as general economic and market conditions, such as downturns in our economy and recessions.

Once you exercise your subscription rights, you may not revoke them. If you exercise your subscription rights and, afterwards, the public trading market price of our shares of common stock decreases below the subscription price, you will have committed to buying shares of our common stock at a price above the prevailing



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market price and could have an immediate unrealized loss. Our common stock is traded on the American Stock Exchange under the ticker symbol FDT, and the last reported sales price of our common stock on the American Stock Exchange on May 9, 2008 was \$1.05 per share. We cannot assure you that the market price of our shares of common stock will not decline after you exercise your subscription rights. Moreover, we cannot assure you that following the exercise of your subscription rights you will be able to sell your common stock at a price equal to or greater than the subscription price.

***The subscription price determined for the rights offering is not an indication of the fair value of our common stock.***

Our Board of Directors expects to receive a fairness opinion from our financial advisor with respect to the consideration to be paid to Federal trust Corporation prior to the closing of the stock offerings, but has not done so as of the date of this prospectus. In determining the subscription price, the Board of Directors considered a number of factors, including: the price at which our shareholders might be willing to participate in the rights offering, historical and current trading prices for our common stock, the need for liquidity and capital, negotiations with standby purchasers and the desire to provide an opportunity to our shareholders to participate in the rights offering on a pro rata basis. In conjunction with its review of these factors, the Board of Directors also reviewed our history and prospects, including our past and present earnings, our prospects for future earnings, our current financial condition and regulatory status. The per share subscription price is not necessarily related to our book value, net worth or any other established criteria of fair value and may or may not be considered the fair value of our common stock to be offered in the rights offering. After the date of this prospectus, our shares of common stock may trade at prices below the subscription price.

***The stock offerings may reduce your percentage ownership in Federal Trust Corporation.***

Even if our current shareholders fully exercise their basic subscription rights, they will experience dilution to their percentage ownership of our outstanding shares of common stock as a result of the stock offerings. In addition, current shareholders who do not exercise a certain level of over-subscription rights, will experience dilution as a result of the sale of shares to standby purchasers, and may experience further dilution as a result of the issuance of warrants to the standby purchasers. Standby purchasers will be able to purchase additional shares of our common stock beyond those shares issuable upon exercise of the subscription rights. We are obligated to sell additional shares to standby purchasers and issue warrants to two of the standby purchasers because the standby purchasers have a right to purchase 21,053,280 shares and receive 10,000,000 warrants, even if we issue all of the shares issuable upon exercise of the basic subscription privilege and the over-subscription privilege.

***After the consummation of the rights offering and the sale of additional shares of common stock to the standby purchasers, a significant amount of our common stock will be concentrated in the hands of a few of our shareholders. Your interests may not be the same as the interests of these shareholders.***

Upon the completion of the rights offering and the sale of additional shares of common stock to the standby purchasers, if we only sell \$30.0 million of shares, the standby purchasers would collectively own approximately 62.5% of our common stock, and would have warrants to purchase an additional 24.4% of our common stock. As a result, if the standby purchasers and their respective affiliates were to elect to act together, they would have the ability to exercise control over matters generally requiring shareholder approval. These matters include the election of directors and the approval of significant corporate transactions, including potential mergers, consolidations or sales of all or substantially all of our assets. Your interests as a holder of the common stock may differ from the interests of the standby purchasers and their affiliates.

***You may not revoke your exercise of rights; we may terminate the rights offering.***

Once you have exercised your subscription rights, you may not revoke your exercise even if you learn information about us that you consider to be unfavorable. We may terminate the rights offering at our discretion, including without limitation if we fail to sell at least 31,578,948 shares and raise at least \$30.0 million in the stock offerings. If we terminate the rights offering, neither we nor the subscription agent will have any obligation to you

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with respect to the rights except to return any payment received by the subscription agent, without interest or penalty.

***We currently do not have enough authorized shares of common stock to complete the rights offering.***

Our Restated Articles of Incorporation currently authorize us to issue 15,000,000 shares of common stock, which is less than the sum of our current outstanding shares plus the shares we are offering for issuance upon the exercise of subscription rights and the sales of shares of common stock and issuance of warrants to standby purchasers in the stock offerings. At our 2008 Annual Meeting of Shareholders, which is scheduled to be held June 16, 2008, we are submitting to shareholders a proposal to amend the Restated Articles of Incorporation to increase the number of authorized shares of stock to 65,000,000. If this proposal is not approved by shareholders, then we will not be able to complete the rights offering.

***We are required to seek shareholder approval of the sale of shares and the issuance of warrants to standby purchasers.***

We intend to sell shares and issue warrants to standby purchasers in an aggregate amount that exceeds 20% of our currently outstanding shares of common stock. Under American Stock Exchange listing requirements, we are required to receive shareholder approval before we can consummate the sale of shares and issuance of warrants to standby purchasers in this amount. At our 2008 Annual Meeting of Shareholders, which is scheduled to be held June 16, 2008, we are submitting to shareholders a proposal to approve the issuance to standby purchasers. Because we must sell a minimum of 31,578,948 shares of common stock to complete the stock offerings, if this proposal is not approved by shareholders, then we may not be able to complete the rights offering.

***You will not be able to sell the shares you buy in the rights offering until you receive your stock certificates or your account is credited with the shares of common stock.***

If you purchase shares of our common stock in the rights offering by submitting a rights certificate and payment, we will mail you a stock certificate as soon as practicable after June 12, 2008, or such later date as to which the rights offering may be extended. If your shares are held by a custodian bank, broker, dealer or other nominee and you purchase shares of our common stock, your account with your nominee will be credited with the shares of common stock you purchased in the rights offering as soon as practicable after the expiration of the rights offering, or such later date as to which the rights offering may be extended. Until your stock certificates have been delivered or your account is credited, you may not be able to sell your shares even though the common stock issued in the rights offering will be listed for trading on the American Stock Exchange. The stock price may decline between the time you decide to sell your shares and the time you are actually able to sell your shares.

***Although publicly traded, our common stock has substantially less liquidity than the average liquidity of stocks listed on the American Stock Exchange.***

Although our common stock is listed for trading on the American Stock Exchange our common stock has substantially less liquidity than the average liquidity for companies listed on the American Stock Exchange. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This marketplace depends on the individual decisions of investors and general economic and market conditions over which we have no control. This limited market may affect your ability to sell your shares on short notice, and the sale of a large number of shares at one time could temporarily depress the market price of our common stock. For these reasons, our common stock should not be viewed as a short-term investment.

The market price of our common stock may fluctuate in the future, and this volatility may be unrelated to our performance. General market price declines or overall market swings in the future could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices.

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*We have broad discretion in the use of proceeds of the stock offerings.*

Other than an investment in Federal Trust Bank, we have not designated the anticipated net proceeds of the stock offerings for specific uses. Accordingly, our management will have considerable discretion in the application of the net proceeds of the stock offerings and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. See Use of Proceeds.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements, which can be identified by the use of words such as estimate, project, believe, intend, anticipate, plan, seek, expect and words of similar meaning. These forward-looking statements include, but are not limited to:

statements of our goals, intentions and expectations;

statements regarding our business plans, prospects, growth and operating strategies;

statements regarding the asset quality of our loan and investment portfolios; and

estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

general economic conditions, either nationally or in our market areas, that are worse than expected;

competition among depository and other financial institutions;

inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;

adverse changes in the securities markets;

changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;

our ability to enter new markets successfully and capitalize on growth opportunities;

our ability to successfully integrate acquired entities, if any;

changes in consumer spending, borrowing and savings habits;

changes in demand for new housing in our market area;

unfavorable changes in economic conditions affecting housing markets, credit markets, real estate values or oil and gas prices, either nationally or locally;

changes in accounting policies and practices, as may be adopted by the bank regulatory agencies and the Financial Accounting Standards Board; and

changes in our organization, compensation and benefit plans.



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Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Please see **Risk Factors** beginning on page 16.

### **USE OF PROCEEDS**

Although we cannot determine what the actual net proceeds from the sale of the shares of common stock in the stock offerings will be until the stock offerings are completed, we estimate that the aggregate net proceeds from the stock offerings will be between \$27.2 million and \$32.2 million. Subject to Office of Thrift Supervision approval of or non-objection to the capital plan we are adopting, described in **Supervision and Regulation Cease and Desist Orders**, we intend to invest between \$10.0 million and \$20.0 million of the net proceeds in Federal Trust Bank to improve its regulatory capital position, and retain the remainder of the net proceeds. The net proceeds we retain may be used for the payment of dividends on trust preferred securities, the repayment of debt and general corporate purposes and further investment in Federal Trust Bank, if required by the Office of Thrift Supervision or if we otherwise determine to make such a further investment. Other than an investment in Federal Trust Bank, we currently have no arrangements or understandings regarding any specific use of proceeds.

The net proceeds may vary because total expenses relating to the offering may be more or less than our estimates. For example, our expenses will increase if shares of common stock not purchased in the rights offering are sold to standby purchasers.

### **MARKET FOR THE COMMON STOCK AND DIVIDEND INFORMATION**

Federal Trust Corporation's shares of common stock trade on the American Stock Exchange under the trading symbol **FDT**.

The development of a public market having the desirable characteristics of depth, liquidity and orderliness depends on the existence of willing buyers and sellers, the presence of which is not within our control or that of any market maker. The number of active buyers and sellers of our common stock at any particular time may be limited, which may have an adverse effect on the price at which our common stock can be sold. There can be no assurance that persons purchasing the common stock will be able to sell their shares at or above the \$0.95 price per share in the stock offerings. Purchasers of our common stock should have long-term investment intent and should recognize that there may be a limited trading market in our common stock.

The following table sets forth the high and low trading prices for shares of our common stock and cash dividends paid per share for the periods indicated. As of May 6, 2008, there were 9,436,305 shares of common stock issued and outstanding.

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<b>Year Ending December 31, 2008</b>	<b>High</b>	<b>Low</b>	<b>Cash Dividends Paid Per Share</b>
Second quarter (through May 9)	\$ 1.85	\$ 1.00	\$ -
First quarter	2.95	1.12	-

  

<b>Year Ended December 31, 2007</b>	<b>High</b>	<b>Low</b>	<b>Cash Dividends Paid Per Share</b>
Fourth quarter	\$ 5.10	\$ 2.05	\$ -
Third quarter	8.25	4.30	-
Second quarter	10.10	8.10	0.04
First quarter	10.37	9.71	0.04

  

<b>Year Ended December 31, 2006</b>	<b>High</b>	<b>Low</b>	<b>Cash Dividends Paid Per Share</b>
Fourth quarter	\$ 10.50	\$ 9.77	\$ 0.04
Third quarter	11.05	10.36	0.05
Second quarter	12.15	10.00	0.04
First quarter	12.52	9.77	0.04

On May 7, 2008, the most recent practicable date before the date of this prospectus, the closing price of our common stock as reported on the American Stock Exchange was \$1.23 per share. As of the close of business on the record date, May 6, 2008, Federal Trust Corporation had approximately 357 shareholders of record. This number does not include the number of persons or entities that hold our common stock in nominee or street name through various brokerage firms, banks and other nominees.

We discontinued paying cash dividends on our shares of common stock during the quarter ended September 30, 2007. Currently, we have no plans to resume the payment of cash dividends on our shares of common stock.

Under the rules of the Office of Thrift Supervision, Federal Trust Bank is not permitted to make a capital distribution if, after making such distribution, it would be undercapitalized. The Office of Thrift Supervision has informed Federal Trust Bank that it cannot pay dividends to Federal Trust Corporation without first receiving regulatory approval of such payments. In addition, the cease and desist orders with the Office of Thrift Supervision contain a similar restriction. For information concerning additional federal and state law and regulations regarding the ability of Federal Trust Bank to make capital distributions, including the payment of dividends to Federal Trust Corporation, see Supervision and Regulation Federal Banking Regulation.

The Office of Thrift Supervision has further informed Federal Trust Corporation that it cannot declare or pay any dividend without first receiving regulatory approval. Unlike Federal Trust Bank, we are not otherwise restricted by Office of Thrift Supervision regulations on the payment of dividends to our shareholders, although the source of dividends will depend on the net proceeds retained by us and earnings and dividends from Federal Trust Bank. However, we are subject to state law limitations on the payment of dividends. Florida law generally restricts a corporation from paying dividends if (i) it would not be able to pay its debts as they become due in the usual course of business, or (ii) its total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of payment of the dividend, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the dividend.

**Table of Contents****CAPITALIZATION**

The following table presents our historical consolidated capitalization at December 31, 2007 and our pro forma consolidated capitalization after giving effect to the receipt of net proceeds from the stock offerings, assuming in the alternative that the minimum and maximum of the offered shares are sold. The table also sets forth the historical regulatory capital ratios of Federal Trust Bank at December 31, 2007, and the pro forma regulatory capital ratios of Federal Trust Bank, assuming the receipt by Federal Trust Bank of \$10.0 million of net proceeds from the stock offerings, and further assuming that \$5.0 million of the proceeds received by Federal Trust Bank were invested in assets with a risk weighting of 20%, and \$5.0 million were invested in assets with a risk weighting of 50% (\$ in thousands).

	<b>Historical at December 31, 2007</b>	<b>\$0.95 Per Share Pro Forma 31,578,948 Shares</b>	<b>36,842,105 Shares</b>
Deposits	\$ 481,729	\$ 481,729	\$ 481,729
Federal Home Loan Bank advances	152,000	152,000	152,000
Junior subordinated debentures	5,155	5,155	5,155
Other borrowings	16	16	16
<b>Total deposits and borrowed funds</b>	<b>\$ 638,900</b>	<b>\$ 638,900</b>	<b>\$ 638,900</b>
<b>Shareholders equity:</b>			
Common stock \$0.01 par value, 65,000,000 shares authorized (post-shareholder approval); shares to be issued as reflected <sup>(1)(2)</sup>	94	410	463
Additional paid-in capital	44,515	71,415	76,362
Retained earnings	(3,755)	(3,755)	(3,755)
Accumulated other comprehensive loss	(728)	(728)	(728)
Less:			
Unallocated ESOP shares	(440)	(440)	(440)
<b>Total shareholders equity</b>	<b>\$ 39,686</b>	<b>\$ 66,902</b>	<b>\$ 71,902</b>
Total shares outstanding	9,436,305	41,015,252	46,278,410
Total shareholders equity as a percentage of total assets	5.75%	9.32%	9.95%
<b>Regulatory capital ratios of Federal Trust Bank:</b>			
Core (leverage) capital	5.77%	7.13%	7.13%
Tier I risk-based capital	8.32%	10.34%	10.34%
Total risk-based capital	9.57%	11.60%	11.60%

- (1) We currently have 15,000,000 authorized shares of common stock, par value \$0.01 per share. At our 2008 Annual Meeting of Shareholders, which is scheduled to be held June 16, 2008, we are submitting to shareholders a proposal to amend the Restated Articles of Incorporation to increase the number of authorized shares of common stock to 65,000,000.
- (2) The number of shares of common stock to be outstanding after the stock offerings is based on the number of shares outstanding as of May 6, 2008 and excludes 357,097 shares of our common stock issuable upon exercise of outstanding options on such date, at a weighted average exercise price of \$8.24, as well as the warrants to be issued to the standby purchasers.

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA**

The summary financial information presented below is derived in part from the consolidated financial statements of Federal Trust Corporation. The information at December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 is derived in part from the audited consolidated financial statements of Federal Trust Corporation that appear in this prospectus. The information at December 31, 2005, 2004 and 2003 and for the years ended December 31, 2004 and 2003 is derived in part from audited consolidated financial statements that do not appear in this prospectus. The following is only a summary and you should read it in conjunction with the consolidated financial statements and notes beginning on page F-1. (\$ in thousands, except per share amounts)

<b>AT YEAR END:</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Total assets	\$ 690,264	\$ 722,964	\$ 735,416	\$ 603,131	\$ 468,198
Loans, net	563,234	603,917	630,827	521,331	398,401
Securities available for sale	52,449	65,558	50,080	41,172	33,615
Deposits	481,729	472,794	471,062	404,116	314,630
Federal Home Loan Bank advances	152,000	179,700	201,700	143,700	107,700
Stockholders equity	39,686	54,620	44,141	39,387	26,457
Book value per share	4.22	5.86	5.23	4.86	3.97
Shares outstanding <sup>(1)</sup>	9,393,919	9,319,603	8,443,105	8,101,287	6,656,739
Equity-to-assets ratio	5.75%	7.56%	6.00%	6.53%	5.65%
<b>FOR THE YEAR ENDED:</b>					
Interest income	\$ 42,486	\$ 43,842	\$ 33,977	\$ 24,609	\$ 20,921
Interest expense	30,797	28,114	19,336	10,851	9,750
Net interest income	11,689	15,728	14,641	13,758	11,171
Provision for loan losses	16,412	639	650	1,180	650
Net interest (loss) income after provision for loan losses	(4,723)	15,089	13,991	12,578	10,521
Other income	944	2,226	2,533	2,391	2,358
Other-than-temporary impairment	749	-	-	1,055	-
Other expenses	18,742	12,461	9,791	9,334	8,826
Net (loss) earnings	(14,163)	3,410	4,436	3,089	2,777
Basic (loss) earnings per share	(1.51)	.38	.54	.43	.42
Diluted (loss) earnings per share	(1.51)	.37	.53	.42	.41
Weighted average common shares outstanding	9,363,223	9,002,900	8,269,423	7,224,069	6,679,936
Return (loss) on average assets	(1.97)%	.46%	.66%	.59%	.64%
Return (loss) on average equity	(26.83)%	6.70%	10.70%	9.80%	10.79%
Net interest margin	1.74%	2.26%	2.30%	2.80%	2.73%
Average equity to average assets ratio	7.33%	6.92%	6.16%	6.02%	5.95%
Dividend payout ratio	-%	44.74%	24.03%	20.36%	11.81%
Allowance for loan losses as a percent of loans, net	2.42%	.84%	.71%	.74%	.70%

(1) Net of unallocated Employee Stock Ownership Plan shares of 42,386, 31,939, 21,789 and 119,375 as of December 31, 2007, 2006, 2005 and 2004, respectively.

