

CENTRAL FEDERAL CORP  
Form 10-Q  
November 12, 2015  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2015

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-25045

CENTRAL FEDERAL CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware 34-1877137  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

7000 North High St., Worthington, Ohio 43085

(Address of principal executive offices) (Zip Code)

(614) 334-7979

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 12, 2015, there were 16,033,710 shares of the registrant's Common Stock outstanding.

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## CENTRAL FEDERAL CORPORATION

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## CENTRAL FEDERAL CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share data)

	September 30, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 20,101	\$ 28,207
Interest-bearing deposits in other financial institutions	494	494
Securities available for sale	11,573	10,445
Loans held for sale, at fair value	673	3,505
Loans, net of allowance of \$6,522 and \$6,316	283,434	257,085
FHLB stock	1,942	1,942
Foreclosed assets, net	1,636	1,636
Premises and equipment, net	3,657	3,775
Bank owned life insurance	4,763	4,665
Accrued interest receivable and other assets	3,169	3,834
Total assets	\$ 331,442	\$ 315,588
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits		
Noninterest bearing	\$ 29,664	\$ 37,035
Interest bearing	244,150	221,280
Total deposits	273,814	258,315
FHLB advances	14,500	14,500
Advances by borrowers for taxes and insurance	311	401
Accrued interest payable and other liabilities	2,537	2,708
Subordinated debentures	5,155	5,155
Total liabilities	296,317	281,079
Commitments and Contingent Liabilities	-	-
Stockholders' equity		
Common stock, \$.01 par value; shares authorized: 50,000,000; shares issued: 15,935,417 in 2015 and 2014	159	159
Series B Preferred stock, \$.01 par value; 480,000 shares authorized; 480,000 issued at September 30, 2015 and December 31, 2014	5	5
Additional paid-in capital	59,879	59,696
Accumulated deficit	(21,752)	(22,157)
Accumulated other comprehensive income	79	51

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Treasury stock, at cost; 111,707 shares of common stock	(3,245)	(3,245)
Total stockholders' equity	35,125	34,509
Total liabilities and stockholders' equity	\$ 331,442	\$ 315,588

See accompanying notes to consolidated financial statements.

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## CENTRAL FEDERAL CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except per share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Interest and dividend income				
Loans, including fees	\$ 3,073	\$ 2,848	\$ 9,063	\$ 7,372
Securities	31	38	100	124
FHLB stock dividends	19	19	58	58
Federal funds sold and other	16	14	49	46
	3,139	2,919	9,270	7,600
Interest expense				
Deposits	585	400	1,628	1,123
FHLB advances and other debt	59	41	174	112
Subordinated debentures	41	41	122	124
	685	482	1,924	1,359
Net interest income	2,454	2,437	7,346	6,241
Provision for loan losses	50	75	200	203
Net interest income after provision for loan losses	2,404	2,362	7,146	6,038
Noninterest income				
Service charges on deposit accounts	127	99	359	308
Net gains on sales of loans	64	207	357	356
Net gain (loss) on sales of securities	-	-	(12)	-
Earnings on bank owned life insurance	33	33	98	97
Other	100	107	341	288
	324	446	1,143	1,049
Noninterest expense				
Salaries and employee benefits	1,167	1,177	3,604	3,331
Occupancy and equipment	129	138	402	431
Data processing	269	223	786	654
Franchise and other taxes	79	51	240	150
Professional fees	230	317	676	871
Director fees	33	39	99	64
Postage, printing and supplies	41	49	171	190
Advertising and promotion	35	36	125	40
Telephone	30	31	86	83
Loan expenses	110	12	153	27
Foreclosed assets, net	18	167	92	248
Depreciation	53	57	157	179
FDIC premiums	106	105	313	269



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Regulatory assessment	30	42	128	120
Other insurance	30	30	91	99
Other	38	48	118	161
	2,398	2,522	7,241	6,917
Income (loss) before incomes taxes	330	286	1,048	170
Income tax expense	-	-	-	-
Net income (loss)	330	286	1,048	170
Dividends on Series B preferred stock and accretion of discount	(214)	(174)	(643)	(233)
Earnings (loss) attributable to common stockholders	\$ 116	\$ 112	\$ 405	\$ (63)
Earnings (loss) per common share:				
Basic	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.00
Diluted	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.00

See accompanying notes to consolidated financial statements.

