

CENTRAL FEDERAL CORP  
Form 10-Q  
August 07, 2013  
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 June 30, 2013

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.)

2923 Smith Road, Fairlawn, Ohio 44333

(Address of principal executive offices) (Zip Code)

(330) 666-7979

(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 May 15, 2013, there were 15,823,710 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)

	June 30, 2013 (unaudited)	December 31, 2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 33,197	\$ 25,152
Interest-bearing deposits in other financial institutions	2,726	2,726
Securities available for sale	12,155	17,639
Loans held for sale	629	623
Loans, net of allowance of \$6,065 and \$5,237	179,877	153,043
FHLB stock	1,942	1,942
Foreclosed assets, net	1,538	1,525
Premises and equipment, net	5,252	5,317
Assets held for sale	167	167
Other intangible assets	30	49
Bank owned life insurance	4,470	4,405
Accrued interest receivable and other assets	2,631	2,447
	\$ 244,614	\$ 215,035
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Deposits</b>		
Noninterest bearing	\$ 23,536	\$ 18,008
Interest bearing	181,143	155,500
Total deposits	204,679	173,508
FHLB advances	10,000	10,000
Advances by borrowers for taxes and insurance	187	241
Accrued interest payable and other liabilities	2,285	2,488
Subordinated debentures	5,155	5,155
Total liabilities	222,306	191,392
<b>Stockholders' equity</b>		
Common stock, \$.01 par value, shares authorized; 50,000,000 shares issued; 15,935,417 in 2013 and 15,936,417 in 2012	159	159
Additional paid-in capital	47,958	47,919
Accumulated deficit	(22,661)	(21,297)
Accumulated other comprehensive income	97	107
Treasury stock, at cost; 111,707 shares	(3,245)	(3,245)
Total stockholders' equity	22,308	23,643

\$ 244,614      \$ 215,035

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		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Interest and dividend income				
Loans, including fees	\$ 1,734	\$ 1,769	\$ 3,330	\$ 3,660
Securities	43	58	103	121
FHLB stock dividends	20	21	41	43
Federal funds sold and other	37	41	71	81
	1,834	1,889	3,545	3,905
Interest expense				
Deposits	421	557	829	1,150
Long-term FHLB advances and other debt	77	81	153	190
Subordinated debentures	42	45	83	92
	540	683	1,065	1,432
Net interest income	1,294	1,206	2,480	2,473
Provision for loan losses	324	200	650	400
Net interest income after provision for loan losses	970	1,006	1,830	2,073
			-	-
Noninterest income				
Service charges on deposit accounts	83	58	156	117
Net gains on sales of loans	107	92	113	135
Loan servicing fees, net	-	5	-	13
Net gain on sales of securities	-	143	-	143
Earnings on bank owned life insurance	33	32	65	65
Other	46	10	68	25
	269	340	402	498
			-	-
Noninterest expense				
Salaries and employee benefits	961	953	1,853	1,944
Occupancy and equipment	84	59	159	133
Data processing	143	137	306	279
Franchise taxes	85	46	170	101
Professional fees	175	199	387	417



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Director fees	3	46	8	91
Postage, printing and supplies	69	56	127	104
Advertising and promotion	6	4	12	7
Telephone	21	16	37	33
Loan expenses	9	23	26	31
Foreclosed assets, net	1	188	(18)	206
Depreciation	53	62	107	129
FDIC premiums	36	142	147	298
Amortization of intangibles	10	10	19	20
Regulatory assessment	39	21	78	66
Other insurance	36	38	73	80
Other	62	30	105	55
	1,793	2,030	3,596	3,994
Income (loss) before incomes taxes	(554)	(684)	(1,364)	(1,423)
Income tax expense (benefit)	-	-	-	-
Net loss	(554)	(684)	(1,364)	(1,423)
Preferred stock dividends and accretion of discount on preferred stock	-	(111)	-	(221)
Earnings (loss) attributable to common stockholders	\$ (554)	\$ (795)	\$ (1,364)	\$ (1,644)
Earnings (loss) per common share:				
Basic	\$ (0.04)	\$ (0.96)	\$ (0.09)	\$ (1.99)
Diluted	\$ (0.04)	\$ (0.96)	\$ (0.09)	\$ (1.99)

See accompanying notes to consolidated financial statements.