**Table of Contents****RECENT DEVELOPMENTS**

The summary financial information presented below is derived in part from the consolidated financial statements of Federal Trust Corporation. The information at December 31, 2007 is derived in part from the audited consolidated financial statements of Federal Trust Corporation that appear in this prospectus. The information at March 31, 2008 and for the three months ended March 31, 2008 and 2007 is unaudited. However, in the opinion of management of Federal Trust Corporation, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods, have been made. The selected operating data presented below for the three months ended March 31, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The following is only a summary and you should read it in conjunction with the consolidated financial statements and notes beginning on page F-1. (\$ in thousands, except per share amounts)

	At March 31, 2008	At December 31, 2007
Total assets	\$ 672,879	\$ 690,264
Investment securities	41,155	52,449
Loans, net	522,551	563,234
Deposits	454,043	481,729
Shareholders' equity	37,303	39,686
Book value per share	3.97	4.22
Non-performing assets	57,868	47,745
Allowance for loan loss	15,793	13,869
Allowance for loan loss as a percent of total loans, net	2.95%	2.42%

	Three Months Ended March 31,	
	2008	2007
Interest income	\$ 9,006	\$ 10,719
Interest expense	6,966	7,495
Net interest income	2,040	3,224
Provision for loan losses	1,965	150
Non-interest income	648	476
Non-interest expense	4,375	3,439
Income tax benefit	(1,433)	(49)
(Loss) net earnings	(2,219)	160
(Loss) earnings per share-basic	\$ (.24)	\$ .02
(Loss) earnings per share-fully diluted	\$ (.24)	\$ .02
Average common shares outstanding - basic	9,394	9,342
Average common shares outstanding - diluted	9,394	9,440
Return on average assets	(1.28)%	0.09%
Return on average equity	(22.46)%	1.17%
Net interest margin	1.27%	1.89%

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

*This discussion and analysis reflects our consolidated financial statements and other relevant statistical data. The information in this section has been derived from the audited consolidated financial statements, which appear beginning on page F-1 of this prospectus. You should read the information in this section in conjunction with the business and financial information regarding Federal Trust Corporation provided in this prospectus.*

**Overview**

For the year ended December 31, 2007, we had a net loss of \$14.2 million, compared to net earnings of \$3.4 million for 2006. On a per share basis, the net loss for 2007 was \$1.51 per basic and diluted share compared to earnings of \$.38 per basic and \$.37 per diluted share for 2006. The primary factors contributing to the results in 2007 were higher levels of non-performing loans, which necessitated an increase in our provision for loan losses, net interest margin compression associated with a higher cost of deposits as well as foregone interest income as a result of nonaccrual loans and expenses associated with the termination of the contract of our former Chief Executive Officer.

Total assets at December 31, 2007 were \$690.3 million, a decrease of \$32.7 million, or 4.5%, from December 31, 2006. Net loans declined by \$40.7 million, or 6.7% from December 31, 2006 to \$563.2 million at December 31, 2007. Total deposits and Federal Home Loan Bank advances at December 31, 2007, were \$481.7 million and \$152.0 million, respectively, compared to \$472.8 million and \$179.7 million, respectively at the end of 2006.

Stockholders' equity was \$39.7 million at December 31, 2007, compared to \$54.6 million at December 31, 2006. The book value per share declined to \$4.22 at December 31, 2007, from \$5.86 at December 31, 2006. We paid total cash dividends per share of \$.08 per share in 2007, compared to \$.17 per share in 2006.

**Business Strategy**

Our current business strategy is to build a profitable, well capitalized, full-service community bank with operations in Central Florida. As part of this strategy, we have focused on creating a strong community bank branch network serving our primary market area with competitive deposit and loan products. We also emphasize flexible and personalized services to individual customers and our target customer base of locally owned small-and medium-sized businesses, professional firms, non-profit companies, entrepreneurs and their business interests. Over the last several years, our branch expansion strategy has focused on markets in Central Florida that have favorable growth characteristics. We have completed our short-term expansion plans by opening five *de novo* branch locations in 2006 and 2007, which brings our total number of branch offices to 11. We will continue to leverage our existing investment in branches to reduce our reliance on wholesale funding sources in favor of lower cost transaction accounts and increase our loan opportunities with our retail and small business customer base.

Our executive management team has changed substantially over the past year, primarily with the addition of Dennis T. Ward, who joined our company in February 2007 and was appointed President and Chief Executive Officer in September 2007. We have also hired our Executive Vice President and Senior Loan Officer, Mark E. McRae, and our Senior Vice President and Chief Credit Officer, Lindsay Sandham. The primary strategy of our management team, all of whom have considerable banking experience, is to build core relationships and better utilize our existing franchise to generate future growth when economic conditions improve. During 2007, we also hired a new sales manager for our branches, implemented new training procedures for our staff and focused our efforts on developing a broader range of financial products, in order to establish a framework for an enhanced business and sales culture that will better enable us to service our customers. These initiatives, along with our strategically located branch network, complement our effort to originate loans to retail, commercial and business customers in our Central Florida branch footprint. Our current intention is not to pursue any further purchases of pools of residential real estate loans, which we have pursued in the past.

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We believe that our renewed focus on in-market loan originations, coupled with recently strengthened underwriting policies and procedures, will help us originate higher-quality loans with favorable risk-adjusted returns. In light of current market conditions, we have spent considerable effort on early identification and quantification of potential problem assets. Our new management team is working aggressively toward resolving non-performing loans and is establishing a team experienced in problem asset resolution dedicated to managing the workout process. Depending on the type of loan, the underlying collateral and the particular circumstances regarding the credit, we will pursue various strategies to resolve problem loans.

As discussed previously, at December 31, 2007, Federal Trust Bank was classified as adequately capitalized for regulatory purposes, and not well capitalized. In the immediate term, the primary effect of this classification is that we cannot renew, replace or accept brokered deposits without prior regulatory approval. A total of \$60.5 million in brokered deposits will mature during 2008. On March 14, 2008, we received conditional approval from the Federal Deposit Insurance Corporation to replace up to \$16.0 million of brokered deposits through May 31, 2008. From December 31, 2007 through March 14, 2008, a total of \$16.6 million of brokered deposits matured and were repaid. Of the remaining \$43.9 million in brokered deposits that will mature during 2008, \$18.8 million will mature through May 31, 2008. Similarly, as a result of the Federal Home Loan Bank of Atlanta's assessment of our recent financial condition, we will not be able to access additional advances from the Federal Home Loan Bank. At the end of February 2008, our total Federal Home Loan Bank advances were \$168.0 million. The inability to access these sources of funds places significant limitations on our ability to fund new loans, and requires us to generate liquidity from other funding sources to pay deposit withdrawals and to repay existing borrowings as they mature. One of our fixed-rate Federal Home Loan Bank advances, for \$12.0 million, is scheduled to mature in December 2008, and 12 convertible advances with a total balance of \$97.0 million and with rates ranging from 3.22% to 4.81% are callable during 2008. Although we do not know whether the Federal Home Loan Bank will call these advances with callable dates, due to the current level of market interest rates, Federal Trust Bank does not anticipate that the convertible advances will be called during 2008. However, subsequent to December 31, 2007, in order to provide additional liquidity and reduce our balance sheet in an effort to again be considered well capitalized for regulatory purposes, we sold \$7.7 million in residential mortgage loans and \$8.3 million of municipal bonds, and we had \$45.0 million of overnight liquid assets invested in federal funds sold at the end of February 2008. Through the stock offerings, we are attempting to raise additional capital to increase our liquidity. There is no assurance that we will be able to raise additional capital or reduce Federal Trust Bank's assets under favorable terms, if at all. Even if we raise additional capital, we may need to request additional waivers from the Federal Deposit Insurance Corporation with respect to the additional maturing brokered deposits beyond May 31, 2008.

Despite our short-term actions to improve our liquidity and contract our balance sheet, our long-term goal is to transition our balance sheet asset and liability mix to that of a traditional community bank. We believe that reducing our portfolio of large land acquisition, development and residential loans in favor of smaller commercial business loans, and establishing a lower cost deposit base through a strong retail banking franchise, will be key to our ability to implement our long-term strategy.

**Critical Accounting Policies**

Our financial condition and results of operations are sensitive to accounting measurements and estimates of matters that are inherently uncertain. A critical accounting policy is one that is both integral to the portrayal of a company's financial condition and results, and requires difficult, subjective or complex judgments by management. When applying accounting policies in areas that are subjective in nature, we use our best judgments to arrive at the carrying value of certain assets. The most sensitive accounting measurement we apply is related to the valuation of the loan portfolio and the adequacy of the allowance for loan losses.

A number of factors affect the carrying value of the loan portfolio including the calculation of the allowance for loan losses, the value of the underlying collateral, the timing of loan charge-offs and the amount and amortization of loan fees and deferred origination costs. We believe that the determination of the allowance for loan losses represents a critical accounting policy. The allowance for loan losses is maintained at a level management considers to be adequate to absorb probable loan losses inherent in the portfolio, based on evaluations of the

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collectibility and historical loss experience of loans. Credit losses are charged and recoveries are credited to the allowance. Provisions for loan losses are based on our review of the historical loan loss experience and such factors that, in management's judgment, deserve consideration under existing economic conditions in estimating probable credit losses.

The allowance for loan losses is based on ongoing assessments of the probable estimated losses inherent in the loan portfolio. Our methodology for assessing the appropriate allowance level consists of several key elements described in the section "Business Lending Activities - Allowance for Loan Losses." The allowance for loan losses is also discussed in Notes 1 and 3 to the consolidated financial statements appearing in this prospectus. The significant accounting policies are discussed in Note 1 to the consolidated financial statements.

### **Comparison of Financial Condition at December 31, 2007 and 2006**

Total assets at December 31, 2007 were \$690.3 million, a decrease of \$32.7 million, or 4.5%, from \$723.0 million at December 31, 2006. This decrease in total assets during 2007 was part of our strategy to shrink the balance sheet due to our losses and the need to strengthen our regulatory capital ratios, combined with our efforts to change our asset/liability mix through a reduction in wholesale loan purchases and borrowed funds. Decreases in land, development and commercial construction loans as well as residential construction loans represented most of the decrease in total assets. Land, development and commercial construction loans decreased \$14.8 million, or 16.7%, and residential construction loans decreased \$14.6 million, or 40.0%, from December 31, 2006. In addition to regular principal repayments and a reduction of loan originations in current market conditions, foreclosure actions resulted in a \$9.5 million increase in total foreclosed assets, to \$9.5 million at December 31, 2007. Our commercial real estate secured loans also decreased \$7.6 million, or 8.2%, to \$85.5 million at December 31, 2007 and our portfolio of securities available for sale decreased by \$13.1 million, or 20.0%, to \$52.4 million at December 31, 2007 from \$65.6 million at December 31, 2006.

The changes in our sources of funds during 2007 reflected our efforts to reduce our reliance on wholesale funding and build our local customer base in our five new branches that we opened in 2006 and 2007. Total interest-bearing checking accounts increased \$28.7 million, or 55.6%, during 2007 to \$80.3 million at December 31, 2007. Partially offsetting our increase in these checking accounts was a decrease of \$12.3 million, or 3.6%, in higher-costing certificate of deposit accounts and a decrease of \$6.9 million, or 10.6%, in money market accounts. Federal Home Loan Bank advances decreased \$27.7 million, or 15.4%, during 2007 to \$152.0 million at December 31, 2007. Total stockholders' equity decreased \$14.9 million in 2007 due primarily to the \$14.2 million loss for the year ended December 31, 2007 and the \$752,000 we paid in dividends during the first two quarters of the year.

### **Lending Activities**

**Loan Portfolio Composition.** Our net loan portfolio, which consists of total loans plus premiums paid for loans purchased, less loans in process, deferred loan origination fees and costs and allowance for loan losses, totaled \$563.2 million at December 31, 2007, representing 82% of total assets. At December 31, 2006, our net loan portfolio was \$603.9 million, or 84% of total assets.



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The following table sets forth information on our loan portfolio by type, and the amounts provided include loans held for sale (\$ in thousands):

	2007		2006		At December 31, 2005		2004		2003	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
<b>Residential loans:</b>										
Mortgages	\$ 359,954	60.3%	\$ 356,133	56.4%	\$ 399,973	56.6%	\$ 374,581	70.8%	\$ 302,083	75.4%
Lot	39,994	6.7	42,676	6.7	40,203	5.7	41,369	7.8	20,816	5.2
Construction	21,926	3.7	36,570	5.8	81,572	11.5	5,405	1.0	780	0.2
<b>Total residential loans</b>	<b>421,874</b>	<b>70.7</b>	<b>435,379</b>	<b>68.9</b>	<b>521,748</b>	<b>73.8</b>	<b>421,355</b>	<b>79.6</b>	<b>323,679</b>	<b>80.8</b>
<b>Commercial loans:</b>										
Real estate secured	85,492	14.3	93,095	14.7	71,253	10.1	56,267	10.6	47,918	12.0
Land, development and construction	73,752	12.3	88,586	14.0	90,794	12.8	38,091	7.2	16,524	4.1
Commercial business	15,866	2.7	15,308	2.4	22,529	3.2	13,257	2.5	11,639	2.9
<b>Total commercial loans</b>	<b>175,110</b>	<b>29.3</b>	<b>196,989</b>	<b>31.1</b>	<b>184,576</b>	<b>26.1</b>	<b>107,615</b>	<b>20.3</b>	<b>76,081</b>	<b>19.0</b>
Consumer loans	214	-	125	-	447	0.1	657	0.1	864	0.2
<b>Total loans</b>	<b>597,198</b>	<b>100.0%</b>	<b>632,493</b>	<b>100.0%</b>	<b>706,771</b>	<b>100.0%</b>	<b>529,627</b>	<b>100.0%</b>	<b>400,624</b>	<b>100.0%</b>
<b>Add (deduct):</b>										
Allowance for loan losses	(13,869)		(5,098)		(4,477)		(3,835)		(2,779)	
Net premiums, discounts, deferred fees and costs	3,033		3,567		4,584		3,524		3,346	
Loans in process	(23,128)		(27,045)		(76,051)		(7,985)		(2,790)	
<b>Net loans</b>	<b>\$ 563,234</b>		<b>\$ 603,917</b>		<b>\$ 630,827</b>		<b>\$ 521,331</b>		<b>\$ 398,401</b>	

Residential mortgage loans, not including construction and lot loans, continued to comprise the largest group of loans in our loan portfolio, totaling \$360.0 million, or 60% of the total loan portfolio at December 31, 2007, up from \$356.1 million, or 56% of the total loan portfolio at December 31, 2006. We offer and purchase adjustable rate mortgage loans with maturities up to 30 years. As of December 31, 2007, approximately 93% of our residential loan portfolio consisted of adjustable-rate mortgage loans and 7% were fixed-rate. Fixed-rate loans are generally underwritten to secondary market standards to insure liquidity and interest-rate risk protection. Residential lot loans totaled \$40.0 million, or 7% of total loans at December 31, 2007. These loans are secured by developed lots ready for construction of single-family homes. As a result of the softening in the housing market during 2007, we also reduced our residential construction loans to \$21.9 million, or 4% of total loans at December 31, 2007, from \$36.6 million, or 6% of total loans at the end of 2006. These loans are generally secured by property in Southwest Florida and Central Florida and are underwritten directly to the individual or family for their primary residence or second home.

At December 31, 2007, our loan portfolio included \$184.0 million of loans to foreign nationals, of which \$106.6 million was to borrowers who reside in the United Kingdom. All of these loans are residential mortgage loans, and are primarily secured by vacation and rental properties near the Orlando resort attractions. Our general strategy with respect to loans to foreign nationals was to originate these loans for retention in our portfolio. We also package and sell pools of such loans in the secondary market. However, with the weak secondary market for residential mortgage loans in 2007, we were not able to sell as many of these loans as we had originally planned. As a result, our portfolio balance of these loans currently exceeds our internal guidelines. Therefore, despite our desire to originate more of these loans, we have discontinued the origination of loans to foreign nationals until we can find purchasers for this type of loan. See [Non-performing Loans and Foreclosed Assets](#) for a discussion of the asset quality of our loans to foreign nationals.

Commercial real estate secured loans totaled \$85.5 million, or 14% of the total loan portfolio at December 31, 2007, compared to \$93.1 million, or 15% of total loans at December 31, 2006. This portfolio includes loans to businesses to finance office, manufacturing or retail facilities.

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Commercial land, development and construction loans totaled \$73.8 million, or 12% of total loans at December 31, 2007, down from \$88.6 million, or 14% of total loans at December 31, 2006. The land loans are generally secured by larger parcels of property held for future

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development. The development and construction loans include loans for the acquisition and development of both residential and commercial projects. The construction loans are made directly to the builders of single and multi-family homes for pre-sold or speculative units. We also finance the construction of commercial facilities, generally for the owner/operator.

Commercial loans totaled \$15.9 million and \$15.3 million at December 31, 2007 and 2006, respectively. These loans are generally secured by the assets of the borrower including accounts receivable, inventory and fixed assets, including company owned real estate and are usually personally guaranteed by the owners.

Consumer loans, consisting of installment loans and savings account loans, totaled \$214,000 and \$125,000 at December 31, 2007 and 2006, respectively, or less than 1% of the total loan portfolio.

**Contractual Repayments.** Scheduled contractual principal repayments of loans do not reflect the actual life of such assets. The average life of loans is substantially less than their average contractual terms because of prepayments. In addition, due-on-sale clauses on loans generally give Federal Trust Bank the right to declare a conventional loan immediately due and payable in the event, among other things, that the borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of a mortgage loan tends to be affected by a variety of factors, including changes in real estate values, interest rates and general economic conditions. Residential lot loans generally mature in less than five years and are typically repaid or converted to a construction loan when the owner begins construction of the residence. Construction loans generally mature in one year or less.

