WESTCORP /CA/
Form S-3
November 05, 2003

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As filed with the Securities and Exchange Commission on November 5, 2003

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Westcorp

(Exact name of registrant as specified in its charter)

California *(State or other jurisdiction of incorporation or organization)*	**51-0308535** *(I.R.S. Employer Identification Number)*

23 Pasteur
Irvine, California 92618-3816
(949) 727-1002
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Ernest S. Rady
Chief Executive Officer
Westcorp
23 Pasteur
Irvine, California 92618-3816
(949) 727-1002
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Andrew E. Katz, Esq. **Mitchell Silberberg & Knupp LLP** **11377 West Olympic Boulevard** **Los Angeles, California 90064-1683** **(310) 312-2000**	**Gregg A. Noel, Esq.** **Skadden, Arps, Slate, Meagher & Flom LLP** **300 South Grand Avenue** **Los Angeles, CA 90071** **(213) 687-5000**

Approximate date of commencement of proposed sale to the public: As promptly as possible following the declaration of effectiveness of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box. o

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Stock, par value $1 per share	$233,194,700	$18,865.45

(1) Includes shares of common stock that may be sold pursuant to the underwriters option to purchase additional shares.

(2) Calculated in accordance with Rule 457(o).

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

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

SUBJECT TO COMPLETION, DATED NOVEMBER 5, 2003

5,300,000 Shares

Common Stock

We are selling 5,300,000 shares of our common stock in this offering. We will receive all of the net proceeds from the sale of shares of common stock offered hereby.

To the extent that the underwriters sell more than 5,300,000 shares of common stock, the underwriters have the option to purchase up to an additional 795,000 shares from us at the initial price to public less the underwriting discount.

Our common stock is listed on the New York Stock Exchange under the symbol WES. The last reported sale price of our common stock on November 3, 2003 was $38.26 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 7.

The shares of common stock offered hereby are not savings accounts or deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental authority or agency.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Westcorp
Per Share	$	$	$
Total	$	$	$

Delivery of the shares of common stock will be made on or about , 2003.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston

The date of this prospectus is , 2003.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may be used only where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

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FORWARD-LOOKING STATEMENTS

This prospectus includes and incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act, as amended. Forward-looking statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. These statements are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause actual results to differ materially from those expressed in or implied by these forward-looking statements.

These forward-looking statements are identified by their use of terms and phrases such as anticipate, believe, could, estimate, expect, i may, plan, predict, project, will, and similar terms and phrases, including references to assumptions. These statements are contained in sectio entitled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and other sections of this prospectus and in the documents incorporated by reference in this prospectus.

The following factors are among those that may cause actual results to differ materially from the forward-looking statements:

- changes in general economic and business conditions;
- interest rate fluctuations, including hedging activities;
- our financial condition and liquidity, as well as future cash flows and earnings;
- competition;
- our level of operating expenses;
- the effect, interpretation, or application of new or existing laws, regulations and court decisions;
- the availability of sources of funding;
- the level of chargeoffs on the automobile contracts that we originate; and
- significant litigation.

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected.

We do not undertake to update our forward-looking statements or risk factors to reflect future events or circumstances.

INDUSTRY DATA

In this prospectus, we rely on and refer to information regarding the automobile lending industry from market research reports, analyst reports and other publicly available information including, without limitation, reports issued or prepared by CNW Marketing/ Research. Although we believe that this information is reliable, we cannot guarantee the accuracy and completeness of this information, and we have not independently verified any of it.

PROSPECTUS SUMMARY

This summary highlights certain information found in greater detail elsewhere in this prospectus. It does not contain all the information that may be important to you in making a decision to purchase our common stock. We urge you to read the entire prospectus carefully, including Risk Factors and our consolidated financial statements and related notes, before deciding to invest in our common stock. In this prospectus, the company, we, us and our refer to Westcorp and its subsidiaries, except where it is otherwise noted. Unless we indicate otherwise, all information in this prospectus assumes the underwriters will not exercise their option to purchase additional shares.

Westcorp

Our Company

We are a diversified financial services holding company that provides automobile lending services through our second-tier subsidiary, WFS Financial Inc, which we refer to as WFS, and retail and commercial banking services through our wholly owned subsidiary, Western Financial Bank, which we refer to as the Bank. The Bank currently owns 84% of the capital stock of WFS. We primarily earn income by originating assets, including automobile contracts, that generate a yield in excess of the cost of the liabilities, including deposits, that fund these assets.

We have grown substantially over the past three years. As of September 30, 2003, we had $14.2 billion in total assets, $10.5 billion in automobile loans and $859 million in common equity, representing a three-year compounded annual growth rate of 27.2%, 17.0% and 22.1%, respectively. For the trailing twelve months ended September 30, 2003 we originated $5.8 billion of automobile contracts and generated $104 million of net income and earnings per share of $2.53.

Automobile Lending Operations

We are one of the nation s largest independent automobile finance companies with over 30 years of experience in the automobile finance industry. We believe the automobile finance industry is the second largest consumer finance industry in the United States with over $895 billion of loan and lease originations during 2002. We originate new and pre-owned automobile installment contracts, otherwise known as contracts, through our relationships with approximately 8,000 franchised and independent automobile dealers nationwide. We originated $4.6 billion of contracts during the nine months ended September 30, 2003 and owned a portfolio of $10.5 billion contracts at September 30, 2003.