## CENTRAL FEDERAL CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands except per share data)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net income (loss)	\$ (554)	\$ (684)	\$ (1,364)	\$ (1,423)
Other comprehensive income (loss):				
Change in unrealized holding gains (losses) on securities available for sale	(35)	(305)	(10)	(198)
Reclassification adjustment for gains realized in income	-	143	-	143
Net change in unrealized gains (losses)	(35)	(162)	(10)	(55)
Tax effect	-	-	-	-
Other comprehensive income (loss)	(35)	(162)	(10)	(55)
Comprehensive income (loss)	\$ (589)	\$ (846)	\$ (1,374)	\$ (1,478)

See accompanying notes to consolidated financial statements.



## CENTRAL FEDERAL CORPORATION

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands except per share data)

(Unaudited)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2013	\$ 159	\$ 47,919	\$ (21,297)	\$ 107	\$ (3,245)	\$ 23,643
Net loss			(1,364)			(1,364)
Other comprehensive Income (loss)				(10)		(10)
Release of 100 stock-based incentive plan shares, net of forfeitures		(6)				(6)
Stock option expense, net of forfeitures		56				56
Offering costs associated with issuance of common stock		(11)				(11)
Balance at June 30, 2013	\$ 159	\$ 47,958	\$ (22,661)	\$ 97	\$ (3,245)	\$ 22,308

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2012	\$ 7,120	\$ 9	\$ 27,837	\$ (22,163)	\$ 386	\$ (3,245)	\$ 9,944
Net loss				(1,423)			(1,423)
Other comprehensive income (loss)					(55)		(55)
Accretion of discount on preferred stock	27			(27)			-
Release of 600 stock-based incentive plan shares			7				7
			3				3

Stock option expense, net of forfeitures							
Preferred stock dividends				(194)			(194)
Balance at June, 2012	\$ 7,147	\$ 9	\$ 27,847	\$ (23,807)	\$ 331	\$ (3,245)	\$ 8,282

See accompanying notes to consolidated financial statements.

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## CENTRAL FEDERAL CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Six months ended June 30,	
	2013	2012
Net loss	\$ (1,364)	\$ (1,423)
Adjustments to reconcile net loss to net cash from operating activities:		
Provision for loan losses	650	400
Provision for losses on foreclosed assets	-	182
Valuation (gain) loss on mortgage servicing rights	-	(1)
Depreciation	107	129
Amortization, net	244	357
Net gains on sales of securitites	-	(143)
Originations of loans held for sale	(13,965)	(11,697)
Proceeds from sale of loans held for sale	14,071	11,360
Net gains on sales of loans	(113)	(135)
Loss on disposal of premises and equipment	-	4
Gain on sale of foreclosed assets	(21)	-
Earnings on bank owned life insurance	(65)	(65)
Stock-based compensation expense	50	10
Net change in:		
Accrued interest receivable and other assets	(190)	(667)
Accrued interest payable and other liabilities	(202)	705
Net cash from (used by) operating activities	(798)	(984)
Cash flows from investing activities		
Available-for-sale securities:		
Sales	-	2,144
Maturities, prepayments and calls	5,298	5,854
Purchases	-	(7,000)
Loan originations and payments, net	(27,572)	18,338
Additions to premises and equipment	(42)	(22)
Proceeds from the sale of foreclosed assets	68	-
Proceeds from mortgage insurance on foreclosed assets	14	29
Net cash from (used by) investing activities	(22,234)	19,343
Cash flows from financing activities		
Net change in deposits	31,142	(18,740)