The table below shows the contractual maturities of Federal Trust Bank's loan portfolio at December 31, 2007. Loans that have adjustable rates are shown as amortizing to final maturity rather than when the interest rates are next subject to change. The following table does not include prepayments or scheduled principal repayments (\$ in thousands):

	Residential	Commercial	Consumer	Total Loans
<b>Amounts due:</b>				
Less than one year	\$ 23,111	\$ 99,285	\$ 164	\$ 122,560
One year to three years	27,562	35,593	35	63,190
Over three years to five years	31,333	28,588	15	59,936
Over five years to 10 years	36,587	9,477	-	46,064
Over 10 years to 20 years	99,420	2,054	-	101,474
Over 20 years	203,861	113	-	203,974
Total due after one year	398,763	75,825	50	474,638
Total amounts due	\$ 421,874	\$ 175,110	\$ 214	\$ 597,198

**Loans Due After December 31, 2008.** The following table sets forth at December 31, 2007, the dollar amount of all loans due after December 31, 2008, classified according to whether such loans have fixed or adjustable interest rates (\$ in thousands):

	Due after December 31, 2008		
	Fixed	Adjustable	Total
Residential loans	\$ 27,976	\$ 370,787	\$ 398,763
Commercial loans	36,742	39,083	75,825
Consumer loans	50	-	50
Total	\$ 64,768	\$ 409,870	\$ 474,638

***Purchase, Origination and Sale of Loans.*** Florida's rate of population growth has historically exceeded national averages. The real estate development and construction industries in Florida, however, have been sensitive

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to cyclical changes in economic conditions and the demand for and supply of residential units. In 2007, both the demand for real estate mortgage loans in Florida and home prices in general declined, and the inventory of homes for sale increased to nearly a three-year supply.

Our loan portfolio consists of purchased and internally originated loans. When we acquired loans, the loan packages were generally between \$2 million to \$25 million in single-family residential mortgages, comprised of new and seasoned adjustable rate mortgage loans. In the past, when we purchased loan pools, we preferred to purchase loans secured by real estate located in Florida, but, because of pricing and the limited number of loan packages available consisting only of Florida loans, we also purchased loans secured by properties outside of Florida. When purchasing loan packages, we underwrote and reviewed each loan in a loan package prior to purchasing the loans. Due to the weak real estate market and decline in residential loan prepayments, we purchased only \$38.3 million in loans during 2007, compared to \$62.7 million purchased in 2006. During 2007, all of the loans we purchased were secured by residential properties located in Florida. Although we previously purchased loan pools, we do not currently intend to purchase loan pools (either inside or outside of our market area) going forward. See [Non-performing Loans and Foreclosed Assets](#) for a discussion of the asset quality of certain construction loans we purchased from Transland Financial Services, Inc.

Loans that Federal Trust Bank and Federal Trust Mortgage Company originate are generally secured by real estate located in our primary lending area of Central Florida. Sources for residential mortgage loan originations include direct solicitation by employed loan originators, depositors and other existing customers, advertising and referrals from real estate brokers, mortgage brokers and developers. Our residential mortgage loans are originated in accordance with written underwriting standards approved by Federal Trust Bank's Board of Directors. Most fixed-rate loan originations are eligible for sale to Fannie Mae and other investors in the secondary market.

Our loan officers and existing customers are the primary source of commercial and commercial real estate loan originations, while depositors and walk-in customers are the primary source of consumer loan originations. In addition, if the size of a particular loan request exceeds our legal or internal lending limit, we may sell a participation in that loan to a correspondent bank. From time to time, we also purchase participations from other correspondent banks. Our commercial and commercial real estate loans are predominately secured by properties located throughout Florida, but we have also originated and participated in loans secured by properties outside the state. At December 31, 2007, \$5.5 million of such loans were secured by property outside of Florida.

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The following table sets forth the amount of loans originated, purchased, sold and repaid during the years indicated (\$ in thousands):

	2007	For the Year Ended December 31,			2003
	2006	2005	2004		
<b>Originations:</b>					
<b>Mortgage loans:</b>					
Loans on existing property	\$ 97,472	\$ 45,766	\$ 51,285	\$ 62,999	\$ 44,416
Land, development and construction	59,754	115,817	64,197	66,719	20,681
<b>Total mortgage loans</b>	<b>157,226</b>	<b>161,583</b>	<b>115,482</b>	<b>129,718</b>	<b>65,097</b>
Commercial loans	11,606	7,181	8,555	7,337	12,373
Consumer loans	264	1,290	478	635	701
<b>Total loans originated</b>	<b>169,096</b>	<b>170,054</b>	<b>124,515</b>	<b>137,690</b>	<b>78,171</b>
Purchases	38,286	62,668	207,136	178,482	176,828
<b>Total loans originated and purchased</b>	<b>\$ 207,382</b>	<b>\$ 232,722</b>	<b>\$ 331,651</b>	<b>\$ 316,172</b>	<b>\$ 254,999</b>
<b>Sales and principal repayments:</b>					
Loans sold	(8,601)	(27,972)	(24,407)	(28,632)	(39,560)
Principal repayments	(234,076)	(279,028)	(130,100)	(158,537)	(125,810)
<b>Total loans sold and principal repayments</b>	<b>\$ (242,677)</b>	<b>\$ (307,000)</b>	<b>\$ (154,507)</b>	<b>\$ (187,169)</b>	<b>\$ (165,370)</b>
<b>(Decrease) increase in total loans (before net items)</b>	<b>\$ (35,295)</b>	<b>\$ (74,278)</b>	<b>\$ 177,144</b>	<b>\$ 129,003</b>	<b>\$ 89,629</b>

**Non-performing Loans and Foreclosed Assets.** When a borrower fails to make a required payment on a loan, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to current status. We attempt to collect the payment by contacting the borrower through our in-staff commercial loan officers or through our third party residential loan servicer. If a payment on a loan has not been received by the end of a grace period, notices are sent with follow-up contacts made thereafter. In many cases, the delinquencies are cured promptly. If the delinquency exceeds 90 days and is not cured through normal collection procedures, more formal measures are instituted to remedy the default, including the commencement of foreclosure proceedings. If foreclosure is effected, the property is sold at a public auction in which we typically participate as a bidder. If we are the successful bidder, the acquired real estate property is then included in our foreclosed assets account until it is sold. When assets are acquired through foreclosure, they are recorded at the lower of cost or fair value less estimated selling costs at the date of acquisition and any write-down resulting therefrom is charged to the allowance for loan losses. At December 31, 2007, our foreclosed assets totaled \$9.5 million, which included \$2.5 million on a vacant parcel in the Florida Panhandle that was intended for a condominium project. The remaining balance includes 30 developed residential lots, 12 single-family residences and five condominium and townhouse units. Of these residential properties, 21 residential lots and 11 single-family residences, for a total of \$5.7 million, came from loans to two related residential builders whose customers failed to begin construction of their home as originally negotiated, or close on their home purchases when construction was completed. Under federal regulations, we are permitted to finance sales of foreclosed assets by loans to facilitate, which may involve more favorable interest rates and terms than generally would be granted under our underwriting guidelines. At December 31, 2007, we had no loans to facilitate the sale of foreclosed assets.

Loans are placed on non-accrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual of interest. When a loan is placed on non-accrual status, previously accrued, but unpaid interest is reversed from interest income. Our policy is to stop accruing interest on loans as soon as it is determined that repayment of all principal and interest is not likely, and, in any case, where payment of principal or interest is 90 days past due.

Total non-accrual loans at December 31, 2007 were \$38.2 million. Included in this total was \$5.0 million of loans secured by 27 single-family residences. Twelve of these loans, totaling \$2.7 million, were to borrowers who reside in the United Kingdom and substantially all of the homes securing the loans are located in Lake, Polk, Osceola and Orange counties near the Orlando attractions. The remaining balance of \$2.3 million is secured by 15



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residential properties, of which eight are located in the state of Florida. The non-accrual total at December 31, 2007, also included loans for \$6.6 million to individual borrowers secured by developed residential lots. Of this amount, \$4.6 million were loans related to a single subdivision in the Florida Panhandle.

Our non-accrual residential construction loans at December 31, 2007, totaled \$7.3 million for loans to individual borrowers, primarily secured by properties located in Lee County in Southwest Florida. These loans were originated by Transland Financial Services, Inc. and acquired by Federal Trust Bank. Included in this amount was \$4.1 million in loans for 20 single-family residences, three of which are partially completed and the remainder are completed homes that were never closed or occupied by the original buyer. An additional \$2.7 million of this amount is for 22 developed lots where the original intent of the borrowers was to construct single-family residences, but the construction was delayed and the borrowers defaulted on the loans. Substantially all of these construction loans are in the process of foreclosure. The remaining \$500,000 balance of the loans originated by Transland Financial Services, Inc. related to unremitted loan proceeds that were collected from Federal Trust Bank's insurance carrier subsequent to December 31, 2007.

Three non-accrual loans for a total of \$7.5 million were for commercial office projects, two of which were for \$6.1 million, and are secured by property in our Central Florida market area, and the third project is secured by a commercial building in Tallahassee, Florida.

Total land development and construction loans on non-accrual at December 31, 2007 were \$11.1 million. This total included \$8.2 million secured by three parcels of vacant land; one of these for \$3.4 million was for property located in the Florida Panhandle area, the other two parcels are located in our Central Florida market area. The remaining \$2.9 million represented residential construction loans to three separate borrowers; all of such loans are in process of foreclosure and are located primarily across Central Florida from Daytona Beach on the east coast to Tampa on the west coast.

Management is aggressively pursuing resolutions of these non-performing assets. The amount and timing of losses, if any, cannot be determined at the present time. However, we believe that the allowance for loan losses is adequate to absorb potential losses on the non-accrual loans.



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The following table sets forth certain information regarding our non-accrual loans and foreclosed assets, the ratio of such loans and foreclosed assets to total assets as of the date indicated, and certain other related information (\$ in thousands):

	At December 31,				
	2007	2006	2005	2004	2003
Non-accrual loans:					
Residential loans:					
Mortgages	\$ 4,993	\$ 3,140	\$ 1,240	\$ 1,862	\$ 6,167
Lot	6,578	-	158	-	-
Construction	7,317	3,952	-	5	229
Total residential loans	18,888	7,092	1,398	1,867	6,396
Commercial loans:					
Real estate secured	7,520	92	-	-	-
Land, development and construction	11,063	4,000	-	-	-
Commercial business	752	786	720	720	-
Total commercial loans	19,335	4,878	720	720	-
Consumer loans	-	-	-	13	-
Total non-accrual loans	\$ 38,223	\$ 11,970	\$ 2,118	\$ 2,600	\$ 6,396
Total non-accrual loans to total loans	6.4%	1.9%	0.3%	0.5%	1.6%
Total non-accrual loans to total assets	5.5%	1.7%	0.3%	0.4%	1.4%
Total allowance for loan losses to total non-accrual loans	36.3%	42.6%	211.4%	147.5%	43.4%
Total foreclosed assets	\$ 9,522	\$ 36	\$ 556	\$ 326	\$ 1,007
Total non-accrual loans and foreclosed assets to total assets	6.9%	1.7%	0.4%	0.5%	1.6%

At December 31, 2007, we had no accruing loans that were contractually past due 90 days or more as to principal or interest and no troubled debt restructurings as defined by Statement of Financial Accounting Standards No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructuring*. For the year ended December 31, 2007, interest income that would have been recorded under the original terms of non-accrual loans and interest income actually recognized is summarized below (\$ in thousands):

Interest income that would have been recorded	\$ 4,037
Interest income recognized	1,078
Interest income foregone	\$ 2,959

**Classified Assets; Potential Problem Loans.** Federal regulations and Federal Trust Bank's policies define classified assets as either loans or other assets, such as debt and equity securities, which have elevated risk or weaknesses and are classified as either substandard, doubtful or loss. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have all of the weaknesses inherent in substandard assets, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. In addition, our policies require that assets which have one or more weaknesses but do

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not currently expose us to sufficient risk to warrant classification as substandard but possess other weaknesses are designated special mention.

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If an asset is graded special mention or classified, the estimated fair value of the asset is evaluated to determine if that value is less than the carrying value. If the estimated fair value is less than the carrying value, it is considered to be impaired and we establish a specific reserve. Pursuant to Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan*, if an asset is classified as loss, the amount of the asset classified as loss is fully reserved. General reserves or general valuation allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities but, unlike specific reserves, are not allocated to particular assets.

At December 31, 2007, we had loans totaling \$34.3 million that were graded special mention. Our substandard loans included \$38.2 million of non-accrual loans and \$22.3 million of accruing loans. We also held \$9.5 million of foreclosed assets, which are classified as substandard. There were no loans classified as doubtful or loss at December 31, 2007. Of the total special mention loans, seven loans with a total balance of \$19.6 million were secured by vacant land and developed lots in Florida. An additional \$11.5 million of loans were secured by commercial properties, one of which, for \$1.5 million, was secured by property in Miami Beach, Florida and one loan for \$5.0 million was secured by property in Georgia. The remainder is for a \$2.7 million residential construction project and a \$499,000 unsecured loan.

The \$22.3 million of accruing substandard loans includes two Central Florida residential home builders with a combined balance of \$6.9 million. Four other loans totaling \$7.5 million are for vacant land and developed residential lots. One substandard loan for \$7.4 million, which was a participation loan for the acquisition and renovation of various commercial office buildings, was paid in full in 2008. Through a process that included notifying the lead bank of our desire to discontinue our participation, another participant was identified and assumed our portion of the loan, thereby ending our involvement with the loan. One substandard loan for \$498,000 was unsecured.

We closely monitor and are in regular contact with all borrowers of classified and special mention loans. The amount and timing of losses on these loans, if any, cannot be determined at the present time, however, we believe that the allowance for loan losses is adequate to absorb potential losses on the classified and special mention loans.

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The following table sets forth our loan delinquencies by type and by amount at the dates indicated (\$ in thousands).

	Loans Delinquent For				Total	
	60-89 Days		90 Days and Over (1)		Number	Amount
	Number	Amount	Number	Amount	Number	Amount
<b>At December 31, 2007</b>						
Residential loans:						
Mortgages	24	\$ 4,242	27	\$ 4,993	51	\$ 9,235
Lot	4	368	34	6,578	38	6,946
Construction	-	-	43	7,317	43	7,317
Commercial loans:						
Real estate secured	1	1,448	4	7,520	5	8,968
Land, development and construction	-	-	19	11,063	19	11,063
Commercial business	3	600	2	752	5	1,352
Consumer loans	1	20	-	-	1	20
<b>Total</b>	<b>33</b>	<b>\$ 6,678</b>	<b>129</b>	<b>\$ 38,223</b>	<b>162</b>	<b>\$ 44,901</b>

**At December 31, 2006**

Residential loans:						
Mortgages	-	\$ -	27	\$ 3,140	27	\$ 3,140
Lot	-	-	-	-	-	-
Construction	7	1,012	27	3,952	34	4,964
Commercial loans:						
Real estate secured	-	-	2	92	2	92
Land, development and construction	-	-	1	4,000	1	4,000
Commercial business	1	500	2	786	3	1,286
Consumer loans	-	-	-	-	-	-
<b>Total</b>	<b>8</b>	<b>\$ 1,512</b>	<b>59</b>	<b>\$ 11,970</b>	<b>67</b>	<b>\$ 13,482</b>

**At December 31, 2005**

Residential loans:						
Mortgages	5	\$ 775	18	\$ 1,240	23	\$ 2,015
Lot	-	-	-	-	-	-
Construction	2	658	1	158	3	816
Commercial loans:						
Real estate secured	-	-	-	-	-	-
Land, development and construction	-	-	-	-	-	-
Commercial business	-	-	1	720	1	720
Consumer loans	-	-	-	-	-	-
<b>Total</b>	<b>7</b>	<b>\$ 1,433</b>	<b>20</b>	<b>\$ 2,118</b>	<b>27</b>	<b>\$ 3,551</b>

**At December 31, 2004**

Residential loans:						
Mortgages	6	\$ 425	31	\$ 1,862	37	\$ 2,287
Lot	-	-	-	-	-	-
Construction	-	-	1	5	1	5
Commercial loans:						
Real estate secured	1	171	-	-	1	171
Land, development and construction	-	-	-	-	-	-

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Commercial business	-	-	1	720	1	720
Consumer loans	1	2	1	13	2	15
Total	8	\$ 598	34	\$ 2,600	42	\$ 3,198

At December 31, 2003

Residential loans:						
Mortgages	11	\$ 577	73	\$ 6,167	84	\$ 6,744
Lot	-	-	-	-	-	-
Construction	-	-	1	229	1	229
Commercial loans:						
Real estate secured	1	972	-	-	1	972
Land, development and construction	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-
Consumer loans	1	47	-	-	1	47
Total	13	\$ 1,596	74	\$ 6,396	87	\$ 7,992

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A number of factors are considered when establishing our allowance for loan losses. For loan loss purposes, the loan portfolio is segregated into broad segments, including: residential real estate loans to United States citizens; residential real estate loans to foreign national borrowers; various types of commercial real estate loans; land development and construction loans; commercial business loans and other loans. A general allowance for losses is then provided for each of the aforementioned categories, which consists of general loss percentages based upon historical analyses and inherent losses that probably exist as of the evaluation date even though they might not have been identified by the more objective processes used to evaluate individual past due, special mention and classified loans. The adequacy of the allowance is subjective and requires complex judgments based on qualitative factors that do not lend themselves to exact mathematical calculations such as: trends in delinquencies and nonaccruals; trends in real estate values; migration trends in the portfolio; trends in volume, terms, and portfolio mix; new credit products and/or changes in the geographic distribution of those products; changes in lending policies and procedures; collection practices; examination results from bank regulatory agencies; external loan reviews and our internal credit review function; changes in the outlook for local, regional and national economic conditions; concentrations of credit; and peer group comparisons.

Large commercial loans that exhibit probable or observed credit weaknesses that we have graded special mention or classified, are subject to individual review for impairment. Reserves are allocated to specific impaired loans based on our estimate of the borrower's ability to repay the loan given the value of the underlying collateral, other sources of cash flows, and available legal options. Our review of individual loans is based on the definition of impairment as provided in Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended. We evaluate the collectibility of both principal and interest when assessing the need for a specific reserve. Specific reserves on individual loans and historical loss rates are reviewed throughout the year and adjusted as necessary based on changing borrower and collateral conditions and actual collection and charge-off experience. Historical loss rates are used to evaluate the adequacy of the allowance on other commercial loans not subject to specific reserve allocations.