For the nine months ended September 30, 2003, approximately 32% of our contract originations were for the purchase of new automobiles and approximately 68% of our contract originations were for the purchase of pre-owned automobiles. Approximately 83% of our contract originations were what we refer to as prime contracts and approximately 17% of our contract originations were what we refer to as non-prime contracts. Our determination of whether a contract is categorized as prime, non-prime or other is based on a number of factors including the borrower s credit history and our expectation of credit loss.

We underwrite contracts through a credit approval process that is supported and controlled by a centralized, automated front-end system. This system incorporates proprietary credit scoring models and industry credit scoring models and tools, which enhance our credit analysts ability to tailor each contract s pricing and structure to maximize risk-adjusted returns. We believe that as a result of our sophisticated credit and underwriting systems, we are able to earn attractive risk-adjusted returns on our contracts. For the trailing twelve months ended September 30, 2003, the average net interest spread on our automobile contract originations was 7.77% and the net interest spread on our managed automobile portfolio was 6.67% while net credit losses averaged 2.77% for the same period.

We structure our business to minimize operating costs while providing high quality service to our dealers. Those aspects of our business that require a local market presence are performed on a decentralized basis in our 40 offices. All other operations are centralized. We fund our purchases of

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contracts on an interim basis, with deposits raised through our banking operations, which are insured by the Federal Deposit Insurance Corporation, also known as the FDIC, and other borrowings. For long-term financing, we issue automobile contract asset-backed securities. Since 1985, we have sold or securitized over $33 billion of contracts in 60 public offerings of asset-backed securities, making us the fourth largest issuer of such securities in the nation. We have employed a range of securitization structures and our most recent $1.7 billion issuance of asset-backed securities was structured as a surety-wrapped transaction with a weighted average interest rate of 2.66%.

Banking Operations

The primary focus of our banking operations is to generate diverse, low-cost funds to provide the liquidity needed to fund our acquisition of contracts. The Bank has the ability to raise significant amounts of liquidity by attracting both short-term and long-term deposits from the general public, commercial enterprises and institutions by offering a variety of accounts and rates. These funds are generated through the Bank s retail and commercial banking divisions. The Bank also may raise funds by obtaining advances from the Federal Home Loan Bank, also known as the FHLB, selling securities under agreements to repurchase and utilizing other borrowings. The Bank s retail banking division serves the needs of individuals and small businesses by offering a broad range of products through 18 retail branches located throughout Southern California. The Bank s commercial banking division focuses on medium-sized businesses in Southern California. At September 30, 2003, the total deposits gathered by both the retail and commercial banking divisions were $2.0 billion. Approximately 88% of these accounts were demand deposits, money market accounts and certificate of deposit accounts under $100,000 in principal, which we believe represent a stable and attractive source of funding.

The Bank also invests deposits generated by its retail and commercial banking divisions in mortgage-backed securities. Our investment in mortgage-backed securities, together with the cash balances that we maintain, create a significant liquidity portfolio that provides us with additional funding security.

Our Business Strategy

Our business objective is to maximize long-term profitability by efficiently purchasing and servicing prime and non-prime credit quality automobile contracts that generate strong and consistent risk-adjusted returns. We achieve this objective by employing our business strategy, which includes the following key elements:

- produce consistent growth through our strong dealer relationships;
- price automobile contracts to maximize risk-adjusted returns by using advanced technology and experienced underwriters;
- create operating efficiencies through technology and best practices;
- generate low cost liquidity through positive operating cash flows and diverse funding sources; and
- record high quality earnings and maintain a conservative, well-capitalized balance sheet.

Our Address

Our principal executive office and mailing address is 23 Pasteur, Irvine, California 92618-3816, and our telephone number is (949) 727-1002. Our Web site address is *http://www.westcorpinc.com*. The information contained in our Web site does not constitute part of this prospectus.

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The Offering

Issuer	Westcorp
Common stock offered	5,300,000 shares
Underwriters option to purchase additional shares	795,000 shares
Common stock outstanding after this offering(1)	50,702,592 shares
Use of proceeds	A portion of the net proceeds will be used to redeem our subordinated debentures due in 2007, at the time they become callable. The balance of the proceeds will be used to purchase automobile contracts from WFS, contribute to or invest in the Bank or WFS or for general corporate purposes.
New York Stock Exchange symbol	WES

(1) The number of total shares outstanding after this offering excludes:

547,059 shares of common stock issuable upon exercise of outstanding vested options under our stock incentive plan, at a weighted average share price of $14.74 per share;

943,783 shares of common stock issuable upon exercise of outstanding nonvested options under our stock incentive plan, at a weighted average share price of $18.04 per share;

1,509,158 shares available for future issuance under our stock incentive plan; and

795,000 shares issuable under the underwriters option to purchase additional shares.

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Summary Financial Data

Our summary balance sheet and operating data for the years ended December 31, 2002, 2001 and 2000 have been derived from our audited consolidated financial statements. Certain amounts from the prior year consolidated financial statements have been reclassified to conform to the 2003 presentation. The balance sheet data at September 30, 2003 and 2002 and the operating data for the nine months ended September 30, 2003 and 2002 have been derived from our unaudited consolidated financial statements. In the opinion of management, the unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all normal recurring adjustments necessary for the fair presentation of financial position and results of operations for those periods.

The summary financial data set forth below should be read in conjunction with our consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included or incorporated by reference elsewhere herein including the impact of changing the structure of our securitizations from sale transactions to secured financings. The financial data is qualified in its entirety by the more detailed financial information contained elsewhere or incorporated by reference herein. Information regarding our compliance with applicable regulatory capital requirements is included in this prospectus under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Capital Requirements.