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Net change in short-term borrowings from the FHLB and other debt	-	(5,742)
Net change in advances by borrowers for taxes and insurance	(54)	(104)
Cost associated with issuance of common stock	(11)	-
Net cash from (used by) financing activities	31,077	(24,586)
Net change in cash and cash equivalents	8,045	(6,227)
Beginning cash and cash equivalents	25,152	61,436
Ending cash and cash equivalents	\$ 33,197	\$ 55,209
Supplemental cash flow information:		
Interest paid	\$ 961	\$ 1,344
Supplemental noncash disclosures:		
Transfers from loans to repossessed assets	\$ 74	\$ 186
Loans transferred from held for sale to portfolio	-	(109)

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 subsidiaries, CFBank, Ghent Road, Inc., and Smith Ghent LLC (together with the Holding Company referred to as the Company). 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 six months ended June 30, 2013 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 of the Notes to Consolidated Financial Statements contained in the Company's 2012 Annual Report that was filed as Exhibit 13.1 to the Company's Form 10-K for the year ended December 31, 2012. The Company has consistently followed those policies in preparing this Form 10-Q.

Reclassifications and Reverse Stock Split: Some items in the prior period financial statements were reclassified to conform to the current presentation. Reclassifications did not impact prior period net loss or total stockholders' equity. On May 4, 2012, the Company completed a 1-for-5 reverse stock split, whereby every 5 shares of the Company's common stock were reclassified into one share of common stock. All share and per share amounts for all periods presented have been adjusted to reflect the reverse split as though it had occurred prior to the earliest period presented.

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:





## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<b>Basic</b>				
Net loss	\$ (554)	\$ (684)	\$ (1,364)	\$ (1,423)
Less: Preferred dividends and accretion of discount on preferred stock	-	(111)	-	(221)
Less: Net loss allocated to unvested share-based payment awards	-	3	-	6
Net loss allocated to common stockholders	\$ (554)	\$ (792)	\$ (1,364)	\$ (1,638)
Weighted average common shares outstanding including unvested share-based payment awards	15,823,677	825,491	15,823,869	825,469
Less: Unvested share-based payment awards	(133)	(2,700)	(299)	(3,000)
Average shares	15,823,544	822,791	15,823,570	822,469
Basic loss per common share	\$ (0.04)	\$ (0.96)	\$ (0.09)	\$ (1.99)
<b>Diluted</b>				
Net loss allocated to common stockholders	\$ (554)	\$ (792)	\$ (1,364)	\$ (1,638)
Weighted average common shares outstanding for basic loss per common share	15,823,544	822,791	15,823,570	822,469
Add: Dilutive effects of assumed exercises of stock options	-	-	-	-
Add: Dilutive effects of assumed exercises of stock warrant	-	-	-	-
Average shares and dilutive potential common shares	15,823,544	822,791	15,823,570	822,469
Diluted loss per common share	\$ (0.04)	\$ (0.96)	\$ (0.09)	\$ (1.99)

The following stock options and warrant were not considered in computing diluted earnings (loss) per common share because the options or warrant were anti-dilutive or the Company reported a net loss for the periods presented.

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Stock options	240,406	42,116	240,406	42,116
Stock warrant	-	67,314	-	67,314

Adoption of New Accounting Standards:

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220); Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The objective of this Update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this Update require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this ASU did not have a material impact on the Company, however, disclosures have been presented as part of notes to the financial statements.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

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 (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 Bank replaced the OTS as the primary regulator of the Holding Company and the Office of the Comptroller of the Currency (OCC) replaced the OTS as the primary regulator of CFBank.