Homogenous loans, such as installment and residential mortgage loans, are not individually reviewed by management but collectively evaluated for impairment, except in the case of delinquencies. Reserves are established for each pool of loans based on the expected net charge-offs. Loss rates are based on the average net charge-off history and an analysis of the risks and trend information by loan category. Historical loss rates for commercial and consumer loans may be adjusted for significant factors that, in management's judgment, reflect the impact of current market conditions.

Based on these procedures, management believes that the allowance for loan losses was adequate to absorb estimated loan losses inherent in the loan portfolio at December 31, 2007. Actual results could differ from these estimates. However, since the allowance is affected by management's judgments and uncertainties, there is the likelihood that materially different amounts would be reported under different conditions or assumptions. To the extent that the economy, collateral values, reserve factors or the nature and volume of problem loans change, we may need to adjust the provision for loan losses. In addition, federal regulatory agencies, as an integral part of the examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance level based upon their judgment of the information available to them at the time of their examination. As we experienced in 2007, material additions to our provision for loan losses in 2008 could result in a decrease in net earnings and capital.

At December 31, 2007, the allowance for loan losses was \$13.9 million, or 36.3% of non-performing loans and 2.42% of total loans net of loans in process at that date. At December 31, 2006, the allowance for loan losses was \$5.1 million, or 42.6% of non-performing loans and .84% of total loans net of loans in process at that date. The allowance at December 31, 2007, consisted of reserves for performing loans in the portfolio and reserves against certain impaired loans based on management's evaluation of these individual loans.

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The following table sets forth information with respect to our allowance for loan losses during the periods indicated. The allowances shown in the table below should not be interpreted as an indication that charge-offs in future periods will occur in these amounts or proportions or that the allowance indicates future charge-off amounts or trends (\$ in thousands):

	At December 31,				
	2007	2006	2005	2004	2003
Average loans outstanding, net of loans in process	\$ 600,465	\$ 621,670	\$ 579,811	\$ 447,773	\$ 366,488
Allowance at beginning of year	5,098	4,477	3,835	2,779	2,110
<b>Charge-offs:</b>					
<b>Residential loans:</b>					
Mortgage	(290)	(25)	-	(106)	(30)
Construction	(4,072)	(14)	-	-	-
<b>Commercial loans:</b>					
Real estate secured	(2,843)	-	-	-	-
Commercial business	(438)	-	-	(48)	-
Consumer loans	-	-	(10)	-	(1)
Total loans charged-off	(7,643)	(39)	(10)	(154)	(31)
Recoveries	2	21	2	30	50
Net (charge-offs) recoveries	(7,641)	(18)	(8)	(124)	19
Provision for loan losses	16,412	639	650	1,180	650
Allowance at end of year	\$ 13,869	\$ 5,098	\$ 4,477	\$ 3,835	\$ 2,779
Ratio of net charge-offs (recoveries) to average loans outstanding, net of loans in process	1.27%	.00%	.00%	.03%	(.01)%
Ratio of allowance to period-end total loans, net of loans in process	2.42%	.84%	.71%	.74%	.70%
Year-end total loans, net of loans in process	\$ 574,070	\$ 605,448	\$ 630,720	\$ 521,642	\$ 397,834

The following table represents information regarding our allowance for loan losses, as well as the allocations to the various categories of loans. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories (\$ in thousands):

	At December 31,									
	2007		2006		2005		2004		2003	
	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans
Residential loans	\$ 10,341	70.7%	\$ 2,671	68.9%	\$ 2,337	73.8%	\$ 2,488	79.6%	\$ 1,886	80.8%
Commercial loans	3,528	29.3%	2,427	31.1	2,130	26.1	1,055	20.3	825	19.0
Consumer loans	-	-	-	-	10	.1	292	.1	68	.2

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Total allowance for loan losses	\$ 13,869	100.0%	\$ 5,098	100.0%	\$ 4,477	100.0%	\$ 3,835	100.0%	\$ 2,779	100.0%
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The allowance for loan losses allocated to residential loans at December 31, 2007 included \$4.2 million for mortgage loans, \$2.9 million for lot loans and \$3.2 million for construction loans. The allowance for loan losses



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allocated to commercial loans at December 31, 2007 included \$1.6 million for real estate secured loans, \$1.0 million for land, development and construction loans and \$1.0 million for commercial business loans.

### **Investment Activities**

***Mortgage-Backed Securities.*** We purchase mortgage-backed securities and other collateralized mortgage obligations, which are guaranteed as to principal and interest by Fannie Mae or Freddie Mac, which are enterprises sponsored by the United States Government. We also purchase mortgage-backed securities issued or guaranteed by entities that are not Federal government agencies or government sponsored enterprises. These securities are acquired primarily for their liquidity, yield and credit characteristics, and may be used as collateral for borrowings. The mortgage-backed securities we purchase are backed by either fixed-rate or adjustable-rate mortgage loans. At December 31, 2007, our mortgage-backed securities portfolio had a carrying value \$20.2 million, including \$9.3 million of collateralized mortgage obligations, \$6.2 million of which were issued by Fannie Mae or Freddie Mac. At that date, all of our mortgage-backed securities were issued by government sponsored enterprises.

***Other Investments.*** As a condition to our membership in the Federal Home Loan Bank of Atlanta we are required to own Federal Home Loan Bank stock. At December 31, 2007, we owned \$8.1 million of Federal Home Loan Bank stock. The other investments in our investment portfolio, with the exception of corporate equity securities, are eligible for inclusion in our liquidity base when calculating our regulatory liquidity. We also purchase municipal bonds and corporate equity and debt securities. At December 31, 2007, we held \$15.2 million of insured, bank-qualified municipal bonds. Subsequent to December 31, 2007, in order to improve our liquidity, we sold \$8.3 million of municipal bonds for a gain of \$58,000.

We invest in trust preferred securities, primarily issued by pools of issuers sponsored by financial institution holding companies. At December 31, 2007, the carrying value of our three trust preferred securities was \$4.8 million, and included \$2.6 million of securities related to financial institution holding company issuers and \$2.2 million of securities related to insurance company issuers.

At December 31, 2007, we had \$18.0 million in carrying value of investment securities and all of our Federal Home Loan Bank stock pledged to the Federal Home Loan Bank as collateral for advances. At December 31, 2007, our entire investment securities portfolio was classified as available for sale.

***Impairment of Securities.*** Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) our intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair market value.

During 2007, we recorded an other-than-temporary impairment write-down charge of \$749,000 to adjust for the market value decline of one of our collateralized mortgage obligations. The investment was secured by second mortgage loans that had experienced significant delinquencies and some portfolio losses. At December 31, 2007, the remaining principal balance of this investment was \$829,000, the market value was \$883,000, and we expect to receive all of our remaining principal and interest due.

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The following table sets forth the carrying values of our total investments and liquidity as of the dates indicated (\$ in thousands):

	At December 31,		
	2007	2006	2005
Interest-earning deposits	\$ 1,131	\$ 1,585	\$ 6,424
Mortgage-backed securities	20,169	26,960	21,807
Debt securities:			
Government sponsored enterprises	10,703	8,855	4,798
Municipal bonds	15,237	14,056	12,321
Corporate debt	1,495	5,289	5,068
Trust preferred securities	4,785	6,489	-
Equity securities:			
Federal Home Loan Bank stock	8,129	9,591	10,273
Corporate equity	60	3,909	6,086
<b>Total investment portfolio</b>	<b>\$ 61,709</b>	<b>\$ 76,734</b>	<b>\$ 66,777</b>

The following table sets forth the remaining maturity and weighted-average yields as of December 31, 2007 (\$ in thousands):

	One Year or Less		Over One Year to Five Years		Over Five Years to Ten Years		More Than Ten Years		Total	
	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield
Interest-earning deposits	\$ 1,131	5.04%	\$ -	-%	\$ -	-%	\$ -	-%	\$ 1,131	5.04%
Mortgage-backed securities (*)	-	-	-	-	-	-	20,169	5.46	20,169	5.46
Government sponsored enterprises	-	-	-	-	2,358	5.44	8,345	6.59	10,703	6.34
Municipal bonds	100	6.06	958	6.21	6,351	6.46	7,828	6.42	15,237	6.42
Corporate debt	-	-	-	-	1,495	4.38	-	-	1,495	4.38
Trust preferred securities	-	-	-	-	-	-	4,785	6.23	4,785	6.23
FHLB stock (*)	-	-	-	-	-	-	8,129	5.99	8,129	5.99
Corporate equity securities (*)	-	-	-	-	-	-	60	1.53	60	1.53
<b>Total</b>	<b>\$ 1,231</b>	<b>5.12%</b>	<b>\$ 958</b>	<b>6.21%</b>	<b>\$ 10,204</b>	<b>5.92%</b>	<b>\$ 49,316</b>	<b>5.96%</b>	<b>\$ 61,709</b>	<b>5.94%</b>

\* Estimated and scheduled prepayments of principal on mortgage-backed securities are not allocated in the above table, and corporate equity securities and Federal Home Loan Bank stock are perpetual investments with no maturity date.

**Impact of Interest Rates on the Investment Portfolio.** Between June 2006 and September 2007, the Federal Reserve Board maintained the Federal Funds rate at 5.25%. In September 2007, the Federal Reserve Board decreased the rate by 50 basis points, followed by additional 25 basis point reductions in both October 2007 and December 2007. At the same time, longer term Treasury rates declined by nearly 100 basis points. Throughout the period, the Treasury yield curve steepened with the ten-year Treasury rate approximately 125 basis points above the one-month Treasury rate.

The yields and market values of the investment portfolio are significantly affected by changes in the Federal Funds rate set by the Federal Reserve Board, Treasury rates and other market interest rates. Also affecting investment portfolio rates and values are changing market conditions on individual investments and groups of investments. As mentioned above, Federal Trust Bank recognized an other-than-temporary impairment on a single mortgage-backed security investment in 2007. Other mortgage-backed securities investments and trust preferred securities also have been affected by the market deterioration in 2007. However, we have determined at this time that the decline in values is

temporary and values will recover as market conditions improve, or we expect to receive all of our principal and interest due at maturity.

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### Sources of Funds

**General.** Deposits are our primary source of funds for use in lending, investments and for other general business purposes. In addition to deposits, funds are also obtained from normal loan amortization, maturities of investment securities, prepayments of loan principal and loan sales. Historically, we have used brokered deposits as a supplemental source of funding for our operations, as these deposits generally have lower interest rates than rates offered for certificates of deposit in our local market area. It has been our recent funding strategy to reduce our reliance on brokered deposits, and instead focus on attracting retail deposits through our network of 11 branches. In addition, as described below, we are restricted in the amount of brokered deposits that we can renew, replace or accept. Contractual loan payments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments and sales are significantly influenced by general market interest rates and economic conditions. Other borrowings are also used on a short-term basis to compensate for seasonal or other reductions in normal sources of funds, and provide diversity in our funding sources among providers and across maturities. Until recently, Federal Home Loan Bank borrowings have been used by Federal Trust Bank on a short-term and longer term basis to support expanded lending or investment activities. However, as described below, we are not currently able to access additional advances from the Federal Home Loan Bank. Borrowings by Federal Trust Corporation (like the trust preferred securities we have issued) could also be used as an additional source of capital for Federal Trust Bank, but the Office of Thrift Supervision has restricted Federal Trust Corporation from issuing any debt securities or otherwise incurring any debt without the prior approval of the Office of Thrift Supervision.

**Deposits.** Our primary deposit products include fixed-rate certificate accounts, money-market deposit accounts and both noninterest and interest-bearing transaction accounts. We have a number of different programs that are designed to attract both short-term and long-term deposits and we continue to promote transaction accounts, which generally provide higher fee revenue compared to time deposits.

Deposits have generally been obtained from residents in our primary market area and, to a lesser extent, nationwide, through a network of deposit brokers. Of the total \$327.5 million in time deposits at December 31, 2007, \$78.6 million were acquired through deposit brokers at rates that are typically less than rates on comparable term certificates offered in our local market. At December 31, 2007, Federal Trust Bank's capital ratio fell below the well capitalized level and, therefore, we cannot renew, replace or accept brokered deposits until we are well capitalized, or we receive a waiver from the Federal Deposit Insurance Corporation. A total of \$60.5 million in brokered deposits will mature during 2008. On March 14, 2008, we received conditional approval from the Federal Deposit Insurance Corporation to replace up to \$16.0 million of brokered deposits through May 31, 2008. From December 31, 2007 through March 14, 2008, a total of \$16.6 million of brokered deposits matured and were repaid. Of the remaining \$43.9 million in brokered deposits that will mature during 2008, \$18.8 million will mature through May 31, 2008. We may need to request additional waivers from the Federal Deposit Insurance Corporation with respect to the additional maturing brokered deposits beyond May 31, 2008. If we do not obtain a waiver from the Federal Deposit Insurance Corporation to permit us to renew or replace the additional maturing brokered deposits beyond May 31, 2008, we may be required to repay these deposits through other sources of funds, including retail deposits in our local market and loan prepayments and sales. While it has been our strategy during 2007 and 2006 to reduce our reliance on brokered deposits through the opening of additional branch offices and slowing our growth, the brokered deposit restriction could force us to pay higher rates on our other deposit products or sell loans at less than favorable terms in order to repay these maturing deposits as they come due.

The principal methods used to attract in market deposit accounts have included offering a wide variety of services and accounts, competitive interest rates and convenient office locations, including access to automated teller machines and Internet banking. We currently operate 11 automated teller machines and our customers also have access to the AllPoint Honor and other shared automated teller machine networks. We also offer customers Internet banking with access to their accounts, funds transfer and bill paying.

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The following table shows the distribution of, and certain other information relating to, our deposits by account type as of the dates indicated (\$ in thousands):

	2007		At December 31, 2006		2005	
	Amount	Percent of Deposits	Amount	Percent of Deposits	Amount	Percent of Deposits
Noninterest-bearing checking accounts	\$ 13,916	2.9%	\$ 13,887	2.9%	\$ 13,628	2.9%
Interest-bearing checking accounts	80,275	16.6	51,584	10.9	51,682	11.0
Money-market accounts	57,608	12.0	64,458	13.7	78,371	16.6
Savings accounts	2,422	.5	3,065	.6	4,062	.8
<b>Subtotal</b>	<b>154,221</b>	<b>32.0</b>	<b>132,994</b>	<b>28.1</b>	<b>147,743</b>	<b>31.3</b>
<b>Time deposits:</b>						
1.00% to 1.99%	-	-	-	-	2,160	.5
2.00% to 2.99%	274	.1	695	.1	40,677	8.6
3.00% to 3.99%	1,678	.3	5,747	1.2	171,712	36.5
4.00% to 4.99%	75,239	15.6	120,416	25.5	108,004	22.9
5.00% to 5.99%	250,317	52.0	212,942	45.1	720	.2
6.00% to 6.99%	-	-	-	-	46	-
7.00% to 7.99%	-	-	-	-	-	-
<b>Total time deposits</b>	<b>327,508</b>	<b>68.0</b>	<b>339,800</b>	<b>71.9</b>	<b>323,319</b>	<b>68.7</b>
<b>Total deposits</b>	<b>\$ 481,729</b>	<b>100.0%</b>	<b>\$ 472,794</b>	<b>100.0%</b>	<b>\$ 471,062</b>	<b>100.0%</b>

The following table shows the average amount of and the weighted average rate paid on each of the following deposit categories during the periods indicated (\$ in thousands):

	2007		Year Ended December 31, 2006		2005	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing checking accounts	\$ 12,844	-%	\$ 13,615	-%	\$ 14,667	-%
Money market and interest-bearing checking accounts	125,054	3.96	127,182	3.77	127,485	2.83
Savings	2,808	1.53	3,417	1.76	5,103	1.37
Time deposits	332,839	5.19	340,144	4.50	282,693	3.16
<b>Total deposits</b>	<b>\$ 473,545</b>	<b>4.70%</b>	<b>\$ 484,358</b>	<b>4.16%</b>	<b>\$ 429,948</b>	<b>2.93%</b>

The variety of deposit accounts that we offer has increased our ability to retain deposits and has allowed us to be competitive in obtaining new funds, although the threat of disintermediation (the flow of funds away from savings institutions into direct investment vehicles such as government and corporate securities) still exists. Our ability to attract and retain deposits and maintain a favorable cost of funds has been, and will continue to be, significantly affected by national and local economic conditions, changes in prevailing interest rates, pricing of deposits and competition.

On a weekly basis, we review the rates offered by other depository institutions in our market area and make adjustments to the rates we offer to meet our funding needs and to remain competitive with the local market. Our total deposits increased slightly to \$481.7 million at December 31, 2007, from \$472.8 million at December 31, 2006.



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The following table sets forth maturities of jumbo certificates of \$100,000 and more at December 31, 2007 (\$ in thousands):

	<b>Amount</b>
Due three months or less	\$ 56,547
Due over three months to six months	35,887
Due over six months to one year	61,110
Due over one year	25,425
	<b>\$ 178,969</b>

The following table sets forth maturities of all of our time deposits at December 31, 2007 (\$ in thousands):

<b>Year Ending December 31,</b>	<b>Amount</b>
2008	\$ 290,910
2009	22,414
2010	7,648
2011	4,199
2012	2,337
	<b>\$ 327,508</b>

**Federal Home Loan Bank Advances.** Advances from the Federal Home Loan Bank have been a significant source of funds that we have relied upon to support our lending activities. Such advances may be made pursuant to several different credit programs. Each credit program has its own interest rate based on the range of maturities. The Federal Home Loan Bank has limitations on the total amount and terms of advances that are available to Federal Trust Bank based on, among other things, asset size, capital strength, earnings and the amount of collateral available to be pledged for such advances. Prepayment of Federal Home Loan Bank advances may result in prepayment penalties. At December 31, 2007, we had \$152.0 million in borrowings, down from \$179.7 million at the end of 2006.