## CENTRAL FEDERAL CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands except per share data)

(Unaudited)

	Three months ended September 30, 2015		Nine months ended September 30, 2015	
	2014	2015	2014	2015
Net income		\$ 330	\$ 286	\$ 1,048
Other comprehensive income (loss):				
Unrealized holding gains (losses) arising during the period related to investment securities available for sale:				
Unrealized net gains (losses)	5	(7)	16	(31)
Related income tax expense	-	-	-	-
Net unrealized gains (losses)	5	(7)	16	(31)
Less: reclassification adjustment for net losses realized during the period on investment securities available for sale:				
Realized net losses	-	-	12	-
Related income tax expense	-	-	-	-
Net realized losses	-	-	12	-
Other comprehensive income (loss)	5	(7)	28	(31)
Comprehensive income	\$ 335	\$ 279	\$ 1,076	\$ 139

See accompanying notes to consolidated financial statements.

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## CENTRAL FEDERAL CORPORATION

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands except per share data)

(Unaudited)

				Accumulated			
	Common	Series B Preferred Stock	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2015	\$ 159	\$ 5	\$ 59,696	\$ (22,157)	\$ 51	\$ (3,245)	\$ 34,509
Net income (loss)				1,048			1,048
Other comprehensive income (loss)					28		28
Stock option expense, net of forfeitures			102				102
Cash dividends declared on Series B preferred stock and accretion of discount			81	(643)			(562)
Balance at September 30, 2015	\$ 159	\$ 5	\$ 59,879	\$ (21,752)	\$ 79	\$ (3,245)	\$ 35,125

				Accumulated			
	Common	Series B Preferred Stock	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2014	\$ 159	\$ -	\$ 48,067	\$ (22,215)	\$ 98	\$ (3,245)	\$ 22,864

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Net income (loss)				170				170
Other comprehensive income (loss)						(31)		(31)
Stock option expense, net of forfeitures			218					218
Cash dividends declared on Series B preferred stock and accretion of discount					(233)			(233)
Issuance of 480,000 shares Series B preferred stock at \$.01 par value, net of \$631 in offering expenses		3	11,366					11,369
Balance at September 30, 2014	\$ 159	\$ 3	\$ 59,651	\$ (22,278)	\$ 67	\$ (3,245)	\$	\$ 34,357

See accompanying notes to consolidated financial statements.

## CENTRAL FEDERAL CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine months ended September 30,	
	2015	2014
Net Income	\$ 1,048	\$ 170
Adjustments to reconcile net loss to net cash from operating activities:		
Provision for loan losses	200	203
Depreciation	157	179
Amortization, net	36	169
Net loss on sales of securities	12	-
Originations of loans held for sale	(40,032)	(40,280)
Proceeds from sale of loans held for sale	44,054	38,061
Net gains on sales of loans	(357)	(356)
Earnings on bank owned life insurance	(98)	(97)
Stock-based compensation expense	102	218
Net change in:		
Accrued interest receivable and other assets	665	350
Accrued interest payable and other liabilities	(171)	(52)
Net cash from (used in) operating activities	5,616	(1,435)
Cash flows from investing activities		
Net (increase) decrease in interest-bearing deposits in other financial institutions	-	1,240
Available-for-sale securities:		
Maturities, prepayments and calls	3,403	1,398
Purchases	(4,573)	-
Loan originations and payments, net	(31,440)	(41,274)
Proceeds from the sale of loans	4,099	-
Additions to premises and equipment	(38)	(456)
Net cash used by investing activities	(28,549)	(39,092)
Cash flows from financing activities		
Net change in deposits	15,479	42,630
Net change in short-term borrowings from the FHLB and other debt	-	(6,526)
Proceeds from long-term FHLB advances and other debt	2,500	12,000
Repayments on long-term FHLB advances and other debt	(2,500)	(7,500)
Net change in advances by borrowers for taxes and insurance	(90)	(363)
Cash dividends paid on Series B preferred stock	(562)	(59)
Net proceeds from issuance of Series B preferred stock	-	11,369