The Holding Company Order requires it, among other things, to: (i) submit by every December 31 a capital plan to regulators that establishes a minimum tangible capital ratio commensurate with the Holding Company's consolidated risk profile, reduces the risk from current debt levels and addresses the Holding Company's cash flow needs; (ii) not pay cash dividends, redeem stock or make any other capital distributions without prior regulatory approval; (iii) not pay interest or principal on any debt or increase any Holding Company debt or guarantee the debt of any entity without prior regulatory approval; (iv) obtain prior regulatory approval for changes in directors and senior executive officers; and (v) not enter into any new contractual arrangement related to compensation or benefits with any director or senior executive officer without prior notification to regulators.

The CFBank Order requires it, among other things, to: (i) maintain 8% core capital and 12% total risk-based capital, after establishing an adequate allowance for loan and lease losses; (ii) submit by every December 31 a capital and business plan to regulators that describes strategies to meet these required capital ratios and contains operating strategies to achieve realistic core earnings; (iii) raise capital to reach the required levels; (iv) not originate, participate in or acquire any nonresidential real estate loans or commercial loans not in line with agreed Board approval conditions, loan policies and credit administration procedures; (v) adopt a revised credit administration policy, problem asset reduction plan, management succession plan and liquidity management policy; (vi) limit asset growth in line with CFBank's business plan absent prior regulatory approval for additional growth; (vii) not pay cash dividends or make any other capital distributions without prior regulatory approval; (viii) obtain prior regulatory approval for changes in directors and senior executive officers; (ix) not enter into any new contractual arrangement related to compensation or benefits with any director or senior executive officer without prior notification to regulators; (x) not enter into any significant arrangement or contract with a third party service provider without prior regulatory approval; and (xi) comply with the Federal Deposit Insurance Corporation (FDIC) limits on brokered deposits. As a result of the CFBank Order, we are prohibited from offering above-market interest rates and are subject to market rates published by the FDIC when offering deposits to the general public. In addition, CFBank is considered "adequately capitalized" for regulatory purposes and will not be considered "well-capitalized" so long as the CFBank Order remains in effect. If CFBank's capital falls below the levels to be considered adequately capitalized, it may be subject to substantially greater regulatory scrutiny, including the imposition of additional restrictions on our operations.

The Company has been unprofitable for the past three years. If we do not generate profits in the future, our capital levels will be negatively impacted and the regulators could take additional enforcement action against us, including the imposition of further operating restrictions.

Because CFBank is under a regulatory order, it is prohibited from accepting or renewing brokered deposits, including reciprocal deposits in the Certificate of Deposit Account Registry Service (CDARS) program, without FDIC approval. CFBank received limited waivers from the prohibition on renewal of reciprocal CDARS deposits from the FDIC, each for 90 day periods, commencing in June, 2011, through the current 90-day waiver period which runs through September 11, 2013. Management intends to submit additional requests for waivers in the future; however, there can be no assurance that the additional requests will be granted by the FDIC or that customers will roll over their CDARS deposits even if CFBank is granted additional waivers.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The prohibition on brokered deposits significantly limits CFBank’s ability to participate in the CDARS program and impacts CFBank’s liquidity management. The Company monitors on-balance-sheet liquidity to deal with scheduled brokered deposit maturities and the potential impact of other regulatory restrictions on liquidity. At June 30, 2013, CFBank had \$27,272 in brokered deposits, which included \$3.6 million in reciprocal CDARS deposits in the program, with maturity dates from August 2013 through August 2016. At June 30, 2013, cash, unpledged securities and deposits in other financial institutions totaled \$37,047.

Brokered deposit maturities over the next four years are as follows:

June 30, 2014	\$ 17,214
June 30, 2015	3,427
June 30, 2016	6,432
June 30, 2017	199
	27,272

Pursuant to the CFBank Order, CFBank may not declare or pay dividends or make any other capital distributions without receiving the prior written approval of the OCC. Future dividend payments by CFBank to the Holding Company would be based on future earnings and the approval of the OCC. The payment of dividends from CFBank to the Holding Company is not likely to be approved by the OCC while CFBank is suffering losses.