As a result of the Federal Home Loan Bank of Atlanta's assessment of our recent financial condition, we will not be able to access additional advances from the Federal Home Loan Bank. At the end of February 2008, our total Federal Home Loan Bank advances were \$168.0 million. One fixed-rate advance for \$12.0 million is scheduled to mature in December 2008, and 12 convertible advances with a total balance of \$97.0 million and with rates ranging from 3.22% to 4.81% are callable during 2008. Although we do not know whether the Federal Home Loan will call those advances with callable dates, due to the current level of market interest rates, Federal Trust Bank does not anticipate that the convertible advances will be called during 2008. At December 31, 2007, Federal Trust Bank had repaid the entire overnight advance balance under the daily rate credit program. At the end of February 2008, our daily rate credit balance was \$9.0 million.

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The following table is a summary of our advances from the Federal Home Loan Bank of Atlanta (\$ in thousands):

By remaining contractual maturity

at December 31, 2007:	Under One Year	One to Five Years	After Five Years	2007 Total	2006 Total
Fixed rate	\$ 12,000	\$ 38,000	\$ -	\$ 50,000	\$ 69,700
Callable	-	47,000	55,000	102,000	110,000
<b>Total advances from the Federal Home Loan Bank</b>	<b>\$ 12,000</b>	<b>\$ 85,000</b>	<b>\$ 55,000</b>	<b>\$ 152,000</b>	<b>\$ 179,700</b>
Interest rate	4.92%	3.87-5.35%	3.22-4.00%	3.22-5.35%	3.03-5.38%

By next call or repricing date as of December 31, 2007:

Fixed rate	\$ 12,000	\$ 38,000	\$ -	\$ 50,000	\$ 69,700
Callable	97,000	5,000	-	102,000	110,000
<b>Total advances from the Federal Home Loan Bank</b>	<b>\$ 109,000</b>	<b>\$ 43,000</b>	<b>\$ -</b>	<b>\$ 152,000</b>	<b>\$ 179,700</b>
Interest rate	3.22-4.92%	3.77-5.35%	-%	3.22-5.35%	3.03-5.38%

At December 31, 2007, the security agreement with the Federal Home Loan Bank included a blanket floating lien requiring Federal Trust Bank to maintain qualifying first mortgage loans as pledged collateral for our advances. In addition, at December 31, 2007, Federal Trust Bank pledged investment securities with a fair value of \$18.0 million and Federal Home Loan Bank stock of \$8.1 million. In 2008, we were informed by the Federal Home Loan Bank that we cannot continue to utilize the blanket floating lien at the present time. We will be required to pledge specific qualifying first mortgage loans and investment securities to the Federal Home Loan Bank as collateral for our advances and deliver possession of such collateral to the Federal Home Loan Bank or its custodian. At the end of February 2008, we had a total of \$168.0 million in advances outstanding. We are in process of identifying the mortgage loans that will be pledged to the Federal Home Loan Bank for the remainder of the advance balance. The Federal Home Loan Bank also requires the purchase of Federal Home Loan Bank common stock in proportion to the amount of advances outstanding.

The interest rate on the daily rate credit advances is subject to change daily and may be repaid at any time without penalty. Fixed-rate advances could result in the payment of a prepayment penalty or receipt of a premium by Federal Trust Bank depending upon the interest rate on the advance and market rates at the time of prepayment.

**Other Borrowings.** In addition to Federal Home Loan Bank advances, we borrow from correspondent banks to support our operations. During 2006 and 2007, Federal Trust Corporation had a revolving line of credit agreement with a correspondent bank that enabled us to borrow up to \$8,000,000. The interest rate on the line of credit was floating at the prime lending rate minus 50 basis points as long as we maintain certain loan-to-book value ratios. The line of credit was secured by all of Federal Trust Bank's common stock. Federal Trust Corporation could draw upon or repay the line of credit in whole or in part for the first 24 months without any prepayment penalties, at which time the remaining principal balance was scheduled for repayment over eight years. In February 2007 the balance outstanding on the line of credit was repaid. In July 2007, the revolving period of the line ended and has not been renewed or replaced.

Other borrowings also include securities sold under agreements to repurchase, which totaled \$16,000 at December 31, 2007. Total interest expense on other borrowings for the years ended December 31, 2007, 2006 and 2005, was approximately \$32,000, \$104,000 and \$58,000, respectively.

**Junior Subordinated Debentures.** On September 17, 2003, Federal Trust Statutory Trust I sold adjustable-rate Trust Preferred Securities due September 17, 2033 in the aggregate principal amount of \$5,000,000 in a pooled trust preferred securities offering. The interest rate on the Trust Preferred Securities adjusts quarterly, to a rate equal



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to the current three-month London Interbank Offered Rate, plus 295 basis points (7.94% at December 31, 2007). In addition, Federal Trust Corporation contributed capital of \$155,000 to Federal Trust Statutory Trust I for the purchase of the common securities of Federal Trust Statutory Trust I. The proceeds from these sales were paid to Federal Trust Corporation in exchange for \$5,155,000 of its adjustable-rate Junior Subordinated Debentures due September 17, 2033. The debentures have the same terms as the Trust Preferred Securities. The sole asset of Federal Trust Statutory Trust I, the obligor on the Trust Preferred Securities, is the debentures.

Federal Trust Corporation guaranteed Federal Trust Statutory Trust I's payment of distributions on, payments on any redemptions of, and any liquidation distribution with respect to the Trust Preferred Securities. Cash distributions on both the Trust Preferred Securities and the debentures are payable quarterly in arrears on March 17, June 17, September 17 and December 17 of each year.

The Trust Preferred Securities are subject to mandatory redemption: (i) in whole, but not in part, upon repayment of the debentures at stated maturity or, at the option of Federal Trust Corporation, their earlier redemption in whole upon the occurrence of certain changes in the tax treatment or capital treatment of the Trust Preferred Securities, or a change in the law such that Federal Trust Statutory Trust I would be considered an Investment Company; and (ii) in whole or in part at any time on or after September 17, 2008, contemporaneously with the optional redemption by Federal Trust Corporation of the debentures in whole or in part. The debentures are redeemable prior to maturity at the option of Federal Trust Corporation: (i) on or after September 17, 2008, in whole at any time or in part from time to time; or (ii) in whole, but not in part, at any time within 90 days following the occurrence and continuation of certain changes in the tax treatment or capital treatment of the Trust Preferred Securities, or a change in law such that Federal Trust Statutory Trust I would be considered an Investment Company, required to be registered under the Investment Company Act of 1940.

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The following table sets forth certain information relating to our borrowings at the dates indicated (\$ in thousands):

	At or For the Year Ended December 31,		
	2007	2006	2005
<b>Federal Home Loan Bank advances:</b>			
Average balance outstanding	\$ 178,688	\$ 183,106	\$ 186,122
Maximum amount outstanding at any month end during the year	191,500	207,400	212,500
Balance outstanding at end of year	152,000	179,700	201,700
Weighted average interest rate during the year	4.49%	3.98%	3.31%
Weighted average interest rate at end of year	4.29%	4.22%	3.67%
<b>Securities sold under agreements to repurchase:</b>			
Average balance outstanding	\$ 447	\$ 69	\$ -
Maximum amount outstanding at any month end during the year	871	893	-
Balance outstanding at end of year	16	893	-
Weighted average interest rate during the year	4.08%	3.83%	-
Weighted average interest rate at end of year	3.70%	3.83%	-
<b>Other borrowings and junior subordinated debentures:</b>			
Average balance outstanding	\$ 5,463	\$ 9,167	\$ 9,000
Maximum amount outstanding at any month end during the year	5,655	13,370	12,019
Balance outstanding at end of year	5,155	8,159	12,019
Weighted average interest rate during the year	8.74%	7.68%	5.98%
Weighted average interest rate at end of year	7.94%	9.42%	6.78%
<b>Total borrowings:</b>			
Average balance outstanding	\$ 184,598	\$ 192,342	\$ 195,122
Maximum amount outstanding at any month end during the year	198,026	221,663	224,519
Balance outstanding at end of year	157,171	188,752	213,719
Weighted average interest rate during the year	4.62%	4.14%	3.44%
Weighted average interest rate at end of year	4.41%	4.44%	3.85%

**Comparison of Operating Results for the Years Ended December 31, 2007 and 2006**

**General.** We had a net loss for 2007 of \$14.2 million, or \$1.51 per basic and diluted share, compared to net earnings of \$3.4 million, or \$.38 per basic and \$.37 per diluted share for 2006.

**Interest Income.** Interest income is the principal source of our earnings. Interest income was \$42.5 million in 2007 compared to \$43.8 million in 2006. Interest income on loans decreased to \$38.5 million in 2007 from \$39.9 million in 2006. The decrease in interest income on loans in 2007 is attributable primarily to a decrease in the average amount of loans outstanding and an increase in non-accrual loans during the year. During 2007, we recognized \$1.1 million of interest income on non-accruing loans. Had these loans been performing in accordance with their terms, we would have recognized \$4.0 million of interest income on these loans. Interest income on investment securities remained flat at \$3.2 million for both 2007 and 2006, as the decrease in the average balance was offset by an increase in the average rate earned. Other interest income decreased from \$721,000 in 2006 to \$710,000 during 2007.

**Interest Expense.** Interest expense increased to \$30.8 million for 2007 compared to \$28.1 million for 2006, due to an increase in the average rate paid on interest-bearing liabilities offset by a decline in the average amount of deposit accounts and borrowings outstanding. Interest expense on deposits increased by \$2.1 million in 2007 as a result of an increase in the average rate paid on deposits, which was partially offset by a decline in the average amount of deposits outstanding. Interest rates on these accounts will increase or decrease according to the

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general level of market interest rates. Interest on borrowings increased to \$8.5 million in 2007 from \$8.0 million in 2006 due to an increase in the average rate paid on borrowings outstanding, partially offset by a decrease in the average amount of borrowings. As a result of the Federal Home Loan Bank of Atlanta's assessment of our recent financial condition, we no longer have the ability to access additional funds from the Federal Home Loan Bank.

**Provisions for Loan Losses.** A provision for loan losses is charged to earnings based upon our evaluation of the inherent losses in the loan portfolio. The general nature of lending results in periodic charge-offs of non-performing loans, despite our loan review process, credit standards and internal controls. Our provision for loan losses for 2007 was \$16.4 million compared to \$639,000 in 2006. Despite a decrease in our loan portfolio between December 31, 2006 and December 31, 2007, our provision increased for 2007 due to an increase in delinquencies and weaknesses in real estate values in Florida. Total charge-offs were \$7.6 million in 2007 and we recognized recoveries of \$2,000 on loans previously charged-off. For 2006, total charge-offs and recoveries were \$39,000 and \$21,000, respectively. At December 31, 2007, the allowance for loan losses was \$13.9 million, or 2.42% of year-end loans net, compared to \$5.1 million or .84% of net loans at December 31, 2006.

Our total charge-offs for 2007 included \$4.1 million in residential construction loans, of which \$1.9 million was related to loans originated and serviced by Transland Financial Services, Inc., which had diverted loan payoff remittance proceeds for \$2.4 million that were never forwarded to Federal Trust Bank. The remaining \$500,000 balance of the unremitted loan proceeds was collected from our insurance carrier subsequent to December 31, 2007. During 2007, Federal Trust Bank and two other financial institutions filed a joint petition for involuntary Chapter 11 bankruptcy against Transland Financial Services, Inc. with regard to the diverted loan payments. In November 2007, Federal Trust Bank entered into an inter-creditor agreement with certain shareholders of Transland Financial Services, Inc. for the termination of the bankruptcy action and the liquidation of the company. The amount and timing of any future payments from Transland Financial Services, Inc. on the diverted loan proceeds, if any, cannot be determined at the present time.

The remaining \$2.1 million in residential construction charge-offs were for several residential builders located primarily in Flagler County, Florida. The loans to these builders included developed residential lots and partially constructed, as well as completed homes. Also included in charge-offs for 2007 was \$1.55 million relating to a \$4.0 million participation in a real estate loan secured by a planned condominium site on the Gulf of Mexico in the Florida Panhandle. The remaining \$2.45 million balance of the loan is included in the foreclosed asset total at December 31, 2007.

One additional charge-off of approximately \$842,000 was recognized on a loan secured by land for a planned residential development. The charge-off resulted from a settlement whereby Federal Trust Bank received approximately \$4.6 million in cash in satisfaction of the loan amount due. The remaining charge-offs of approximately \$1.2 million related to several single-family residential properties and commercial loan customers.

Total non-accrual loans at December 31, 2007, increased to \$38.2 million compared to \$12.0 million at December 31, 2006. The amount needed in the allowance for loan losses relating to nonaccrual loans is based on the particular circumstances of the individual loans, including the type, amount and value of the collateral, if any, and the overall composition and amount of the performing loans in the portfolio at the time of evaluation, and, as a result, will vary over time. In 2007, our residential mortgage loan portfolio increased \$3.8 million. As of December 31, 2007, 60% of our loan portfolio consisted of residential mortgage loans, which historically have had the lowest risk of loss in the overall portfolio, and as a result have had a lower reserve percentage applied to them based on historical loss percentages.

Based on our analysis, we believe that our allowance for loan losses is adequate to absorb loan losses inherent in the loan portfolio as of December 31, 2007. The allowance is based on the current and anticipated future operating conditions, thereby causing our estimate of inherent losses to be susceptible to changes that could result in material adjustments to results of operations in the near term. The amount needed in the allowance for loan losses is based on the particular circumstances of the individual non-performing loans, including the type, amount and value of the collateral, if any. In addition, the overall composition and amount of the classified assets and performing loans in the portfolio at the time of evaluation is considered to determine the adequacy of the allowance, and, as a

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result, will vary over time. Although more emphasis is being placed on originating new commercial loans, the composition of our loan portfolio continues to be concentrated primarily in residential mortgage loans, and residential land, development and construction loans which have been negatively impacted in 2007. Loan repayments are dependent on loan underwriting and also on economic, operating and other conditions that may be beyond our control. Therefore, although we believe our allowance for loan losses is adequate to absorb loan losses inherent in the loan portfolio as of December 31, 2007, further deterioration of the economy and/or declines in residential real estate prices in the market areas in which we extend credit could cause actual losses in future periods to differ materially from amounts provided in the current period and could result in a material adjustment to operations.

**Other Income.** Other income decreased \$1.3 million to \$944,000 for the year ended December 31, 2007. This decline was primarily the result of net losses on sales of securities and foreclosed assets of \$119,000 and \$618,000, respectively. Other income decreased \$306,000 which includes a decline in loan prepayment fees of \$366,000.

**Other Expense.** Other expense increased \$7.0 million, or 56%, to \$19.5 million for the year ended December 31, 2007, from \$12.5 million for 2006. Salary and employee benefits increased \$3.9 million and occupancy expense increased \$327,000 primarily due to the \$2.9 million charge for the severance and retirement obligation related to the termination of our former Chief Executive Officer, which included \$1.1 million to be paid pursuant to the termination of his employment agreement and \$1.8 million pursuant to his supplemental retirement plan, and due to the opening of the Palm Coast branch in August 2007 and the Wekiva branch in November 2007. Professional expenses increased \$549,000 primarily as a result of legal fees associated with our non-performing assets and fees for the profit improvement review program completed during the year. In addition, other volume and growth-related expense increases included data processing expense of \$301,000, and marketing and advertising expenses of \$139,000. Also included in other expenses for 2007 was a \$749,000 other-than-temporary impairment of a single mortgage-backed security investment which experienced significant delinquencies and some portfolio losses.

**Income Taxes.** Income taxes decreased from \$1.4 million (an effective tax rate of 29.8%) in 2006 to a tax benefit of \$9.1 million (an effective tax rate of 39.1%) in 2007.

**Comparison of Operating Results for the Years Ended December 31, 2006 and 2005**

**General.** We had net earnings for 2006 of \$3.4 million, or \$.38 per basic share and \$.37 per diluted share, compared to net earnings of \$4.4 million, or \$.54 per basic and \$.53 per diluted share, for 2005. The decrease in the net earnings in 2006 was due to increases in employee compensation and benefits and occupancy expense relating to the three new branches opened in 2006 and the staffing of our Mortgage Company, together with decreases in net gains from sales of loans and securities available for sale, partially offset by an increase in net interest income.

**Interest Income.** Interest income was \$43.8 million in 2006 compared to \$34.0 million in 2005. Interest income on loans increased to \$39.9 million in 2006 from \$31.5 million in 2005. The increase in interest income on loans in 2006 is attributable primarily to an increase in the yield earned on the loans outstanding during the year and to a lesser extent by an increase in the average amount of loans outstanding. Interest income on securities increased to \$3.2 million in 2006 from \$2.0 million in 2005 as a result of an increase in the average balance of securities available for sale and an increase in the yield earned on the securities. Other interest income increased from \$492,000 in 2005 to \$721,000 during 2006.

**Interest Expense.** Interest expense increased to \$28.1 million for 2006 compared to \$19.3 million for 2005, due to an increase in the average amount of deposit accounts and borrowings outstanding and an increase in the average rate paid. Interest expense on deposits increased by \$7.5 million in 2006 as a result of an increase in the average amount of deposits and an increase in average rate paid on deposits. Interest expense on these accounts will increase or decrease according to the general level of interest rates. Interest on borrowings increased to \$8.0 million in 2006 from \$6.7 million in 2005 due to an increase in the average rate paid on borrowings outstanding, offset by a small decrease in the average amount of borrowings.

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**Provisions for Loan Losses.** Our provisions for loan losses for 2006 were \$639,000 compared to \$650,000 in 2005 based on our evaluation of the loan portfolio. Total loans declined by \$74.3 million, or 11%, in 2006. Of this amount, \$43.8 million were residential mortgage loans, \$45.0 million were residential construction loans and \$2.2 million were land development and construction loans, all offset by an increase of \$21.8 million in non-residential real estate loans. As of December 31, 2006, 56% of our loan portfolio was in residential mortgage loans, which historically have had the lowest risk of loss in the overall portfolio, and as a result have had a lower reserve percentage applied to them based on historical loss percentages.