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Net cash from financing activities	14,827	51,551
Net change in cash and cash equivalents	(8,106)	11,024
Beginning cash and cash equivalents	28,207	19,160
Ending cash and cash equivalents	\$ 20,101	\$ 30,184
Supplemental cash flow information:		
Interest paid	\$ 1,926	\$ 1,084
Supplemental noncash disclosures:		
Loans transferred from held for sale to portfolio	\$ 834	-
Loans transferred from portfolio to held for sale	1,561	-
Dividends payable on Series B preferred stock	187	174

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The consolidated financial statements include Central Federal Corporation (the “Holding Company”) and its wholly-owned subsidiary, CFBank. The Holding Company and CFBank are sometimes collectively referred to herein as the “Company”. Intercompany transactions and balances are eliminated in consolidation. The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) and in compliance with U.S. generally accepted accounting principles (GAAP). Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted.

In the opinion of the management of the Company, the accompanying unaudited interim consolidated financial statements include all adjustments necessary for a fair presentation of the Company’s financial condition and the results of operations for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The financial performance reported for the Company for the three and nine months ended September 30, 2015 is not necessarily indicative of the results that may be expected for the full year. This information should be read in conjunction with the Company’s latest Annual Report to Stockholders and Form 10-K. Reference is made to the accounting policies of the Company described in Note 1 to the Audited Consolidated Financial Statements contained in the Company’s 2014 Annual Report that was filed as Exhibit 13.1 to the Company’s Form 10-K for the year ended December 31, 2014 (referred to herein as the “2014 Audited Financial Statements”). The Company has consistently followed those policies in preparing this Form 10-Q.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, adjusted for purchase premiums and discounts, deferred loan fees and costs and an allowance for loan losses (ALLL). Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level yield method without anticipating prepayments.

The accrual of interest income on all classes of loans, except other consumer loans, is discontinued and the loan is placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Other consumer loans are typically charged off no later than 90 days past due. Past due status is based on the contractual terms of the loan for all classes of loans. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Commercial loans, multi-family residential real estate loans and commercial real estate loans placed on nonaccrual status are individually classified as impaired loans.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income in the period in which the loan is placed in a nonaccrual status. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual status. Loans are considered for return to accrual status if and when all the principal and interest amounts that are contractually due are brought current, there is a current and well documented credit analysis, there is reasonable assurance of repayment of principal and interest, and the



customer has demonstrated sustained, amortizing payment performance of at least six months.

Allowance for Loan Losses (ALLL): The ALLL is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that CFBank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans within any loan class for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and classified as impaired.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Factors considered by management in determining impairment for all loan classes include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

All loans within the commercial, multi-family residential and commercial real estate segments, regardless of size, and loans of all other classes with balances over \$250 are individually evaluated for impairment when they are 90 days past due, or earlier than 90 days past due if information regarding the payment capacity of the borrower indicates that payment in full according to the loan terms is doubtful. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate, or at the fair value of collateral, less costs to sell, if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and single-family residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

TDRs of all classes of loans are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. If the payment of the loan is dependent on the sale of the collateral, then costs to liquidate the collateral are included when determining the impairment. For TDRs that subsequently default, the amount of reserve is determined in accordance with the accounting policy for the ALLL.

Interest income on all classes of impaired loans that are on nonaccrual status is recognized in accordance with the accounting policy on nonaccrual loans. Cash receipts on all classes of impaired loans that are on nonaccrual status are generally applied to the principal balance outstanding. Interest income on all classes of impaired loans that are not on nonaccrual status is recognized on the accrual method. TDRs may be classified as accruing if the borrower has been current for a period of at least six months with respect to loan payments and management expects that the borrower will be able to continue to make payments in accordance with the terms of the restructured loan.