	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2003	2002	2002	2001	2000
	(Dollars in thousands, except per share amounts)				
Consolidated Summary of Operations:					
Interest income	$ 928,336	$ 841,210	$ 1,142,940	$ 962,627	$ 583,821
Interest expense	407,257	393,156	530,916	491,944	313,872
Net interest income	521,079	448,054	612,024	470,683	269,949
Provision for credit losses	221,071	209,043	306,233	196,977	82,133
Net interest income after provision for credit losses	300,008	239,011	305,791	273,706	187,816
Noninterest income	83,316	64,301	90,430	78,899	177,884
Noninterest expense	207,840	187,841	251,306	244,871	220,973
Income before income tax	175,484	115,471	144,915	107,734	144,727
Income tax	69,544	44,974	52,044	41,675	58,132
Income before minority interest	105,940	70,497	92,871	66,059	86,595
Minority interest in earnings of subsidiaries	21,453	10,263	13,153	10,369	11,852
Net income	$ 84,487	$ 60,234	$ 79,718	$ 55,690	$ 74,743
Weighted average number of shares and common share equivalents diluted	41,680,576	38,751,631	38,922,611	34,485,127	29,525,677
Earnings per common share diluted	$ 2.03	$ 1.55	$ 2.05	$ 1.61	$ 2.53
Dividends per common share	0.39	0.36	0.47	0.44	0.30

Dividend payout ratio	19.2%	23.2%	22.9%	27.3%	11.9%

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	September 30, 2003		December 31,		
	Actual	As Adjusted(1)	2002	2001	2000
	(Dollars in thousands)				
Consolidated Summary of Financial Condition:					
Assets:					
Cash and cash equivalents	$ 182,963	$ 376,963	$ 84,215	$ 104,327	$ 128,763
Loans:					
Consumer(2)	10,658,660	10,658,660	9,063,755	7,092,959	4,309,317
Mortgage(3)	246,532	246,532	282,930	373,455	507,431
Commercial	105,665	105,665	97,216	85,312	107,586
Mortgage-backed securities	2,664,156	2,664,156	2,649,657	2,092,225	2,230,448
Investments and time deposits	310,193	310,193	128,530	74,947	35,091
Other assets	368,697	368,697	445,688	427,390	653,280
Less: allowance for credit losses	298,278	298,278	269,352	178,218	104,006
Total assets	$14,238,588	$14,432,588	$12,482,639	$10,072,397	$7,867,910
Liabilities:					
Deposits	$ 1,969,134	$ 1,969,134	$ 1,974,984	$ 2,329,326	$2,478,487
Notes payable on automobile secured financings	10,108,203	10,108,203	8,494,678	5,886,227	3,473,377
FHLB advances and other borrowings	638,682	638,682	618,766	723,675	616,193
Subordinated debt	394,494	394,494	400,561	147,714	189,962
Amounts held on behalf of trustee			177,642	280,496	494,858
Other liabilities	144,197	144,197	101,145	85,994	71,221
Total liabilities	13,254,710	13,254,710	11,767,776	9,453,432	7,324,098
Minority interest in equity of subsidiaries	124,525	124,525	101,666	78,261	56,644
Shareholders equity	859,353	1,053,353	613,197	540,704	487,168
Total liabilities and shareholders equity	$14,238,588	$14,432,588	$12,482,639	$10,072,397	$7,867,910

	At or For the Nine Months Ended September 30,		At or For the Year Ended December 31,		
	2003	2002	2002	2001	2000
	(Dollars in thousands)				
Operating Statistics Automobile Only:					
Automobile contract originations	$ 4,622,071	$4,204,718	$5,415,734	$4,863,279	$4,219,227
Percent of prime automobile contracts originated	82.9%	79.3%	80.3%	75.6%	68.8%
Automobile contracts managed at end of period	$10,475,948	$9,269,265	$9,389,974	$8,152,882	$6,818,182
	10.1%	11.6%	11.4%	12.7%	14.0%

Weighted average coupon on originated automobile contracts					
Operating expenses as a percentage of average managed automobile contracts	2.4%	2.5%	2.4%	2.7%	3.1%
Automobile contracts delinquent 60 days or greater	0.8%	1.0%	1.0%	1.1%	0.9%
Net chargeoffs as a percent of average managed automobile contracts	2.6%	2.6%	2.8%	2.3%	1.9%

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	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2003	2002	2002	2001	2000
			(Dollars in thousands)		
Other Selected Financial Data:					
Average automobile contracts managed	$9,885,681	$8,672,049	$8,845,635	$7,576,681	$6,076,814
Return on average automobile contracts managed(4)	1.14%	0.93%	0.90%	0.74%	1.23%
Average shareholders equity(5)	$ 791,998	$ 659,799	$ 654,109	$ 570,298	$ 450,323
Return on average shareholders equity(5)	14.22%	12.17%	12.19%	9.77%	16.60%
Book value per share(5)	$ 20.89	$ 17.84	$ 18.23	$ 16.80	$ 15.72
Originations:					
Consumer loans(2)	$4,626,928	$4,207,743	$5,419,296	$4,869,970	$4,232,115
Mortgage loans(3)	21,326	23,535	23,950	23,001	33,124
Commercial loans	304,078	196,525	354,439	291,944	266,342
Total originations	$4,952,332	$4,427,803	$5,797,685	$5,184,915	$4,531,581
Interest rate spread(6)	4.94%	5.12%	5.29%	4.99%	4.37%

(1) As adjusted to reflect the offering, assuming the underwriters will not exercise their option to purchase additional shares.

(2) Net of unearned discounts.