Total charge-offs were \$39,000 in 2006 compared to recoveries of \$21,000 on loans previously charged-off. For 2005, total charge-offs and recoveries were \$10,000 and \$2,000, respectively. At December 31, 2006, the allowance for loan losses was \$5.1 million, or .84%, of year-end loans net, compared to \$4.5 million, or .71%, of net loans at December 31, 2005. Total non-accrual loans at December 31, 2006, increased to \$12.0 million compared to \$2.1 million at December 31, 2005.

**Other Income.** Other income decreased \$307,000 to \$2.2 million for the year ended December 31, 2006. This decline was primarily the result of declines in gains on sales of loans and securities of \$256,000 and a decline of \$297,000, which includes a decline in prepayment loan fees of \$136,000, loan servicing fee income of \$184,000, and gains on dispositions of foreclosed assets of \$69,000, offset by an increase in service charges and fees of \$226,000.

**Other Expense.** Other expense increased \$2.7 million or 27% to \$12.5 million for the year ended December 31, 2006, from \$9.8 million for 2005. Salary and employee benefits increased \$1.7 million and occupancy expense increased \$413,000 primarily due to the staffing and opening of branches in Lake Mary in January 2006, Port Orange in July 2006 and Eustis in October 2006, increases in the lending staff, and the overall growth. Specifically, the three new branches that opened in 2006 have added approximately \$613,000 to our overhead expenses. Professional expenses increased \$121,000 primarily as a result of the proxy contest and lawsuit filed by Keefe Managers, LLC, regarding the election of directors at the 2006 Annual Meeting of Shareholders. In addition, other volume and growth related expense increases included data processing expense of \$117,000, marketing and advertising of \$66,000, printing and stationary of \$86,000, and \$36,000 in telephone expense.

**Income Taxes.** Income taxes decreased from \$2.3 million (an effective tax rate of 34.1%) in 2005 to \$1.4 million (an effective tax rate of 29.8%) in 2006.

**Table of Contents****Average Balance Sheet**

The following table sets forth, for the periods indicated, information regarding: (i) the total dollar amount of interest income from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average cost; (iii) net interest income; (iv) interest rate spread; (v) net interest margin; and (vi) weighted average yields and rates. Average balances are based on average daily balances (\$ in thousands):

	For The Year Ended December 31,								
	2007			2006			2005		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
<b>Interest-earning assets:</b>									
Loans (1)	\$ 600,465	\$ 38,536	6.42%	\$ 621,670	\$ 39,885	6.42%	\$ 579,811	\$ 31,484	5.43%
Securities	61,584	3,240	5.26	62,941	3,236	5.14	45,700	2,001	4.38
Other interest-earning assets (2)	11,081	710	6.41	11,935	721	6.04	11,352	492	4.33
<b>Total interest-earning assets</b>	<b>673,130</b>	<b>42,486</b>	<b>6.31</b>	<b>696,546</b>	<b>43,842</b>	<b>6.29</b>	<b>636,863</b>	<b>33,977</b>	<b>5.34</b>
Non-interest earning assets	46,699			38,935			35,953		
<b>Total assets</b>	<b>\$ 719,829</b>			<b>\$ 735,481</b>			<b>\$ 672,816</b>		
Non-interest bearing demand deposits	\$ 12,844	-	-	\$ 13,615	-	-	\$ 14,667	-	-
<b>Interest-bearing liabilities:</b>									
<b>Interest-bearing demand and money-market deposits</b>									
Savings deposits	125,054	4,950	3.96	127,182	4,792	3.77	127,485	3,606	2.83
Time deposits	2,808	43	1.53	3,417	60	1.76	5,103	70	1.37
	332,839	17,280	5.19	340,144	15,291	4.50	282,693	8,928	3.16
<b>Total deposit accounts</b>	<b>473,545</b>	<b>22,273</b>	<b>4.70</b>	<b>484,358</b>	<b>20,143</b>	<b>4.16</b>	<b>429,948</b>	<b>12,604</b>	<b>2.93</b>
FHLB advances and other borrowings (3)	184,598	8,524	4.62	192,342	7,971	4.14	195,122	6,732	3.45
<b>Total interest bearing liabilities (4)</b>	<b>645,299</b>	<b>30,797</b>	<b>4.77</b>	<b>663,085</b>	<b>28,114</b>	<b>4.24</b>	<b>610,403</b>	<b>19,336</b>	<b>3.17</b>
Non-interest bearing liabilities	8,890			7,903			6,283		
Stockholders equity	52,796			50,878			41,463		
<b>Total liabilities and stockholders equity</b>	<b>\$ 719,829</b>			<b>\$ 735,481</b>			<b>\$ 672,816</b>		
<b>Net interest/dividend income</b>		<b>\$ 11,689</b>			<b>\$ 15,728</b>			<b>\$ 14,641</b>	
Net interest margin (5)			1.74%			2.26%			2.30%
Interest rate spread (6)			1.54%			2.05%			2.17%
Ratio of average interest-earning assets to average interest-bearing	1.04			1.05			1.04		

liabilities

- (1) Includes non-accrual loans.
- (2) Includes interest-earning deposits and Federal Home Loan Bank stock.
- (3) Includes Federal Home Loan Bank advances, other borrowings, junior subordinated debentures and capital lease obligation, and securities sold under agreements to repurchase.
- (4) Total interest-bearing liabilities exclude non-interest bearing demand deposits.
- (5) Net interest margin is net interest income divided by average interest earning assets.
- (6) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

**Table of Contents****Rate/Volume Analysis**

The following table sets forth certain information regarding changes in interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (i) changes in rate (change in rate multiplied by prior volume); (ii) changes in volume (changes in volume multiplied by prior rate); and (iii) changes in rate-volume (change in rate multiplied by change in volume) (\$ in thousands):

	<b>Year Ended December 31, 2007 vs. 2006</b>			
	<b>Increase (Decrease) Due to Changes in Rate/ Volume</b>			
	<b>Rate</b>	<b>Volume</b>	<b>Volume</b>	<b>Total</b>
<b>Interest-earning assets:</b>				
Loans	\$ 12	\$ (1,361)	\$ -	\$ (1,349)
Securities	75	(69)	(2)	4
Other interest-earning assets	44	(52)	(3)	(11)
<b>Total</b>	<b>131</b>	<b>(1,482)</b>	<b>(5)</b>	<b>(1,356)</b>
<b>Interest-bearing liabilities:</b>				
Deposit accounts	2,639	(450)	(59)	2,130
FHLB advances and other borrowings, and securities sold under agreements to repurchase	911	(321)	(37)	553
<b>Total</b>	<b>3,550</b>	<b>(771)</b>	<b>(96)</b>	<b>2,683</b>
Net change in net interest income before provision for loan losses	\$ (3,419)	\$ (711)	\$ 91	\$ (4,039)

	<b>Year Ended December 31, 2006 vs. 2005</b>			
	<b>Increase (Decrease) Due to Changes in Rate/ Volume</b>			
	<b>Rate</b>	<b>Volume</b>	<b>Volume</b>	<b>Total</b>
<b>Interest-earning assets:</b>				
Loans	\$ 5,715	\$ 2,273	\$ 413	\$ 8,401
Securities	349	754	132	1,235
Other interest-earning assets	194	25	10	229
<b>Total</b>	<b>6,258</b>	<b>3,052</b>	<b>555</b>	<b>9,865</b>
<b>Interest-bearing liabilities:</b>				
Deposit accounts	5,276	1,595	668	7,539
FHLB advances and other borrowings, and securities sold under agreements to repurchase	1,354	(96)	(19)	1,239
<b>Total</b>	<b>6,630</b>	<b>1,499</b>	<b>649</b>	<b>8,778</b>
Net change in net interest income before provision for loan losses	\$ (372)	\$ 1,553	\$ (94)	\$ 1,087





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### **Asset /Liability Management**

It is our objective to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established cash, loan, investment, borrowing and capital policies. Management is responsible for monitoring policies and procedures that are designed to ensure acceptable composition of the asset/liability mix, stability and leverage of all sources of funds while adhering to prudent banking practices. It is our overall philosophy to support asset growth through core deposit balances, which include deposits of all categories made by individuals, partnerships and corporations. Management seeks to invest the largest portion of our assets in residential and business banking loans.

The balance sheet mix is monitored on a weekly basis and a report reflecting interest-sensitive assets and interest-sensitive liabilities is presented to Federal Trust Bank's Board of Directors monthly. The objective is to control interest-sensitive assets and liabilities to maximize earnings and minimize the impact on our earnings of substantial movements in interest rates.

Our profitability, like that of most financial institutions and their holding companies, is dependent to a large extent upon our net interest income, which is the difference between our interest income on interest-earning assets, such as loans, mortgage-backed securities and investment securities, and our interest expense on interest-bearing liabilities, such as deposits and other borrowings. Financial institutions are affected by general changes in levels of interest rates and other economic factors beyond our control. At December 31, 2007, our cumulative, one-year interest sensitivity gap (the difference between the amount of interest-earning assets anticipated to mature or reprice within one year and the amount of interest-bearing liabilities anticipated to mature or reprice within one year) as a percentage of total assets was a negative 7.6%, while our three-month gap was virtually matched with \$236.6 million of assets and \$256.4 million of liabilities scheduled or eligible for repricing during the period. Generally, an institution with a negative gap would experience a decrease in net interest income in a period of rising interest rates or an increase in net interest income in a period of declining interest rates since there will be more liabilities than assets that will either mature or be subject to repricing within that period. However, certain shortcomings are inherent in this rate sensitivity analysis. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different manners to changes in market interest rates. Therefore, no assurance can be given that we will be able to maintain our net interest-rate spread as market interest rates fluctuate.

For purposes of our gap analysis, we have included our Federal Home Loan Bank advances in the periods when the advances will mature rather than the next scheduled call date. At December 31, 2007, we had \$50.0 million in fixed rate advances that mature between December 2008 and August 2009, with interest rates between 4.76% and 5.35%. We also had callable advances of \$102 million at December 31, 2007, of which \$97 million is callable during 2008 and the remaining \$5 million is callable in 2009. These advances will mature between 2010 and 2017. The interest rates on the advances range from 3.22% to 4.81% and are higher than current rates on callable advances, so, although we do not know if the Federal Home Loan Bank will call the advances with callable dates, we do not anticipate that these advances will be called in 2008.

We monitor our interest-rate risk through the management Asset/Liability Committee, which meets monthly and reports the results of the meetings to Federal Trust Bank Board of Directors. Our policy is to seek to maintain a balance between interest-earning assets and interest-bearing liabilities so that the cumulative one-year gap is within a range established by the Board of Directors and which we believe is conducive to maintaining profitability without incurring undue risk. The negative one-year cumulative gap position at the end of 2007 is a significant improvement from the 24.7% negative one-year cumulative gap position at the end of 2006 and positions us for the declining rate environment we anticipate in the first half of 2008.

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The table below sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2007, that are expected to reprice, based upon certain assumptions and contractual maturities, in each of the future periods shown. In the following table, adjustable-rate mortgage-backed securities are scheduled according to their next adjustment date, fixed-rate mortgage-backed securities are scheduled according to their estimated amortization and prepayment rates, and equity securities are scheduled according to the date of their next dividend announcement (\$ in thousands):

	Three Months or Less	More than Three Months to Six Months	More than Six Months to 12 Months	More than One Year to Three Years	More than Three Years to Five Years	More than Five Years to Ten Years	More than Ten Years	Total
Rate-sensitive assets:								
Residential lending	\$ 83,694	\$ 55,988	\$ 93,870	\$ 114,513	\$ 50,544	\$ 6,284	\$ 16,981	\$ 421,874
Commercial and consumer lending	130,178	2,106	4,643	13,550	15,533	7,210	2,104	175,324
Mortgage-backed securities	402	408	1,099	4,701	2,369	5,034	6,156	20,169
Debt securities	7,511	1,008	84	1,889	1,663	10,876	4,404	27,435
Corporate equity securities	60	-	-	-	-	-	-	60
Trust preferred securities	4,785	-	-	-	-	-	-	4,785
FHLB stock	8,129	-	-	-	-	-	-	8,129
Interest-earning deposits	1,131	-	-	-	-	-	-	1,131
Other	671	-	-	-	-	-	-	671
<b>Total interest-earning assets</b>	<b>236,561</b>	<b>59,510</b>	<b>99,696</b>	<b>134,653</b>	<b>70,109</b>	<b>29,404</b>	<b>29,645</b>	<b>659,578</b>
Rate-sensitive liabilities:								
Deposits:								
Demand, money-market and savings accounts	140,305	-	-	-	-	-	-	140,305
Time deposits	110,923	70,844	109,143	30,062	6,536	-	-	327,508
FHLB advances	-	-	12,000	51,000	34,000	55,000	-	152,000
Other borrowings	5,171	-	-	-	-	-	-	5,171
<b>Total interest-bearing liabilities</b>	<b>256,399</b>	<b>70,844</b>	<b>121,143</b>	<b>81,062</b>	<b>40,536</b>	<b>55,000</b>	<b>-</b>	<b>624,984</b>
<b>Interest-sensitivity gap</b>	<b>\$ (19,838)</b>	<b>\$ (11,334)</b>	<b>\$ (21,447)</b>	<b>\$ 53,591</b>	<b>\$ 29,573</b>	<b>\$ (25,596)</b>	<b>\$ 29,645</b>	<b>\$ 34,594</b>
<b>Cumulative interest-sensitivity gap</b>	<b>\$ (19,838)</b>	<b>\$ (31,172)</b>	<b>\$ (52,619)</b>	<b>\$ 972</b>	<b>\$ 30,545</b>	<b>\$ 4,949</b>	<b>\$ 34,594</b>	
<b>Cumulative interest-earning assets</b>	<b>\$ 236,561</b>	<b>\$ 296,071</b>	<b>\$ 395,767</b>	<b>\$ 530,420</b>	<b>\$ 600,529</b>	<b>\$ 629,933</b>	<b>\$ 659,578</b>	
<b>Cumulative interest-bearing liabilities</b>	<b>\$ 256,399</b>	<b>\$ 327,243</b>	<b>\$ 448,386</b>	<b>\$ 529,448</b>	<b>\$ 569,984</b>	<b>\$ 624,984</b>	<b>\$ 624,984</b>	
<b>Cumulative interest-sensitivity gap as a percentage of total assets</b>	<b>(2.9)%</b>	<b>(4.5)%</b>	<b>(7.6)%</b>	<b>0.1%</b>	<b>4.4%</b>	<b>0.7%</b>	<b>5.0%</b>	

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Cumulative interest-earning  
assets as a percentage of  
cumulative interest-bearing  
liabilities

92.3%

90.5%

88.3%

100.2%

105.4%

100.8%

105.5%

62

**Table of Contents****Market Risk Management**

The risk of loss of interest and principal that may result from changes in market prices and rates is our market risk. A simple interest rate gap analysis by itself may not be an accurate indicator of how net interest income will be affected by changes in interest rates. Because gap analysis alone may not adequately address the interest rate risk, we also use a simulation model to analyze net interest income sensitivity to movements in interest rates. The measurement of market risk associated with financial instruments is meaningful only when related offsetting on- and off-balance sheet transactions are aggregated, and the resulting net positions are identified. Accordingly, while the Asset/Liability Committee relies primarily on its asset liability structure to control interest rate risk, a sudden and substantial change in interest rates may adversely impact our earnings to the extent that the interest rates of our assets and liabilities do not change at the same speed, to the same extent or on the same basis.

The Asset/Liability Committee also evaluates how the repayment of particular assets and liabilities is impacted by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market interest rates, while interest rates on other types may lag behind changes in general market rates. In addition, certain assets, such as adjustable rate mortgage loans, have features (generally referred to as interest rate caps) that limit changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the interest rate gap. The ability of many borrowers to service their debts also may decrease in the event of an interest rate increase.

**Economic Value of Equity.** We measure the impact of market interest rate changes on the net present value of estimated cash flows from our assets, liabilities and off-balance sheet items, defined as economic value of equity, using the simulation model. These simulations assess the changes in the market value of interest rate sensitive financial instruments that would occur in response to an instantaneous and sustained increase or decrease (shock) in market interest rates.

At December 31, 2007, our economic value of equity exposure related to those hypothetical changes in market interest rates was within our current guidelines. The following table shows our projected change in economic value of equity for this set of rate shock at December 31, 2007 (\$ in thousands).

<b>Interest Rate Scenario</b>	<b>Economic Value</b>	<b>Percentage Change From Base</b>	<b>Percentage of Total Assets</b>	<b>Percentage of Equity Book Value</b>
Up 200 basis points	\$ 47,286	(2.31)%	6.95%	112.14%
Up 100 basis points	48,130	(.57)	7.01	114.14
BASE	48,405	-	6.98	114.79
Down 100 basis points	49,760	2.80	7.10	118.00
Down 200 basis points	52,966	9.42	7.45	125.60

The computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, asset prepayments and deposit decay, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions we may undertake in response to changes in interest rates. Actual amounts may differ from the projections set forth above should market conditions vary from the underlying assumptions.

**Net Interest Income Simulation.** An additional tool we use to measure interest rate risk at December 31, 2007, is the simulation model to project changes in net interest income that result from forecasted changes in interest rates. This analysis calculates the difference between net interest income forecasted using rising and falling interest rate scenarios and a net interest income using a base market interest rate derived from the current treasury yield

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curve. The income simulation model includes various assumptions regarding the repricing relationship for each of our products. Many of our assets are floating rate loans, which are assumed to reprice immediately in proportion to a change in market rates as specified in the underlying contractual agreements. Accordingly, the simulation models use prepayment estimates based on historical experience at Federal Trust Bank and assume reinvestment of proceeds at current yields. Our non-term deposit products reprice more slowly, usually changing less than the change in market rates based on Asset/Liability Committee decisions, liquidity considerations and local competition.

This analysis indicates the impact of changes in net interest income for the next 12 months, based on our balance sheet at December 31, 2007, with the rate changes and assumptions. It assumes the balance sheet remains static and that its structure does not change over the course of the year. It does not account for all factors that could impact this analysis, including changes by management to mitigate the impact of interest rate changes or secondary impacts such as changes to our credit risk profile as interest rates change.

Furthermore, loan prepayment rate estimates and spread relationships change regularly. Interest rate changes create changes in actual loan prepayment rates that will differ from the market estimates incorporated in this analysis. Changes that vary significantly from the assumptions may have significant effects on our net interest income.