The general reserve component covers non-impaired loans of all classes and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by loan class and is based on the actual loss history experienced by CFBank over a three-year period. The general component is calculated based on CFBank's loan balances and actual three-year historical loss rates. For loans with little or no actual loss experience, industry estimates are used based on loan segment. This actual loss experience is supplemented with other economic and judgmental factors based on the risks present for each loan class. These economic and judgmental factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

CFBank's charge-off policy for commercial loans, single-family residential real estate loans, multi-family residential real estate loans, commercial real estate loans, construction loans and home equity lines of credit requires management to record a specific reserve or charge-off as soon as it is apparent that the borrower is troubled and there is, or likely will be, a collateral shortfall related to the estimated value of the collateral securing the loan. Other consumer loans are typically charged off no later than 90 days past due.

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## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Earnings (Loss) Per Common Share: The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common stockholders for the period are allocated between common stockholders and participating securities (unvested share-based payment awards) according to dividends declared (or accumulated) and participation rights in undistributed earnings. The factors used in the earnings per share computation follow:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
<b>Basic</b>				
Net earnings (loss)	\$ 330	\$ 286	\$ 1,048	\$ 170
Dividends on Series B preferred stock and accretion of discount	(214)	(174)	(643)	(233)
Earnings (loss) allocated to common stockholders	\$ 116	\$ 112	\$ 405	\$ (63)
<b>Weighted average common shares outstanding</b>				
including unvested share-based payment awards	15,823,710	15,823,710	15,823,710	15,823,710
Less: Unvested share-based payment awards	-	-	-	-
Average shares	15,823,710	15,823,710	15,823,710	15,823,710
Basic earnings (loss) per common share (1)	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.00
<b>Diluted</b>				
Net earnings (loss) allocated to common stockholders	\$ 116	\$ 112	\$ 405	\$ (63)
<b>Weighted average common shares outstanding for</b>				
basic loss per common share	15,823,710	15,823,710	15,823,710	15,823,710
Add: Dilutive effects of assumed exercises of stock options	8,396	7,444	9,441	-
Add: Dilutive effects of assumed exercises of stock warrants	-	-	-	-
Average shares and dilutive potential common shares	15,832,106	15,831,154	15,833,151	15,823,710
Diluted earnings (loss) per common share (2)	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.00

(1) Basic earnings (loss) per share is less than \$0.01 per share for the nine months ended September 30, 2014

(2) Diluted earnings (loss) per share is less than \$0.01 per share for the nine months ended September 30, 2014

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The following securities exercisable for or convertible into common shares were anti-dilutive and not considered in computing diluted earnings (loss) per common share.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Stock options	417,529	614,552	432,178	621,996
Series B preferred stock	6,857,143	6,857,143	6,857,143	6,857,143
Stock warrants	1,152,125	1,152,125	1,152,125	1,152,125

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Adoption of New Accounting Standards:

In January 2014, the FASB issued Accounting Standards Update (“ASU” or “Update”) 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (January 2014). This Update permits entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The ASU modifies the conditions that an entity must meet to be eligible to use a method other than the equity or cost methods to account for qualified affordable housing project investments. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The amendments in this Update should be applied retrospectively to all periods presented. Adoption of the ASU did not have a significant effect on the Company’s consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (January 2014). The objective of this Update is to reduce diversity by clarifying when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The amendments in this Update may be adopted using either a modified retrospective transition method or a prospective transition method. Adoption of the ASU did not have a significant effect on the Company’s consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (April 2014). This Update seeks to better define the groups of assets which qualify for discontinued operations, in order to ease the burden and cost for preparers and stakeholders. This Update changed “the criteria for reporting discontinued operations” and related reporting requirements, including the provision for disclosures about the “disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation.” The amendments in this Update are effective for fiscal years beginning after December 15, 2014. Early adoption is permitted only for disposals or classifications as held for sale. The Company has adopted the methodologies prescribed by this ASU by the date required. Adoption of the ASU did not have a significant effect on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (May 2014). The topic of Revenue Recognition had become broad with several other regulatory agencies issuing standards, which lacked cohesion. The new guidance establishes a “comprehensive framework” and “reduces the number of requirements to which an entity must consider in recognizing revenue” and yet provides improved disclosures to assist stakeholders reviewing financial statements. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2017. Early adoption is not permitted. The Company will adopt the methodologies prescribed by this ASU by the date required. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (June 2014). This Update addresses the concerns of

stakeholders by changing the accounting practices surrounding repurchase agreements. The new guidance changes the “accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements.” The amendments in this Update are effective for annual reporting periods beginning after December 15, 2014. Early adoption is prohibited. The Company has adopted the methodologies prescribed by this ASU by the date required. Adoption of the ASU did not have a significant effect on the Company's consolidated financial statements.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