(3) Net of undisbursed loan proceeds.

(4) Net income (annualized) divided by average automobile contracts managed.

(5) Accumulated other comprehensive income (loss) excluded from shareholders equity.

(6) Yield on interest earning assets less the cost of funds on interest bearing liabilities.

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RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus and the information incorporated by reference before deciding to invest in our common stock. Our business, operating results and financial condition could be adversely affected by any of the following specific risks. The trading price of our common stock could decline due to any of these risks and other industry risks, and you could lose all or part of your investment. In addition to the risks described below, we may encounter risks that are not currently known to us or that we currently deem immaterial, which may also impair our business operations and your investment in our common stock.

Risks Related to the Offering

We have broad discretion in how we use the proceeds from this offering and may use them in ways with which you disagree.

We intend to use a portion of the net proceeds to redeem our subordinated debentures due in 2007, at the time they become callable. We intend to use the balance of the proceeds from this offering to purchase automobile contracts from WFS, to contribute to or invest in the Bank or WFS or for general corporate purposes. However, our management will have significant flexibility in applying the net proceeds of this offering. The failure of management to use such funds effectively could have a material adverse effect on our financial position, liquidity and results of operations by reducing or eliminating our net income from operations. See Use of Proceeds.

Risks Related to Factors Outside Our Control

Adverse economic conditions may impact our profitability.

Delinquencies, defaults, repossessions and credit losses generally increase during periods of economic slowdown, recession or higher unemployment. These periods also may be accompanied by decreased consumer demand for automobiles and declining values of automobiles securing outstanding contracts, which weakens collateral coverage and increases the amount of loss in the event of default. Significant increases in the inventory of pre-owned automobiles during periods of economic recession also may depress the prices at which repossessed automobiles may be sold or delay the timing of these sales. Because a portion of our borrowers are considered non-prime borrowers, the actual rates of delinquencies, defaults, repossessions and credit losses on these contracts are higher than those experienced in the general automobile finance industry for borrowers considered to be prime borrowers and could be more dramatically affected by a general economic downturn. In addition, during an economic slowdown or recession, our servicing costs may increase without a corresponding increase in our servicing fee income. While we seek to manage the higher risk inherent in non-prime contracts through the underwriting criteria and collection methods we employ, we cannot assure you that these criteria or methods will afford adequate protection against these risks. Any sustained period of increased delinquencies, defaults, repossessions, credit losses or servicing costs could adversely affect our financial position, liquidity and results of operations and our ability to enter into future securitizations.

Interest rate fluctuations may impact our profitability.

Our profitability may be directly affected by the level of and fluctuations in interest rates, which affects the gross interest rate spread we earn on our contracts. As interest rates change, our gross interest rate spread on new originations may increase or decrease depending upon the interest rate environment. In addition, the rates charged on the contracts originated or purchased from dealers are limited by statutory maximums, restricting our opportunity to pass on increased interest costs. We believe that our profitability and liquidity could be adversely affected during any period of changing interest rates, possibly to a material degree. We monitor the interest rate environment and employ our hedging strategies designed to mitigate the impact of changes in interest rates. We cannot assure you that our hedging strategies will mitigate the impact of changes in interest rates.

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Prepayment of contracts may impact our profitability.

Our contracts may be repaid by borrowers at any time at their option. Early repayment of contracts will limit the amount of earnings we would have otherwise received under those contracts.

Wholesale auction values may impact our profitability.

We sell repossessed automobiles at wholesale auction markets located throughout the United States. Auction proceeds from the sale of repossessed vehicles and other recoveries usually do not cover the outstanding balance of the contracts, and the resulting deficiencies are charged off. Decreased auction proceeds resulting from the depressed prices at which pre-owned automobiles may be sold during periods of economic slowdown or recession will result in higher credit losses for us. Furthermore, depressed wholesale prices for pre-owned automobiles may result from significant liquidations of rental or fleet inventories and from increased volume of trade-ins due to promotional financing programs offered by new vehicle manufacturers. There can be no assurance that our recovery rates will stabilize or improve in the future.

Risks Related to Us

The ownership of our common stock is concentrated, which may result in conflicts of interest and actions that are not in the best interests of other stockholders of the Company.

Ernest S. Rady is the founder, Chairman of the Board of Directors and Chief Executive Officer of Westcorp. Mr. Rady is also the Chairman of the Board of Directors and Chief Executive Officer of the Bank and the Chairman of the Board of Directors of WFS. Immediately after the completion of this offering, Mr. Rady will be the beneficial owner of approximately 55% of the outstanding shares of common stock of Westcorp and will be able to exercise significant control over our company. The Westcorp common stock ownership of Mr. Rady enables him to elect all of Westcorp s directors and effectively control the vote on all matters submitted to a vote of Westcorp, including mergers, sales of all or substantially all of our assets, going private transactions, conversions and other corporate restructurings or reorganizations. Because of the significant block of Westcorp common stock controlled by Mr. Rady, decisions may be made that, while in the best interest of Mr. Rady, may not be in the best interest of other stockholders.

We are a holding company with no operations of our own.

The results of our operations and our financial condition are dependent upon the business activities of our two principal consolidated subsidiaries, the Bank and WFS. In addition, our ability to fund our operations and pay dividends on our common stock is dependent upon the earnings from the businesses conducted by our subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. Any distribution of funds to us from our subsidiaries is subject to statutory, regulatory or contractual restrictions, subsidiaries earnings and various other business considerations.