For the rising and falling interest rate scenarios, the base market interest rate forecast was increased and decreased over 12 months by 100 and 200 basis points. At December 31, 2007, our net interest income exposure related to these hypothetical changes in market interest rates was within the guidelines approved by Federal Trust Bank's Board of Directors. As shown in the table below, at December 31, 2007, we have positioned our balance sheet to result in a slight improvement in net interest income for 2008 if market interest rates decrease (\$ in thousands).

<b>Interest Rate Scenario</b>	<b>Adjusted Net Interest Income</b>	<b>Percentage Change From Base</b>
Up 200 basis points	\$ 11,020	(3.29)%
Up 100 basis points	11,204	(1.67)%
BASE	11,395	-%
Down 100 basis points	11,684	2.54%
Down 200 basis points	12,177	6.87%

**Liquidity and Capital Resources**

**General.** Like other financial institutions, we must ensure that sufficient funds are available to meet deposit withdrawals, loan commitments, investment needs and expenses. Control of our cash flow requires the anticipation of deposit flows and loan payments. Our primary sources of funds are deposit accounts, principal and interest payments, maturities and calls of investment securities and sales of loans and investments. Historically, we have also relied on brokered deposits and Federal Home Loan Bank advances as funding sources, but we currently have no ability to renew, replace or accept brokered deposits and no renewed or further access to Federal Home Loan Bank advances. See Business Strategy for a discussion of restrictions on our current ability to access brokered deposits and Federal Home Loan Bank borrowings.

We require funds in the short-term to finance ongoing operating expenses, pay liquidating deposits, invest in loans and purchase investment securities. We have funded short-term requirements through advances from the Federal Home Loan Bank, deposit growth, the sale of loans and investments and loan principal payments. Long-term funds are required to invest in loans for our portfolio, purchase fixed assets and provide for the liquidation of deposits maturing in the future. Long-term funding requirements are obtained from principal payments from maturing loans, the sale of loans and the sale of investments. Management has no plans to significantly change long-term funding requirements.

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During the year ended December 31, 2007, our sources of funds came primarily from net principal repayment of loans of \$45.9 million, proceeds from the sale and repayments of securities of \$26.9 million, an increase of \$8.9 million in deposits and loan sales of \$9.3 million. We used \$38.3 million to fund loan purchases, \$15.3 million to purchase securities \$27.7 million to repay Federal Home Loan Bank advances \$6.0 million to originate loans for sale and \$3.2 million to purchase premises and equipment. Management believes that in the future, funds will continue to be obtained from the above sources.

At December 31, 2007, loans-in-process, or closed loans scheduled to be funded over a future period of time, totaled \$23.1 million. Available lines of credit totaled \$16.9 million; loans committed, but not closed, totaled \$12.3 million, and standby letters of credit totaled \$986,000. Funding for these amounts is expected to be provided by the sources described above.

For the month of December 2007, Federal Trust Bank's average liquidity ratio was 6.85%. This ratio is generally calculated by dividing average cash and other short-term investment securities by average borrowings and savings accounts. Federal Trust Bank's eleven Central Florida branches are expected to generate deposits along with loan principal and interest payments to provide liquidity for new loan originations and other investments. The Asset/Liability Management Committee meets regularly, and reviews liquidity levels to ensure that funds are available as needed.

We paid total cash dividends per share of \$.08 in 2007 and \$.17 in 2006. We discontinued the payment of cash dividends during the quarter ended September 30, 2007, and we do not anticipate paying dividends in the near future.

At December 31, 2007, Federal Trust Corporation had \$556,000 in cash available for payment of operating expenses. On January 31, 2007, Federal Trust Corporation exercised its option to purchase its corporate headquarters building in Sanford, Florida. As part of our plan to exercise the purchase option, Federal Trust Bank purchased the building from Federal Trust Corporation. Federal Trust Bank paid approximately \$4.5 million for the building, which was Federal Trust Corporation's book value of the building including the capitalized lease amount and leasehold improvements. Federal Trust Corporation paid approximately \$2.4 million for the purchase of the building. Of the remaining \$2.1 million paid to Federal Trust Corporation from Federal Trust Bank, approximately \$500,000 was used to repay the balance of the revolving credit line with our correspondent bank.

The following table is a reconciliation of stockholder's equity for Federal Trust Bank calculated in accordance with accounting principles generally accepted in the United States of America to regulatory capital (\$ in thousands):

	<b>At December 31, 2007</b>	
	<b>Tier I</b>	<b>Total Risk-Based</b>
Federal Trust Bank's stockholder's equity in accordance with GAAP	\$ 42,232	\$ 42,232
Add (deduct):		
Unrealized losses on investments	698	698
Excess net deferred tax assets	(3,312)	(3,312)
General valuation allowances	-	5,974
Regulatory capital	\$ 39,618	\$ 45,592

At December 31, 2007, Federal Trust Bank exceeded each of its minimum capital requirements; however, due to the 2007 operating loss, Federal Trust Bank fell below the well capitalized threshold and is considered to be adequately capitalized.

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### **Inflation**

Inflation affects our financial condition and operating results. However, because most of our assets are monetary in nature, the effect is less significant compared to other commercial or industrial companies with heavy investments in inventories and fixed assets. Inflation influences the growth of total banking assets, which in turn produces a need for an increased equity capital base to support growing banks. Inflation also influences interest rates and tends to raise the general level of salaries, operating costs and purchased services. We have not attempted to measure the effect of inflation on various types of income and expense due to difficulties in quantifying the impact. We engage in various asset/liability management strategies to control interest rate sensitivity and minimize exposure to interest rate risk. Prices for banking products and services are continually reviewed in relation to current costs and local competition.

### **Off-Balance Sheet Financial Instruments**

We have at any time a significant number of outstanding commitments to extend credit. These arrangements are subject to strict credit control assessments and each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if we deem it necessary upon extension of credit, is based on management's credit evaluation of the counterparty.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis.

Standby letters of credit are conditional commitments we issue to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially, all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. At December 31, 2007, we had standby letters of credit commitments of approximately \$1.0 million, the majority of which was to one commercial loan customer, which was secured by real estate.

Loan commitments written have off-balance sheet credit risk because only original fees are recognized in the balance sheet until the commitments are fulfilled or expire. Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. The credit risk amounts are equal to the contractual amounts, assuming that the amounts are fully advanced, and that collateral or other security is of no value.

Our policy is to require customers to provide collateral prior to the disbursement of approved loans. The amount of collateral obtained, if we deem it necessary upon extension of credit, is based on management's credit evaluation of the counterparty. The collateral we hold is primarily real estate and income producing commercial properties, but may include accounts receivable and inventory.



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The following summarizes our contractual obligations, including certain on-balance-sheet and off-balance sheet obligations, at December 31, 2007 (\$ in thousands):

	Total	Payments Due by Period			
		One Year or Less	Greater Than One Year, Up To Three Years	Greater Than Three Years, Up To Five Years	Greater than Five Years
Time deposit maturities	\$ 327,508	\$ 290,910	\$ 30,062	\$ 6,536	\$ -
Federal Home Loan Bank advances assumed final maturity	152,000	12,000	51,000	34,000	55,000
Undisbursed construction and line of credit loans	40,054	40,054	-	-	-
Loan Commitments	12,282	12,282	-	-	-
Junior subordinated debentures assumed final maturity	5,155	-	-	-	5,155
Accrued interest payable	2,597	2,597	-	-	-
Standby letters of credit	986	986	-	-	-
Other borrowings	16	16	-	-	-
<b>Total</b>	<b>\$ 540,598</b>	<b>\$ 358,845</b>	<b>\$ 81,062</b>	<b>\$ 40,536</b>	<b>\$ 60,155</b>

**BUSINESS OF FEDERAL TRUST CORPORATION AND FEDERAL TRUST BANK****Federal Trust Corporation**

Federal Trust Corporation is a Florida Corporation that was organized in February 1989 for the purpose of becoming the unitary savings and loan holding company of Federal Trust Bank. Federal Trust Corporation's primary operating subsidiary is Federal Trust Bank. The operations of Federal Trust Mortgage Company, another subsidiary of Federal Trust Corporation, were consolidated into Federal Trust Bank in April 2008. Federal Trust Corporation has also issued trust preferred securities through another subsidiary, Federal Trust Statutory Trust I. At December 31, 2007, Federal Trust Corporation had consolidated assets of \$690.3 million, deposits of \$481.7 million and shareholders' equity of \$39.7 million.

**Federal Trust Bank**

Federal Trust Bank is a federally chartered stock savings bank headquartered in Sanford, Florida. It was organized in 1989, and currently conducts its business from its corporate headquarters and 11 branch offices. Federal Trust Bank's primary business is obtaining funds in the form of customer deposits and Federal Home Loan Bank advances, and investing such funds in permanent loans secured by residential or commercial real estate, and in various types of construction, commercial and consumer loans and in investment securities.

**Federal Trust Mortgage Company**

Federal Trust Mortgage Company began operations in January 2006 as a wholly owned subsidiary of Federal Trust Corporation. Until April 2008, Federal Trust Mortgage Company originated residential mortgage loans, purchased and sold mortgage loans in the secondary market, and serviced residential mortgage loans, including loans in Federal Trust Bank's portfolio. When Federal Trust Mortgage Company began operations, the mortgage origination and servicing staff of Federal Trust Bank were transferred to Federal Trust Mortgage Company. The operations of Federal Trust Mortgage Company were consolidated into Federal Trust Bank in April 2008, and will operate as a department of Federal Trust Bank.

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### **Segment Reporting**

Reportable segments are business units that offer different products and services and require different management and marketing strategies. Our management considers that all banking operations are essentially similar within each of our subsidiaries and that there are no reportable operating segments.

### **Market Area and Competition**

We provide a wide variety of community banking services through our 11 full-service branch offices located in Orange, Seminole, Volusia, Lake and Flagler Counties. The total population of the five-county area is approximately 2.3 million, with the majority of the population in Orange and Seminole Counties. Our Sanford branch is located approximately 20 miles northeast of downtown Orlando. Sanford is the second largest city in Seminole County and is the county seat. Our Winter Park branch is located 13 miles southeast of Sanford and approximately seven miles northeast of downtown Orlando. Our Casselberry, Wekiva and Lake Mary branches are located in Seminole County between our Sanford and Winter Park branches. Our Wekiva branch is located in southwest Seminole County approximately seven miles west of our Casselberry branch. Our administrative and operations offices are located in Sanford. New Smyrna Beach and Port Orange are located in Volusia County near the Atlantic Ocean, south of Daytona Beach, Florida. Deltona and Orange City are both located in the western part of Volusia County along the Interstate 4 corridor between Orlando and Daytona Beach. Eustis is located in Lake County, 26 miles west of our Sanford branch. In September 2007, we opened our Palm Coast branch in Flagler County, which is approximately 32 miles north of Daytona Beach; and the Wekiva branch located in Longwood, Florida, was opened in October 2007.

Our primary market area is comprised of the counties in which our branches are located, as well as Osceola County, which is contiguous to Orange County. Although our primary market area is best known as a tourist destination, with over 20 million visitors a year, the Central Florida area has become a center for industries such as aerospace and defense, electro-optics and lasers, computer simulated training, computer networking and data management. Many companies, including two in the Fortune 500, have chosen the greater Orlando area as a base for corporate, regional and divisional headquarters. The Orlando-Kissimmee metropolitan statistical area (MSA) has one of the strongest economies in the state of Florida. This MSA currently has an unemployment rate of 2.9% and remains near the top of the state in key growth indicators. The Orlando area currently leads the state of Florida in projected employment and population growth from 2007 to 2010, with estimated annual growth rates of 3.0% and 2.8%, respectively.

The area is also home to the University of Central Florida with an enrollment of approximately 48,700, one of the largest and fastest growing schools in the Florida state university system, as well as Valencia Community College and Seminole Community College, which have a combined enrollment exceeding 72,000. Winter Park is home to Rollins College, Florida's oldest college. In addition, Stetson University, Florida's first private university, is located in Volusia County.

We face intense competition in both attracting and retaining deposits and in lending funds. The primary factors in competing for deposits are the quality of customer service, the convenience of branch locations and interest rates offered on our deposit products. Direct competition for deposits comes from other savings institutions, commercial banks and nontraditional financial service providers, including insurance companies, consumer finance companies, brokerage houses and credit unions. Additional significant competition for deposits comes from corporate and government securities and money market funds. The primary factors in competing for loans are loan terms, interest rates and loan origination fees. Competition for origination of real estate loans typically comes from other savings institutions, commercial banks, mortgage bankers, insurance companies and real estate investment trusts.

Consolidation within the banking industry, and in particular within Florida, has remained constant over the past several years. As of June 30, 2007, based upon market share, the five largest bank holding companies with operations in Florida but headquartered out of state controlled approximately 53.5% of the bank deposits within the state. Federal Trust Bank is one of the largest independent financial institutions with headquarters and all of our branches in Central Florida. At the same time that we have seen continued consolidation of local community banks,

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seasoned banking executives continue to spearhead the formation of new community banks with aggressive capital and growth plans.

Geographic deregulation also has had a material affect on the banking industry. Federal and state legislation has removed most of the barriers to interstate banking. Under Florida Law, an out-of-state bank holding company may acquire banks in Florida that have been in existence for at least three years and, as a result, many large national financial institutions have purchased banks in Florida and expanded their Florida operations.

### **Lending Activities**

**General.** Our residential lending traditionally has included the origination, purchase and sale of mortgage loans for the purchase, refinance or construction of residential real property, primarily secured by first liens on such property. These loans are typically conventional home mortgage loans or lot loans that are not insured by the Federal Housing Administration or partially secured by the Veterans Administration. Loans with fixed rates beyond five years are generally sold into the secondary market. Loans with fixed rates of five years or less are generally retained in our portfolio. Interest rates for construction loans are generally tied to the prime rate and float daily during the construction period. Such loans are converted to either fixed or adjustable permanent mortgages upon completion of construction. We also make home equity loans with second liens, and with interest rates that generally float daily with the prime rate. Other consumer related loans include savings account loans secured by certificates of deposit at an interest rate above the rate paid on the certificate. In January 2006, our residential mortgage origination and underwriting functions were transferred to our subsidiary, Federal Trust Mortgage Company. However, the operations of Federal Trust Mortgage Company were consolidated into Federal Trust Bank in April 2008, and will operate as a department of Federal Trust Bank.

During 2007, we increased our emphasis on commercial business lending in our Central Florida market area and on cross marketing business deposit accounts. Included in commercial lending are our business banking loans to local businesses secured by real estate used in the enterprise and, where appropriate, other assets of the borrower. We also make real estate loans for the acquisition and development of land for residential and income-producing projects. Commercial loans are generally priced on a floating prime rate basis or fixed at repricing intervals not to exceed five years. As a matter of policy, commercial loans are generally guaranteed by each borrower's principals.

**Loan Underwriting and Review.** Our lending activities are subject to underwriting standards and loan origination procedures prescribed by the Board of Directors of Federal Trust Bank and management. To strengthen our loan underwriting, we have separated the commercial loan function into three parts: sales, credit and administration. All loan requests are submitted to our underwriting staff at our administrative and operations office in Sanford to ensure compliance with our underwriting standards. In addition to information submitted by the applicant, we obtain a credit report on individuals sponsoring the credit request, evaluate market risk, assess the value of the collateral pledged and identify primary and secondary sources of repayment. Loan requests for commercial credit typically include the purpose of the request, current financial statements on the borrower, collateral offered to secure the loan, source of repayment information and guarantor financial information.

Our lending policy for loans secured by real estate generally requires that the property be appraised by an independent, outside appraiser who is approved by the Board of Directors of Federal Trust Bank. The credit department has responsibility for all of the items described above, in addition to assisting in the structuring of the loan to assure compliance with our loan policy. A separate loan administration team is responsible for closing the loan and administering it after closing to assure compliance with the underlying credit approval. Each of these departments is separate from our sales team, which originates requests and maintains contact with the customers.

Loans are approved at various management levels up to and including the Directors' Loan Committee of Federal Trust Bank's Board of Directors. Loan approvals are made in accordance with delegated authority levels approved by our Board of Directors annually. Generally, loans less than \$250,000 are approved by authorized officers and underwriters. Loans in excess of \$250,000 and up to \$4,000,000 require the concurrence of three or more authorized officers. Loans greater than \$4,000,000 require approval of Federal Trust Bank's Board of

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Directors Loan Committee. For loan approvals, the aggregate loans to the borrower and their related interests are used for determining the appropriate lending authority required for any new loans or renewals.

We conduct ongoing, internal reviews of our loan portfolio with the objective of identifying potential problems early to allow for faster resolution. During each of the last two years we have engaged an independent firm to evaluate segments of our loan portfolio to assess the underwriting, credit grading and credit quality of the portfolio. In addition, the Office of Thrift Supervision performs testing of our underwriting, credit administration, credit risk grading and credit quality. Based on these inspections, we then assign a grade to our loans using the classifications described under Classified Assets; Potential Problem Loans. In light of current market and portfolio conditions, we are evaluating our loan grading and review process for potential improvements.

**General Lending Policies.** We regularly review our loan policies to conform them to then-existing market conditions. As a part of this review we may determine the need to more completely rewrite and restructure our loan policies to ensure consistency as well as compliance with regulatory changes. We are currently undertaking such a review of our loan policies.

Our policy for real estate loans is to have a valid mortgage lien on real estate securing a loan and to obtain a title insurance policy, which insures the validity and priority of the lien. Borrowers must also obtain hazard insurance policies prior to closing, and when the property is in a flood prone area, flood insurance is required.