In June 2014, the FASB issued ASU 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (June 2014). This Update defines the accounting treatment for share-based payments and “resolves the diverse accounting treatment of those awards in practice.” The new requirement mandates that “a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition.” Compensation cost will now be recognized in the period in which it becomes likely that the performance target will be met. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The Company will adopt the methodologies prescribed by this ASU by the date required. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

The FASB has issued ASU No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under Generally Accepted Accounting Principles (GAAP), financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

COSO's Internal Control Framework has been updated and enhanced. Since its release in 1992, COSO's Internal Control – Integrated Framework has been widely accepted and adopted around the world. The updated framework, issued on May 14, 2013, maintains the fundamental elements of the original: five components of an internal control system—control environment, risk assessment, control activities, information and communication—and monitoring activities supporting three categories of objectives: effectiveness and efficiency of operations, reliability of reporting and compliance with applicable laws and regulations, structured through management's judgment. The five components are evaluated through principles and recommended points of focus. A significant enhancement, however, is the expansion of the reporting objective to include nonfinancial and internal reporting objectives. The mandatory principles have been updated to reflect today's business environment—an environment of increased governance, regulatory and compliance demands and increased use of technology and complex business models. The original framework still may be used through December 15, 2014; beyond that date, COSO will consider the original framework obsolete. Adoption of the updated COSO Integrated Framework is not expected to have a material effect on the Company's internal control environment or financial reporting.

General Litigation



The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

#### Reclassifications

Reclassification of certain amounts in the 2014 consolidated financial statements have been made to conform to the 2015 presentation.

#### NOTE 2- REGULATORY ORDER CONSIDERATIONS

Regulatory Order Considerations: On May 25, 2011, the Holding Company and CFBank each consented to the issuance of an Order to Cease and Desist (the "Holding Company Order" and the "CFBank Order", respectively, and collectively, the "Orders") by the Office of Thrift Supervision (the "OTS"), the primary regulator of the Holding Company and CFBank at the time the Orders were issued. In July 2011, in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Federal Reserve Board (the "FRB") replaced the OTS as the primary regulator of the Holding Company and the Office of the Comptroller of the Currency (the "OCC") replaced the OTS as the primary regulator of CFBank.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The Orders imposed significant directives applicable to the Holding Company and CFBank, including requirements that we reduce the level of our classified and criticized assets, achieve growth and operating metrics in line with an approved business plan, and comply with restrictions on brokered deposits and on certain types of lending and prohibitions on dividends and repurchases of our capital stock. The CFBank Order required CFBank to have 8% core capital and 12% total risk-based capital, and CFBank could not be considered well-capitalized under the prompt corrective action regulations so long as the CFBank Order remained in place, even if it met or exceeded these capital levels. In addition, the regulators were required to approve any deviation from our business plan and certain compensation arrangements with directors and executive officers.

Effective as of January 23, 2014, the OCC released and terminated the CFBank Order based upon the improved capital position of CFBank, among other factors. Notwithstanding the release of the CFBank Order, CFBank is required to continue to maintain a minimum Tier 1 Leverage Capital Ratio of 8% and a Total Risk-based Capital to Risk-Weighted Assets ratio of 12%. In addition, in connection with the release and termination of the CFBank Order, CFBank has made certain commitments to the OCC to continue to adhere to certain prudent practices, including, without limitation, maintaining a written program to continue to improve CFBank's credit underwriting and administrative process; take actions to protect its interest in criticized assets as identified by CFBank, the OCC examiners or its external loan review process; implement its written program to effectively identify, monitor, control and continue to reduce the level of credit risk to CFBank; review and monitor progress against such plan with the Board of Directors; and continue CFBank's aggressive workout efforts and individualized workout plans on all criticized assets greater than \$250,000.