A significant portion of our cash flow comes from our second-tier subsidiary, WFS. WFS is an 84% owned subsidiary of the Bank. The Bank is subject to limitations upon its ability to pay dividends to us by the terms of the subordinated debentures it has issued and regulations of the Office of Thrift Supervision, also known as the OTS. WFS does not have any obligation to pay amounts to the Bank except pursuant to the senior unsecured intercompany promissory notes issued by WFS to the Bank by which the Bank funds WFS operations. In addition, the ability of WFS to repay its obligations to the Bank may be impaired by deficiencies in WFS automobile finance operations. Furthermore, any amounts owed to creditors of WFS that may have priority over any obligations WFS has to the Bank under the senior promissory notes may impair the Bank s ability to have funds available for dividend to us.

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We have substantial debt that could limit our ability to declare and pay dividends and reduce the effectiveness of our operations.

Through our subsidiaries, we have substantial debt and debt service requirements. As of September 30, 2003, our total debt, as a percentage of total capitalization, was 94%. This substantial level of debt may have important consequences, including:

- limiting our ability to borrow additional amounts for origination of automobile contracts, capital expenditures and debt service requirements;
- limiting our ability to use operating cash flows in other areas of our business;
- increasing our vulnerability to general adverse economic conditions; and
- limiting our ability to capitalize on business opportunities and to react to competitive pressures.

We cannot assure you that we will generate sufficient cash flows from operations, or that we will be able to obtain sufficient funding for our operations or to declare and pay dividends on our common stock. In addition, any future indebtedness would further increase our debt leverage and the associated risks.

The availability of our financing sources may depend on factors outside of our control.

We depend on a significant amount of financing to operate our business. Our business strategy utilizes diverse funding sources to fund our operations. These sources include raising both short-term and long-term deposits from the general public, commercial enterprises and institutions by offering a variety of accounts and rates through our retail and commercial banking operations. In addition, we raise funds through the collection of principal and interest from loans, automobile asset-backed securities, commercial paper, advances from the FHLB, repurchase agreements, subordinated debentures and equity offerings. The sources used vary depending on such factors as rates paid, maturities and the impact on capital.

The availability of these financing sources may depend on factors outside of our control, including regulatory issues such as the capital requirements of the Bank, debt ratings, competition, the market for automobile asset-backed securities and our ability to receive financing from other financial institutions. If we are unable to raise the funds we require at reasonable rates, we will either have to curtail our loan origination activities or incur the effects of increased costs of operation. Reducing our loan origination activities may adversely affect our ability to remain a preferred source of financing for the dealers from whom we purchase automobile contracts. An increase in our costs of operations will have an adverse effect on our financial position, liquidity and results of operations by increasing our interest expense and reducing our net interest income.

We may not be able to generate sufficient operating cash flows to run our automobile finance operations.

Our automobile finance operations require substantial operating cash flows. Operating cash requirements include premiums paid to dealers for acquisition of automobile contracts, expenses incurred in connection with the securitization of automobile contracts, capital expenditures for new technologies and ongoing operating costs. Our primary source of operating cash comes from the excess cash flows received from securitizations and contracts held on the balance sheet. The timing and amount of excess cash flows from contracts varies based on a number of factors, including:

- the rates and amounts of loan delinquencies, defaults and net credit losses;
- how quickly and at what price repossessed vehicles can be resold;
- the ages of the contracts in the portfolio;
- levels of voluntary prepayments; and
- the terms of our securitizations, which include performance based triggers requiring higher levels of credit enhancements to the extent credit losses or delinquencies exceed certain thresholds. We have exceeded performance thresholds in the past and may do so again in the future.

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Any adverse change in these factors could reduce or eliminate excess cash flows to us. Although we currently have positive operating cash flows, we cannot assure you that we will continue to generate positive cash flows in the future, which could have a material adverse effect on our financial position, liquidity and results of operations.

Changes in our securitization program could adversely affect our liquidity and earnings.

Our business depends on our ability to aggregate and sell automobile contracts in the form of asset-backed securities. These sales generate cash proceeds that allow us to repay amounts borrowed and to purchase additional automobile contracts. Changes in our asset-backed securities program could materially adversely affect our earnings or ability to purchase and resell automobile contracts on a timely basis. Such changes could include:

- delay in the completion of a planned securitization;
- negative market perception of us; or
- failure of the automobile contracts we intend to sell to conform to insurance company and rating agency requirements.

If we are unable to effectively securitize our automobile contracts, we may have to reduce or even curtail our automobile contract purchasing activities, which would have a material adverse effect on our financial position, liquidity and results of operations.

We utilize credit enhancements to maintain favorable interest rates and cash requirements for our automobile asset-backed securitizations.

To date, all but three of our outstanding securitizations have used credit enhancement in the form of financial guaranty insurance policies issued by Financial Security Assurance Inc., also known as FSA, with the others using a senior/subordinated structure to credit enhance the securitization. An inability to credit enhance our securitizations using either approach could have a material adverse effect on our financial position, liquidity and results of operations by increasing the total costs of our securitization activities and thereby reducing our net income or resulting in our failure to meet regulatory limitations.

If we lose access to the cash produced by securitized automobile contracts, we may not be able to obtain comparable financing.

We have access to the cash flows of the automobile contracts sold in each outstanding securitization credit enhanced by FSA (including the cash held in spread accounts associated with each securitization) through a series of agreements into which the Bank, WFS, WFS Financial Auto Loans 2, Inc., a special purpose subsidiary of WFS also known as WFAL2, and other parties have entered. We are permitted to use that cash as we determine, including in the ordinary business activities of originating automobile contracts.