While our policy is to lend up to 80% of the appraised value of real estate securing a loan, we are permitted to lend up to 100% of the appraised value of real property securing a residential mortgage loan. However, if the amount of a conventional mortgage loan (including a construction loan or a combination construction and permanent loan) originated or refinanced exceeds 90% of the appraised value of the underlying property, federal regulations require that private mortgage insurance be obtained on that portion of the principal amount of the loan that exceeds 80% of the appraised value of the property. We originate fully-amortizing and interest-only single-family residential mortgage loans up to a 97% loan-to-value ratio if the required private mortgage insurance is obtained. Loans over a 97% loan-to-value ratio, if originated, would be made under special community support programs or one of the Federal Housing Administration, Veterans Administration or United States Department of Agriculture Rural Housing Service or insurance programs. The loan-to-value ratio on a home loan secured by a junior lien generally does not exceed 100%, including the amount of the first mortgage on the collateral. With respect to home loans granted for construction or combination construction/permanent financing, we will lend up to 90% of the appraised value of the property on an as completed basis. The loan-to-value ratio on multi-family residential and commercial real estate loans is generally limited to 80% of appraised value. Loans that exceed our policy are monitored, reported to the Board of Directors of Federal Trust Bank and do not exceed our regulatory lending limits.

Over the past five years, neither Federal Trust Bank nor Federal Trust Mortgage Company has originated or purchased any loans to borrowers with low credit scores, which are typically referred to as sub-prime borrowers. In addition, we have not originated or purchased any loans with below market interest rates that result in increasing loan balances or negative amortization. We have not originated and do not hold any reverse equity mortgages.

Historically, we were an active purchaser and seller of pools of conforming residential loans in the secondary market. However, recent changes in market conditions and our business philosophy have caused us to limit purchase activities. We do not currently intend to purchase loan pools (either inside or outside of our market area) going forward.

The maximum amount that Federal Trust Bank may loan to one borrower and the borrower's related entities at December 31, 2007, was approximately \$6.8 million. Due to the losses we recognized during 2007 and the corresponding decrease in our capital, our loans to one borrower limit decreased from \$8.8 million at December 31, 2006. As a result, we have four loan relationships at December 31, 2007, aggregating \$30.3 million that exceed our current regulatory lending limits. Federal Trust Bank will not be allowed to advance additional funds to these borrowers and will work with the borrowers to bring their loan balances within our current loan to one borrower limitation. One of these loans, which totaled \$7.4 million, was paid in full subsequent to the end of 2007.

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In addition to loans secured by real estate, Federal Trust Bank regularly makes loans to business customers secured by other types of collateral such as accounts receivable, inventory and equipment. We have established different lending guidelines depending on the specific type of collateral, and we have established monitoring procedures consistent with the collateral type.

Federal regulations permit Federal Trust Bank to originate or invest in loans secured by non-residential or commercial real estate in an aggregate amount up to four times our regulatory capital. At December 31, 2007, this limit allowed us to originate or invest in non-residential or commercial real estate loans in an aggregate amount up to \$158.5 million. At such date, we had \$85.5 million in loans secured by non-residential or commercial real estate.

The risk of non-payment of loans is inherent in all lending activities. To address this risk, we carefully evaluate all loan applicants and attempt to minimize our credit risk exposure by using comprehensive loan application and approval procedures that we have established for each category of loan. In determining whether to make a loan, we consider the borrower's credit history, analyze the borrower's income and ability to service the loan, and evaluate the need for collateral to secure recovery in the event of default. An allowance for loan losses is maintained based upon assumptions and judgments regarding the ultimate collectability of loans in our portfolio.

***Income from Lending Activities and Loan Servicing.*** We assess fees in connection with loan commitments and originations, loan modifications, late payments, assumptions related to changes of property ownership and for miscellaneous services related to loans. Through Federal Trust Mortgage Company, we also received fees for servicing residential loans owned by other financial institutions. At December 31, 2007, we were servicing \$45.1 million in residential loans for other institutions, which produces servicing income, net of amortization of mortgage servicing rights. Federal Trust Mortgage Company serviced Federal Trust Bank's residential mortgage loans through an agreement with a third party. This third party charges standard servicing and administration fees for these services. Our agreement with the third party ends in December 2009.

Commitment and other loan fees, and direct costs typically are charged at the time of loan origination and may be a fixed fee or a percentage of the amount of the loan. Under current accounting standards, such fees cannot be recognized as income at closing and are deferred and taken into income over the contractual life of the loan, using a level yield method. If a loan is prepaid or refinanced, all remaining net deferred fees with respect to such loan are recognized in income at that time.

## **Employees**

At December 31, 2007, we had a total of 120 full-time employees. We consider our working relations with our employees to be excellent. We currently maintain a comprehensive employee benefit program providing, among other benefits, hospitalization and major medical insurance, long-term disability insurance, life insurance, education assistance, an employee stock ownership plan and a 401(k) Plan. For 2007, we did not make a contribution to the employee stock ownership plan due to the reduction in earnings during the year. These benefits are considered by our management to be competitive with employee benefits provided by other major employers in our market areas. Our employees are not represented by any collective bargaining group.

## **Seasonality**

We do not consider our business to be seasonal in nature.

## **Monetary Policies**

The results of our operations are affected by credit policies of monetary authorities, particularly the Federal Open Market Committee of the Board of Governors of the Federal Reserve System. The instruments of monetary policy employed by the Federal Reserve Board include open market operations in U.S. government securities, changes in the federal funds and discount rates on member bank borrowings and changes in reserve requirements against member bank deposits. In view of changing conditions in the national economy and in the financial markets, as well as the effect of action by monetary and fiscal authorities, including the Federal Reserve Board, no accurate

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prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or our business results and earnings.

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The following table sets forth certain information on our principal offices (\$ in thousands):

	<b>Date Opened</b>	<b>Net Carrying Value of Real Property</b>	<b>Lease Expiration</b>
Sanford Branch 420 West First Street Sanford, Florida 32771	1998	\$ 1,095	N/A
Winter Park Branch 655 West Morse Blvd. Winter Park, Florida 32789	2000	\$ 159	12/31/09
Casselberry Branch 487 Semoran Boulevard Casselberry, Florida 32707	2002	\$ 1,280	N/A
New Smyrna Beach Branch 763 East Third Avenue New Smyrna Beach, Florida 32169	2000 <sup>(1)</sup>	\$ 45	10/11/25
Orange City Branch 2690 Enterprise Road Orange City, Florida 32763	2003	\$ 1,295	N/A
Deltona Branch 901 Doyle Road Deltona, Florida 32725	2003	\$ 890	N/A
Lake Mary Branch <sup>(2)</sup> 791 Rinehart Road Lake Mary, Florida 32746	2006	\$ 1,229	3/31/25
Port Orange Branch 3880 S. Nova Road Port Orange, Florida 32127	2006	\$ 1,579	N/A

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Eustis Branch 256 W. County Road 44 Eustis, Florida 32726	2006	\$	1,465	N/A
Palm Coast Branch <sup>(3)</sup> 108 Central Avenue Palm Coast, Florida 32164	2007	\$	1,987	7/06/26
Wekiva Branch 505 Wekiva Springs Road, Ste 700 Longwood, Florida 32779	2007	\$	660	N/A
Corporate Headquarters <sup>(4)</sup> 312 West First Street Sanford, Florida 32771	2001	\$	5,968	N/A

- (1) Reflects opening of branch office originally located at 761 East Third Street, New Smyrna, Florida. The new location was opened in December 2007.
- (2) Federal Trust Bank has a ground lease on the Lake Mary branch site. The lease has a 20-year term with optional renewal periods. The building and improvements for the branch are owned by Federal Trust Bank.
- (3) Federal Trust Bank has a ground lease on the Palm Coast branch site. The lease has a 20-year term with optional renewal periods. The building and improvements for the branch are owned by Federal Trust Bank.
- (4) On January 30, 2007, we exercised our option to purchase the Sanford corporate headquarters building. The net settlement amount including closing costs was \$2.4 million. The building has a total of 48,994 rentable square feet of which we occupy 28,168 square feet and 20,826 square feet is rented to various non-affiliated tenants.



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Federal Trust Bank owns a parcel of land in Edgewater, in Volusia County, Florida. The parcel was purchased for a future branch location, however, the plans for the branch were cancelled and we currently plan to sell the parcel of land.

Management considers our properties to be well maintained.

## **Legal Proceedings**

Federal Trust Corporation and its subsidiaries may become parties to various legal proceedings arising from the normal course of its business. There are no material pending legal proceedings to which Federal Trust Corporation or its subsidiaries is a party or to which any of its property is subject.

## **SUPERVISION AND REGULATION**

### **General**

As a federally chartered savings bank, Federal Trust Bank is regulated and supervised by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. This supervision and regulation establishes a comprehensive framework of activities in which we may engage, and is intended primarily for the protection of the Federal Deposit Insurance Corporation's deposit insurance fund and depositors. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market interest rates. Federal Trust Bank also is a member of, and owns stock in, the Federal Home Loan Bank of Atlanta, which is one of the 12 regional banks in the Federal Home Loan Bank System. Federal Trust Bank also is regulated, to a lesser extent, by the Board of Governors of the Federal Reserve System, governing reserves to be maintained against deposits and other matters. The Office of Thrift Supervision examines Federal Trust Corporation and Federal Trust Bank and prepares reports for consideration by our Board of Directors on any operating concerns and deficiencies. Federal Trust Bank's relationship with our depositors and borrowers also is regulated to a great extent by both federal and state laws, especially in matters concerning the ownership of deposit accounts and the form and content of our loan documents.

There can be no assurance that changes to existing laws, rules and regulations, or any other new laws, rules or regulations, will not be adopted in the future, which could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects. Any change in these laws or regulations, or in regulatory policy, whether by the Federal Deposit Insurance Corporation, the Office of Thrift Supervision or Congress, could have a material adverse impact on our business, financial condition or operations.

### **Cease and Desist Orders**

The Office of Thrift Supervision recently concluded examinations of the operations of Federal Trust Corporation and Federal Trust Bank. The Office of Thrift Supervision noted weaknesses and failures relating primarily to our real estate lending practices and asset quality, and their impact on our capital and earnings. We have taken action and implemented procedures that management believes will address the weaknesses identified by the Office of Thrift Supervision. However, the Office of Thrift Supervision has presented cease and desist orders to Federal Trust Corporation and Federal Trust Bank, which are designed to ensure that the weaknesses noted in the recently concluded examinations are properly addressed. We have negotiated the terms of these enforcement orders with the Office of Thrift Supervision and have stipulated to the issuance of the orders. The orders provide that:

we must submit for review and approval by the Office of Thrift Supervision a capital plan to raise additional capital for Federal Trust Bank by July 15, 2008 and, if the additional capital cannot be raised by such date, to enter into a merger agreement with a merger or acquisition partner by August 31, 2008;

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Federal Trust Bank must submit for review and approval or non-objection by the Office of Thrift Supervision a detailed business plan to strengthen and improve Federal Trust Bank's operations, earnings, liquidity and capital;

Federal Trust Bank must submit quarterly reports to the Office of Thrift Supervision regarding compliance with the business plan;

until the Office of Thrift Supervision has approved or provided its non-objection to Federal Trust Bank's business plan, Federal Trust Bank will not be permitted to increase its current levels of construction loans, acquisition and development loans, non-residential permanent mortgage loans, land loans and certain other loans without the prior approval of the Office of Thrift Supervision;

until the Office of Thrift Supervision has approved or provided its non-objection to Federal Trust Bank's business plan, Federal Trust Bank will not be permitted to increase its total assets during any quarter in excess of an amount equal to the net interest credited on deposit liabilities during the quarter without the prior approval of the Office of Thrift Supervision;

Federal Trust Bank must submit for review and approval or non-objection by the Office of Thrift Supervision an asset review program that will (i) strengthen and ensure the timely identification and proper classification of problem assets, (ii) ensure adequate and proper levels of the allowance for loan and lease losses, and (iii) establish individualized resolution plans for problem assets;

Federal Trust Bank will not be permitted to declare a dividend without the prior written approval of the Office of Thrift Supervision;

Federal Trust Bank must revise its legal lending limit policies and procedures to ensure compliance with applicable law and devise an action plan to correct any legal lending limit violations;

Federal Trust Bank will not be permitted to enter into, renew or modify any agreements with us or enter into affiliated transactions with us, without prior approval of the Office of Thrift Supervision;

Federal Trust Bank will not be permitted to enter into any third-party contracts for services outside the normal course of business without prior review and approval of the Office of Thrift Supervision;

the Board of Directors of Federal Trust Bank must submit a plan to strengthen the Board of Directors' oversight of management and Federal Trust Bank's operations;

the Board of Directors of Federal Trust Bank must conduct a review of Federal Trust Bank's lending functions and assess the qualifications, experience and proficiency of Federal Trust Bank's management and lending staff; and

the Board of Directors of Federal Trust Bank must establish a committee comprised of non-employee directors to monitor and coordinate Federal Trust Bank's compliance with its provisions of the enforcement order.

**Additional Office of Thrift Supervision Restrictions**

On April 25, 2008, Federal Trust Corporation and Federal Trust Bank were notified by the Office of Thrift Supervision that the following regulatory and supervisory restrictions apply to Federal Trust Corporation and Federal Trust Bank, some of which restrictions are similar to those included in the cease and desist orders:



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Federal Trust Corporation and Federal Trust Bank are not eligible to have applications or notices processed by the Office of Thrift Supervision on an expedited basis;

Federal Trust Corporation and Federal Trust Bank are required to provide prior notice to the Office of Thrift Supervision for additions or changes to directors or senior executive officers;

all employment contracts or compensation arrangements, including severance payments, to directors and senior executive officers are subject to prior review by the Office of Thrift Supervision;

the ability of Federal Trust Corporation and Federal Trust Bank to make any compensatory payments to any person previously affiliated with Federal Trust Corporation or Federal Trust Bank following such person's termination of employment is restricted by applicable federal regulation; and

Federal Trust Bank's growth is restricted in that it may not increase its assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities.

In addition, the Office of Thrift Supervision has placed the following restrictions on Federal Trust Corporation and Federal Trust Bank, some of which restrictions are similar to those included in the cease and desist orders:

Federal Trust Bank may not pay any dividends or make any form of capital distribution without the prior written approval of the Office of Thrift Supervision, and Federal Trust Corporation may not request or accept any dividend or any form of capital distribution from Federal Trust Bank without the prior written approval of the Office of Thrift Supervision;

Federal Trust Corporation may not declare or pay any dividend without the prior written approval of the Office of Thrift Supervision, and Federal Trust Corporation must request Office of Thrift Supervision approval for the payment of a dividend in writing at least 30 calendar days prior to the proposed dividend declaration date;

Federal Trust Corporation may not issue any debt securities or otherwise incur any additional debt without the prior written approval of the Office of Thrift Supervision; and

Federal Trust Corporation may not make any payments of any kind, or in any form, to any person or entity in an amount exceeding \$5,000 in any calendar month without the prior written approval of the Office of Thrift Supervision.

Federal Trust Corporation has received Office of Thrift Supervision approval to pay certain fees and expenses in connection with the stock offerings.

**U.S. Treasury Department Report**

On March 31, 2008, the U.S. Treasury Department issued a report recommending ways in which the federal financial regulatory structure could be modernized. With respect to the banking industry, the report recommends the elimination of the federal thrift charter to the national bank charter over a two-year period and the merger of the Office of Thrift Supervision into the Office of the Comptroller of the Currency, the administrator of the national banks. Additionally, in the long term, the report recommends the consolidation of all federal banking regulators into a single new bank regulator and the establishment of a single federal bank charter. There can be no assurance that the report will result in legislation and that legislation would ultimately be enacted.



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### **Federal Banking Regulation**

***Change in Control Regulations.*** Under the Change in Bank Control Act, no person may acquire control of an insured federal savings bank or its parent holding company unless the Office of Thrift Supervision has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition. In addition, Office of Thrift Supervision regulations provide that no company may acquire control of a savings bank without the prior approval of the Office of Thrift Supervision. Any company that acquires such control becomes a savings and loan holding company subject to registration, examination and regulation by the Office of Thrift Supervision.

Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, contribution of more than 25% of the capital, control in any manner of the election of a majority of the institution's directors, or a determination by the Office of Thrift Supervision that the acquiror has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a savings bank's voting stock, if the acquiror is also subject to any one of eight control factors, constitutes a rebuttable presumption of control under the regulations. Such control factors include the acquiror being one of the two largest shareholders. The presumption of control may be rebutted by submission to the Office of Thrift Supervision, prior to the acquisition of stock or the occurrence of any other circumstances giving rise to such presumption, of a statement setting forth facts and circumstances which would support a finding that no control relationship will exist and containing certain undertakings. The regulations provide that persons or companies which acquire beneficial ownership exceeding 10% or more of any class of a savings bank's stock who do not intend to participate in or seek to exercise control over a savings bank's management or policies may qualify for a safe harbor by filing with the Office of Thrift Supervision a certification form that states, among other things, that the holder is not in control of such institution, is not subject to a rebuttable presumption of control and will take no action which would result in a determination or rebuttable presumption of control without prior notice to or approval of the Office of Thrift Supervision, as applicable. There are also rebuttable presumptions in the regulations concerning whether a group of investors is deemed to be acting in concert, including presumed action in concert among members of an immediate family.

The Office of Thrift Supervision may prohibit an acquisition of control if it finds, among other things, that the acquisition would result in a monopoly or substantially lessen competition, the financial condition of the acquiring person might jeopardize the financial stability of the institution, or the competence, experience or integrity of the acquiring person indicates that it would not be in the interest of the depositors or the public to permit the acquisition of control by such person.

***Transactions with Related Parties.*** A federal savings bank's authority to engage in transactions with its affiliates is limited by Office of Thrift Supervision regulations and Regulation W of the Federal Reserve Board, which implements Sections 23A and 23B of the Federal Reserve Act. The term affiliates for these purposes generally means any company that controls or is under common control with an institution. Federal Trust Corporation and its non-savings institution subsidiaries are deemed to be affiliates of Federal Trust Bank. In general, transactions with affiliates must be on terms that are as favorable to the savings bank as comparable transactions with non-affiliates. In addition, certain types of these transactions are restricted to an aggregate percentage of the savings bank's capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from the savings bank. In addition, Office of Thrift Supervision regulations prohibit a savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary.

Federal Trust Bank's authority to extend credit to its directors, executive officers and 10% or greater shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board and regulations of the Office of Thrift Supervision. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features, and (ii) not exceed certain limitations on the

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