On May 15, 2014, the FRB announced the termination of the Holding Company Order, effective as of May 9, 2014. Notwithstanding the termination of the Holding Company Order, the Holding Company is required to continue to adhere to certain requirements and restrictions based on commitments made to the FRB in connection with the termination of the Holding Company Order. These commitments require the Holding Company, among other things, to continue to implement certain actions in accordance with the capital plan previously submitted to the FRB; not declare or pay dividends on its stock, purchase or redeem its stock, or accept dividends or other capital distributions from CFBank without the prior written approval of the FRB; not incur, increase or guarantee any debt without the prior written consent of the FRB; and provide prior written notice to the FRB with respect to certain changes in directors and senior executive officers.

The significant directives contained in the Orders and the commitments made by CFBank and the Holding Company in connection with the release and termination of the Orders have provided challenges for the operation of our business and our ability to effectively compete in our markets. In addition, the Orders and our ongoing commitments to the regulators have required that we obtain approval from our regulators for any deviations from our business plan, which has limited our flexibility to make changes to the scope of our business activities.

Under the terms of the Holding Company Order, the Holding Company was prohibited from declaring or paying any dividends on its stock, repurchasing any of its stock, or making any capital contributions to CFBank except with the prior approval of the FRB. In accordance with the commitments made by the Holding Company in connection with the release and termination of the Holding Company Order, the Holding Company remains subject to such restrictions and, therefore, must continue to obtain the prior approval of the FRB before making any future dividends on its common stock or Series B Preferred Stock. The Holding Company received prior approval from the FRB for the

payment of a quarterly cash dividend on its Series B Preferred Stock for the quarter ended September 30, 2015 in the aggregate amount of \$187 (which dividend was paid in October 2015) and in the aggregate amount of \$187 for the quarter ended September 30, 2014 (which dividend was paid in October 2014). The Holding Company also received prior approval from the FRB for the payment of quarterly cash dividends on its Series B Preferred Stock in each of the previous quarters commencing with the first dividend payment on July 15, 2014. See Note 8 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information regarding the restrictions applicable to the payment of the dividends by the Holding Company and CFBank.

We have taken such actions as we believe are necessary to comply with all requirements of the Orders and the other regulatory requirements and commitments to which we are subject, and we continue to work toward ensuring compliance with those regulatory requirements and commitments to which we continue to be subject.

## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

## NOTE 3 – SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at September 30, 2015 and December 31, 2014 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
Corporate debt	\$ 1,000	\$ -	\$ -	\$ 1,000
State and municipal	-	-	-	-
Issued by U.S. government-sponsored entities and agencies:				
U.S. Treasury	9,585	43	-	9,628
Mortgage-backed securities - residential	503	21	-	524
Collateralized mortgage obligations	406	15	-	421
Total	\$ 11,494	\$ 79	\$ -	\$ 11,573

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014				
Corporate debt	\$ 2,932	\$ 5	\$ 1	\$ 2,936
State and municipal	897	-	11	886
Issued by U.S. government-sponsored entities and agencies:				
U.S. Treasury	5,018	-	7	5,011
Mortgage-backed securities - residential	687	40	-	727
Collateralized mortgage obligations	860	25	-	885
Total	\$ 10,394	\$ 70	\$ 19	\$ 10,445

There was no other-than-temporary impairment recognized in accumulated other comprehensive income (loss) for securities available for sale at September 30, 2015 or September 30, 2014.

There were no sales of securities for the three and nine months ended September 30, 2015 or September 30, 2014; however, there was an early redemption of a municipal security during the first quarter of 2015 which is reflected in net gain (loss) on sales of securities.

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## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The amortized cost and fair value of debt securities at September 30, 2015 are shown in the table below by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	September 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 2,000	\$ 2,001	\$ 4,829	\$ 4,821
Due from one to five years	8,585	8,627	4,018	4,012
Mortgage-backed securities	503	524	687	727
Collateralized mortgage obligations	406	421	860	885
Total	\$ 11,494	\$ 11,573	\$ 10,394	\$ 10,445

Fair value of securities pledged was as follows:

	September 30, 2015	December 31, 2014
Pledged as collateral for:		
FHLB advances	\$ 3,643	\$ 4,208
Public deposits	2,052	2,476
Interest-rate swaps	289	353
Total	\$ 5,984	\$ 7,037

At September 30, 2015 and December 31, 2014, there were no holdings of securities of any one issuer, other than U.S. government-sponsored entities and agencies, in an amount greater than 10% of stockholders' equity.



## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The following table summarizes securities with unrealized losses at September 30, 2015 and December 31, 2014 aggregated by major security type and length of time in a continuous unrealized loss position.

September 30, 2015	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Description of Securities						
Corporate debt (1)	\$ 1,000	\$ -	\$ -	\$ -	\$ 1,000	\$ -
State and municipal	-	-	-	-	-	-
Issued by U.S. government-sponsored entities and agencies:						
U.S. Treasury (1)	501	-	-	-	501	-
Total temporarily impaired	\$ 1,501	\$ -	\$ -	\$ -	\$ 1,501	\$ -

(1) Securities with an unrealized loss were less than \$1 resulting in rounding to zero.

December 31, 2014	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Description of Securities						
Corporate debt	\$ 1,259	\$ 1	\$ -	\$ -	\$ 1,259	\$ 1
State and municipal	-	-	886	11	886	11
Issued by U.S. government-sponsored entities and agencies:						
U.S. Treasury	5,011	7	-	-	5,011	7
Total temporarily impaired	\$ 6,270	\$ 8	\$ 886	\$ 11	\$ 7,156	\$ 19

The unrealized losses in Corporate debt and U.S Treasuries at September 30, 2015 are related to two securities. The unrealized losses in Corporate debt, State and municipal securities and U.S. Treasuries at December 31, 2014 are related to multiple securities. Because the decline in fair value is attributable to changes in market conditions, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not



be required to sell these securities before their anticipated recovery, the Company did not consider these securities to be other-than-temporarily impaired at September 30, 2015 and December 31, 2014.

## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

## NOTE 4 – LOANS

The following table presents the recorded investment in loans by portfolio segment. The recorded investment in loans includes the principal balance outstanding adjusted for purchase premiums and discounts, and deferred loan fees and costs.

	September 30, 2015	December 31, 2014
Commercial	\$ 43,527	\$ 46,532
Real estate:		
Single-family residential	72,993	51,445
Multi-family residential	30,552	28,790
Commercial	89,950	91,119
Construction	25,573	23,641
Consumer:		
Home equity lines of credit	21,097	16,898
Other	6,264	4,976
Subtotal	289,956	263,401
Less: ALLL	(6,522)	(6,316)
Loans, net	\$ 283,434	\$ 257,085

## Mortgage Purchase Program

CFBank has participated in a Mortgage Purchase Program with Northpointe Bank (Northpointe), a Michigan banking corporation, since December 2012. Pursuant to the terms of a participation agreement, CFBank purchases participation interests in loans made by Northpointe related to fully underwritten and pre-sold mortgage loans originated by various prescreened mortgage brokers located throughout the U.S. The underlying loans are individually (MERS registered) loans which are held until funded by the end investor. The mortgage loan investors include Fannie Mae and Freddie Mac, and other major financial institutions such as Wells Fargo Bank. This process on average takes approximately 14 days. Given the short-term holding period of the underlying loans, common credit risks (such as past due, impairment and TDR, nonperforming, and nonaccrual classification) are substantially reduced. Therefore, no allowance is allocated by CFBank to these loans. These purchased loans are classified as portfolio loans. These loans are 100% risk rated for CFBank capital adequacy purposes. Northpointe maintains an ownership interest in each loan it participates. Effective December 18, 2014, the participation agreement was amended and CFBank agreed to increase the level of interest in loans it purchases from Northpointe from 80% to 95% of the aforementioned loans, and therefore, Northpointe now maintains a 5% (reduced from 20%) ownership interest

in each loan it participates. At September 30, 2015 and December 31, 2014, CFBank held \$38,850 and \$24,996, respectively, of such loans which have been included in single-family residential loan totals above.