In each securitization credit enhanced by FSA, the governing agreements require that all cash flows of the relevant trust and the associated spread account be invested in an eligible investment. In connection with each securitization, the relevant trust has entered into a reinvestment contract, also known as a trust reinvestment contract, which is or qualifies as an eligible investment.

A limited portion of the funds invested in trust reinvestment contracts may be used by WFAL2 and the balance may be used by the Bank. The Bank makes its portion of the invested funds available to WFS through another reinvestment contract, also known as the WFS reinvestment contract. Under the WFS reinvestment contract, WFS receives access to all cash available to the Bank under each trust reinvestment contract. WFS is obligated to repay the Bank as needed by the Bank to meet its obligations under the individual trust reinvestment contracts. The portion of the cash available to WFAL2 under the individual trust reinvestment contracts is used to purchase automobile contracts from WFS according to the terms of sale and servicing agreements entered into with WFS. If the trust reinvestment contracts were no longer

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deemed an eligible investment, which determination would be made by the rating agencies or FSA, the Bank and WFAL2 would no longer have the ability to use this cash in the ordinary course of business and would need to obtain alternative financing, which may only be available on less attractive terms. If the Bank and WFAL2 were unable to obtain alternative financing, WFS may have to curtail its automobile contract purchasing activities, which would have a material adverse effect on our financial position, liquidity and results of operations.

A loss of contractual servicing rights could have a material effect on our business.

As servicer of all our securitized automobile contracts, WFS is entitled to receive contractual servicing fees. Contractual servicing fees are earned at a rate of 1.25% per annum on the outstanding balance of automobile contracts securitized. FSA, as insurer with respect to those currently outstanding securitizations as to which it has provided credit enhancement, can terminate WFS right to act as servicer for those transactions upon the occurrence of events defined in the sale and servicing agreements for securitized automobile contracts, such as our bankruptcy or material breach of warranties or covenants contained in the sale and servicing agreement. Any loss of such servicing rights could have a material adverse effect on our financial position, liquidity and results of operations by reducing our net income upon the elimination of that contractual servicing income.

We expect our operating results to continue to fluctuate, which may adversely impact our business.

Our results of operations have fluctuated in the past and are expected to fluctuate in the future. Factors that could affect our quarterly earnings include:

- variations in the volume of automobile contracts originated, which historically tend to be lower in the first and fourth quarters of the year;
- interest rate spreads;
- the effectiveness of our hedging strategies;
- credit losses, which historically tend to be higher in the first and fourth quarters of the year; and
- operating costs.

Competition in the industry may adversely impact our ability to maintain our business at the current level of operations.

The automobile finance business is highly competitive. We compete with captive automobile finance companies owned by major automobile manufacturers, banks, credit unions, savings associations and independent consumer finance companies. Many of these competitors have greater financial and marketing resources than we have. Additionally, from time to time the captive finance companies provide financing on terms significantly more favorable to automobile purchasers than we can offer. For example, captive finance companies can offer special low or no interest loan programs as incentives to purchasers of selected models of automobiles manufactured by their respective parent manufacturers.

Many of our competitors also have longstanding relationships with automobile dealers and may offer dealers or their customers other forms of financing, including dealer floor plan financing and leasing, which we currently do not provide. Providers of automobile financing have traditionally competed on the basis of interest rates charged, the quality of credit accepted, the flexibility of loan terms offered and the quality of service provided to dealers and customers. In seeking to establish WFS as one of the principal financing sources of the dealers we serve, we compete predominately on the basis of our high level of dealer service and strong dealer relationships and by offering flexible contract terms to automobile purchasers.

Competition in the retail banking business comes primarily from commercial banks, credit unions, savings and loan associations, mutual funds and issuers of securities. Many of the nation s largest savings and loan associations and other depository institutions have locations in Southern California. We compete

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for deposits primarily on the basis of interest rates paid and the quality of service provided to our customers.

Our business is subject to litigation.

We are subject to various putative class actions alleging claims under the Equal Credit Opportunity Act or similar state laws, including under the California Business and Professions Code and the California Unruh Civil Rights Act. Although we are vigorously defending these actions, we cannot assure you that the outcome of these proceedings will not have a material adverse effect upon our financial condition, results of operations and cash flows. See Business Legal Proceedings.

Risks Related to Regulatory Factors

Regulatory requirements may restrict our ability to do business.

The Bank is subject to inspection and regulation by the OTS pursuant to the Home Owners Loan Act, as amended, also known as HOLA. The OTS is the primary federal banking agency responsible for its supervision and regulation. HOLA limits the amount of our consumer loans, commercial loans and investment in service corporations. The Bank is precluded from holding consumer loans, including automobile contracts, on its consolidated balance sheet, in an aggregate principal balance in excess of 30% of its total consolidated assets. The limitation is increased to 35% of consolidated assets if all of the consumer loans in excess of the 30% limit are obtained by the Bank and its operating subsidiaries directly from consumers. The Bank is precluded from holding commercial loans, including loans to our service corporations, on its consolidated balance sheet, in an aggregate principal balance in excess of 10% of its total consolidated assets. Commercial loans secured by real estate and small business loans with $2.0 million or less in outstanding principal are not included in the calculation of the percentage of commercial loans. Interests in consumer loans held by the Bank s service corporations are not included in the limits on such assets described above. The Bank is precluded from investing more than 2% of its consolidated assets in service corporations, although it may invest an additional 1% in service corporations devoted to community service activities as specified in the regulations. Retained earnings or losses from the operations of our service corporations are not included in the calculation of our investment in service corporations. In addition, other regulatory actions taken by the OTS could have a negative impact on the price of our common stock.

Our securitization activities are structured to enable the Bank to remove securitized automobile contracts from the HOLA consumer loan limitation calculation. Changes in the OTS s interpretation of HOLA as it affects our securitization activities could cause us to change the manner in which we securitize automobile contracts or to limit our acquisition of such contracts, thereby negatively impacting the price of our common stock. Furthermore, if we are unable to continue to securitize the automobile contracts we purchase, this regulatory limitation may force us to limit our acquisition of new automobile contracts, thereby adversely affecting our ability to remain a preferred source of financing for the dealers from whom we purchase automobile contracts, or cause us to fail the regulatory limitations. Any such limitations may also have a material adverse effect on our financial position, liquidity and results of operations.

The OTS has the power to enforce HOLA and its regulations by a variety of actions ranging from a memorandum of understanding to cease and desist proceedings under the Federal Deposit Insurance Act. As such, the OTS has broad powers to, among other things, require us to change our business practices, hold additional capital and change management. Such action could have a material adverse impact on our business and may impact our securities prices, including our common stock, and access to the capital markets.

OTS guidance regarding subprime lending may affect the Bank s capital requirements.

The OTS, along with other federal banking regulatory agencies, has adopted guidance pertaining to subprime lending programs. Pursuant to the guidance, lending programs which provide credit to borrowers

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whose credit histories reflect specified negative characteristics, such as recent bankruptcies or payment delinquencies, are deemed to be subprime lending programs for regulatory purposes. Many of the contracts that we originate possess one or more of the factors identified in the guidance as indicative of a subprime loan for this purpose. Pursuant to the guidance, examiners may require that an institution with a lending program deemed to be subprime hold additional capital that ranges from one and one-half to three times the normal capital required for similar loans made to borrowers who are not deemed to be subprime borrowers.

Because many of the automobile contracts we originate possess one or more of the factors identified in the guidance as indicative of a subprime loan, we maintain our capital levels higher than would otherwise be required by regulations. Maintaining higher capital levels may slow our growth, require us to raise additional capital or sell assets, all of which could negatively impact our earnings. We cannot predict to what extent the Bank may be required to hold additional capital with respect to those automobile contracts we hold as to which the borrowers are deemed by the OTS to be subprime borrowers.

Other regulatory requirements may affect our ability to do business.

Our operations are subject to regulation, supervision and licensing under various federal, state and local statutes, ordinances and regulations.

In most states in which we operate, a consumer credit regulatory agency regulates and enforces laws relating to consumer lenders and sales finance agencies such as WFS. These rules and regulations generally provide for licensing of sales finance agencies, limitations on the amount, duration and charges, including interest rates, for various categories of loans, requirements as to the form and content of finance contracts and other documentation, and restrictions on collection practices and creditors rights. So long as WFS is an operating subsidiary of the Bank, licensing and certain other of these requirements are not applicable to WFS due to federal preemption.

We are also subject to extensive federal regulation, including the Truth in Lending Act, the Equal Credit Opportunity Act and the Fair Credit Reporting Act. These laws require us to provide certain disclosures to prospective borrowers and protect against discriminatory lending practices and unfair credit practices. The principal disclosures required under the Truth in Lending Act include the terms of repayment, the total finance charge and the annual percentage rate charged on each loan. The Equal Credit Opportunity Act prohibits creditors from discriminating against loan applicants on the basis of race, color, sex, age or marital status. Pursuant to Regulation B promulgated under the Equal Credit Opportunity Act, creditors are required to make certain disclosures regarding consumer rights and advise consumers whose credit applications are not approved of the reasons for the rejection. In addition, the credit scoring system we use must comply with the requirements for such a system as set forth in the Equal Credit Opportunity Act and Regulation B. The Fair Credit Reporting Act requires us to provide certain information to consumers whose credit applications are not approved on the basis of a report obtained from a consumer reporting agency. Additionally, we are subject to the Gramm-Leach-Bliley Act, which requires us to maintain privacy with respect to certain consumer data in our possession and to periodically communicate with consumers on privacy matters. We are also subject to the Soldiers and Sailors Civil Relief Act, and similar state laws, which requires us to reduce the interest rate charged on each loan to customers who have subsequently joined the military.

The dealers that originate automobile contracts we purchase also must comply with both state and federal credit and trade practice statutes and regulations. Failure of the dealers to comply with these statutes and regulations could result in consumers having rights of rescission and other remedies that could have an adverse effect on us.

We believe that we maintain all material licenses and permits required for our current operations and are in substantial compliance with all applicable local, state and federal regulations. There can be no assurance, however, that we will be able to maintain all requisite licenses and permits, and the failure to satisfy those and other regulatory requirements could have a material adverse effect on our operations.

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Further, the adoption of additional, or the revision of existing, rules and regulations could have a material adverse effect on our business.

We are subject to routine periodic examinations by the OTS on a variety of financial and regulatory matters. The Bank s most recent annual safety and soundness examination by the OTS was completed in July 2003.

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USE OF PROCEEDS

We expect to receive approximately $194 million in net proceeds, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, from the sale of shares of our common stock in this offering based on the sale of approximately 5.3 million shares at an assumed public offering price of $38.26 per share, which was the closing price of our common stock on the New York Stock Exchange (NYSE) on November 3, 2003. If the underwriters exercise in full their option to purchase an additional 0.8 million shares of our common stock, we expect our additional net proceeds to be approximately $30.4 million. A portion of the net proceeds will be used to redeem our subordinated debentures due in 2007, at the time they become callable. The balance of the proceeds from this offering will be used to purchase automobile contracts from WFS, contribute to or invest in the Bank or WFS or for general corporate purposes.