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## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

## Allowance for Loan Losses

The ALLL is a valuation allowance for probable incurred credit losses in the loan portfolio based on management's evaluation of various factors including past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. A provision for loan losses is charged to operations based on management's periodic evaluation of these and other pertinent factors described in Note 1 to the 2014 Audited Financial Statements.

The following tables present the activity in the ALLL by portfolio segment for the three and nine months ended September 30, 2015:

	Three months ended September 30, 2015					Consumer Home Equity lines of credit		Other	Total
	Real Estate			Commercial	Construction				
	Commercial	Single-family	Multi-family						
Beginning balance	\$ 1,394	\$ 658	\$ 754	\$ 2,372	\$ 722	\$ 470	\$ 110	\$ 6,480	
Addition to (reduction in) provision for loan losses	(121)	6	(4)	276	(120)	17	(4)	50	
Charge-offs	-	(9)	-	-	-	-	-	(9)	
Recoveries	-	-	-	(3)	-	4	-	1	
Ending balance	\$ 1,273	\$ 655	\$ 750	\$ 2,645	\$ 602	\$ 491	\$ 106	\$ 6,522	

	Nine months ended September 30, 2015					Consumer Home Equity lines of credit		Other	Total
	Real Estate			Commercial	Construction				
	Commercial	Single-family	Multi-family						
Beginning balance	\$ 1,394	\$ 658	\$ 754	\$ 2,372	\$ 722	\$ 470	\$ 110	\$ 6,480	
Addition to (reduction in) provision for loan losses	(121)	6	(4)	276	(120)	17	(4)	50	
Charge-offs	-	(9)	-	-	-	-	-	(9)	
Recoveries	-	-	-	(3)	-	4	-	1	
Ending balance	\$ 1,273	\$ 655	\$ 750	\$ 2,645	\$ 602	\$ 491	\$ 106	\$ 6,522	

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Beginning balance	\$ 1,346	\$ 634	\$ 818	\$ 2,541	\$ 442	\$ 441	\$ 94	\$ 6,316
Addition to (reduction in) provision for loan losses	(90)	60	(68)	96	160	26	16	200
Charge-offs	(8)	(40)	-	(25)	-	-	(10)	(83)
Recoveries	25	1	-	33	-	24	6	89
Ending balance	\$ 1,273	\$ 655	\$ 750	\$ 2,645	\$ 602	\$ 491	\$ 106	\$ 6,522

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## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The following tables present the activity in the ALLL by portfolio segment for the three and nine months ended September 30, 2014:

	Three months ended September 30, 2014					Consumer		Total
	Real Estate			Commercial	Construction	Home Equity lines of credit	Other	
	Commercial	Single-family	Multi-family					
Beginning balance	\$ 1,605	\$ 196	\$ 1,211	\$ 2,231	\$ 474	\$ 113	\$ 41	\$ 5,871
Addition to (reduction in) provision for loan losses	174	179	(147)	(88)	(103)	49	11	75
Charge-offs	(18)	-	-	-	-	-	-	(18)
Recoveries	-	1	-	320	-	7	-	328
Ending balance	\$ 1,761	\$ 376	\$ 1,064	\$ 2,463	\$ 371	\$ 169	\$ 52	\$ 6,256

	Nine months ended September 30, 2014					Consumer		Total
	Real Estate			Commercial	Construction	Home Equity lines of credit	Other	
	Commercial	Single-family	Multi-family					
Beginning balance	\$ 1,759	\$ 120	\$ 1,262	\$ 2,325	\$ 119	\$ 139	\$ 5	\$ 5,729
Addition to (reduction in) provision for loan losses	17	254	(198)	(188)	252	21	45	203
Charge-offs	(18)	-	-	(2)	-	(9)	-	(29)
Recoveries	3	2	-	328	-	18	2	353
Ending balance	\$ 1,761	\$ 376	\$ 1,064	\$ 2,463	\$ 371	\$ 169	\$ 52	\$ 6,256



CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The following table presents the balance in the ALLL and the recorded investment in loans by portfolio segment and based on the impairment method as of September 30, 2015:

Real Estate		Consumer				Total
Commercial	Multi-family	Commercial	Construction	Home Equity lines of credit	Other	