PRICE RANGE OF COMMON STOCK AND DIVIDEND INFORMATION

The common stock of our company has been publicly traded since August 8, 1986 and has been listed on the NYSE under the symbol WES since 1993. The following table sets forth the high and low sale prices by quarter in 2003, 2002 and 2001, as traded on the NYSE, and the dividends declared on the common stock during those quarters.

	Westcorp Common Stock		
	High	Low	Cash Dividends Declared
Calendar 2001			
First Quarter	$18.66	$14.68	$0.11
Second Quarter	23.70	16.45	0.11
Third Quarter	23.41	16.00	0.11
Fourth Quarter	19.45	16.05	0.11
Calendar 2002			
First Quarter	22.55	15.70	0.12
Second Quarter	31.95	22.50	0.12
Third Quarter	31.41	18.10	0.12
Fourth Quarter	21.63	16.92	0.12
Calendar 2003			
First Quarter	23.25	18.30	0.13
Second Quarter	29.80	18.60	0.13
Third Quarter	36.86	27.30	0.13
Fourth Quarter (through November 3, 2003)	39.25	34.75	

The closing price of our common stock on the NYSE on November 3, 2003 was $38.26 per share. There were approximately 5,054 stockholders of our common stock at October 24, 2003. The number of stockholders was determined by the number of record holders, including the number of individual participants, in security position listings.

There are no contractual restrictions on the payment of dividends by Westcorp. However, the Bank is restricted by its outstanding subordinated debentures and by regulations of the OTS as to the amount of funds that can be transferred to us in the form of dividends. On September 30, 2003, under the most restrictive of these terms, the maximum dividend that the Bank could have paid was $192 million.

Any future determination as to the payment of dividends on our common stock will be restricted by these limitations, will be at the discretion of our board of directors and will depend on our results of operations, financial condition, capital requirements and other factors deemed relevant by the board of directors, including the General Corporation Law of the State of California, which provides that dividends are only payable out of surplus or current net profits.

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CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2003 on an actual basis and on an as adjusted basis to reflect the sale of the 5,300,000 shares of common stock offered hereby at an assumed public offering price of $38.26 per share, which was the closing price of our common stock on the NYSE on November 3, 2003, and application of the net proceeds therefrom as described under Use of Proceeds.

	September 30, 2003	
	Actual	**As Adjusted**
	(Dollars in thousands)	
Cash and cash equivalents	$ 182,963	$ 376,963
Deposits	$ 1,969,134	$ 1,969,134
Notes payable(1)	10,746,885	10,746,885
Total deposits and notes payable	12,716,019	12,716,019
Subordinated debentures	394,494	394,494
Total debt	13,110,513	13,110,513
Shareholders equity:		
Common stock, par value $1.00 per share; authorized 65,000,000 shares; issued and outstanding 45,402,592 shares, actual; issued and outstanding 50,702,592 shares, as adjusted	45,403	50,703
Paid-in capital	508,775	697,475
Retained earnings	394,315	394,315
Accumulated other comprehensive loss, net of tax	(89,140)	(89,140)
Total shareholders equity	859,353	1,053,353
Total capitalization	$ 13,969,866	$ 14,163,866

(1) Includes secured financings of automobile contracts, FHLB advances and other borrowings.

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SELECTED FINANCIAL DATA

Our selected balance sheet and operating data for the years ended December 31, 2002, 2001 and 2000 have been derived from our audited consolidated financial statements. Certain amounts from the prior year consolidated financial statements have been reclassified to conform to the 2003 presentation. The selected balance sheet data at September 30, 2003 and 2002 and the operating data for the nine months ended September 30, 2003 and 2002 have been derived from our unaudited consolidated financial statements. In the opinion of management, the unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all normal recurring adjustments necessary for the fair presentation of financial position and results of operations for those periods.

The selected financial data set forth below should be read in conjunction with our consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included or incorporated by reference elsewhere herein including the impact of changing the structure of our securitizations from sale transactions to secured financings. The financial data is qualified in its entirety by the more detailed financial information contained elsewhere or incorporated by reference herein. Information regarding our compliance with applicable regulatory capital requirements is included in this prospectus under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Capital Requirements.

	For the Nine Months Ended September 30,		For the Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
	(Dollars in thousands, except per share amounts)						
Consolidated Summary of Operations:							
Interest income	$928,336	$841,210	$1,142,940	$962,627	$583,821	$297,616	$272,166
Interest expense	407,257	393,156	530,916	491,944	313,872	152,788	161,713
Net interest income	521,079	448,054	612,024	470,683	269,949	144,828	110,453
Provision for credit losses	221,071	209,043	306,233	196,977	82,133	38,400	18,960
Net interest income after provision for credit losses	300,008	239,011	305,791	273,706	187,816	106,428	91,493
Noninterest income	83,316	64,301	90,430	78,899	177,884	212,138	128,654
Noninterest expense(1)	207,840	187,841	251,306	244,871	220,973	217,958	248,390
Income (loss) before income tax (benefit)	175,484	115,471	144,915	107,734	144,727	100,608	(28,243)
Income tax (benefit)	69,544	44,974	52,044	41,675	58,132	41,460	(11,330)
Income (loss) before minority interest	105,940	70,497	92,871	66,059	86,595	59,148	(16,913)
Minority interest in earnings (loss) of subsidiaries	21,453	10,263	13,153	10,369	11,852	6,522	(2,216)