The directives contained in the Orders, including higher capital requirements, requirements to reduce the level of our classified and criticized assets and various operating restrictions, may impede our full ability to operate our business and compete effectively in our markets.

We have taken such actions as we believe are necessary to comply with all requirements of the Orders which are currently effective and we are continuing to work toward compliance with the provisions of the Orders having future compliance dates.

We have received or provided all required approvals, non-objections, notifications and waivers with regard to the Orders. Details of these items are disclosed in Note 2- Regulatory Order Considerations to the Consolidated Financial Statements contained in the Company’s 2012 Annual Report that was filed as Exhibit 13.1 to the Company’s Form 10-K for the year ended December 31, 2012.

The requirements of the Orders will remain in effect until terminated, modified or suspended by our regulators.

Capital Raise: The Company announced the terms of a registered common stock offering on August 9, 2011. In April 2012, the Company suspended this offering and returned all subscriptions received. The Company subsequently modified the terms of the offering and filed post-effective amendments to its registration statement with the SEC, and the amended registration statement was declared effective on June 14, 2012.

The restructured registered common stock offering consisted of a rights offering of up to \$18,000 and a \$4,500 offering to a group of standby purchasers, as well as a public offering of any unsold shares. Under the terms of the rights offering, all holders of the Company's common stock as of the record date, June 14, 2012, received, at no charge, one subscription right for each share of common stock held as of the record date, which was after the 1 for 5 reverse stock split effective May 4, 2012. Each subscription right entitled the holder of the right to purchase 14.5329 shares of Company common stock (post-split) at a subscription price of \$1.50 per share (post-split). The rights offering period expired on July 16, 2012, and unsubscribed shares were made available to the public beginning on July 17, 2012, at \$1.50 per share. The public offering of unsubscribed shares of common stock ended on August 14, 2012. The Company separately entered into a series of standby purchase agreements with a group of investors led by Timothy T. O'Dell, Thad R. Perry and Robert E. Hoeweler. Under the standby purchase agreements, the standby purchasers agreed to purchase 3.0 million shares of Company common stock at a price of \$1.50 per share. The standby purchasers had conditioned their purchase of shares of common stock upon the receipt by the Company of at least \$13,500 in net proceeds from the rights offering

## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

and public offering.

On August 20, 2012, the Company announced the successful completion of its restructured registered common stock offering. The Company sold 15.0 million shares of its common stock (including shares sold to the standby purchasers) at \$1.50 per share, resulting in gross proceeds of \$22,500 before expenses of \$2,279.

A portion of the proceeds from the restructured registered common stock offering was retained by the Holding Company for general corporate purposes and is estimated to be sufficient to support the Holding Company's cash requirements for the foreseeable future based on its current business plan. Holding Company cash provided from net proceeds of the stock offering was reduced by \$3,000 for redemption of the Company's TARP obligations from the U.S. Treasury and a \$13,500 capital contribution to CFBank to improve its capital ratios and support future growth and expansion, bringing CFBank into compliance with the capital ratios required by the CFBank Order. See Note 10 – Preferred Stock for additional information on redemption of the TARP obligations. The Holding Company's current cash requirements include debt service on the subordinated debentures and operating expenses. See Note 8 – Subordinated Debentures for additional information on debt service requirements of the subordinated debentures. Management believes the Holding Company's liquidity is sufficient at June 30, 2013.

## NOTE 3 – SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at June 30, 2013 and December 31, 2012 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income (loss):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2013				
Corporate debt	\$ 4,394	\$ 1	\$ 21	\$ 4,374
State and municipal	1,941	2	7	1,936
Issued by U.S. government-sponsored entities and agencies:				
Mortgage-backed securities - residential	1,159	58	-	1,217
Collateralized mortgage obligations	4,564	64	-	4,628



Total	\$ 12,058	\$ 125	\$ 28	\$ 12,155
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## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2012				
Corporate debt	\$ 4,429	\$ -	\$ 64	\$ 4,365
State and municipal	2,006	-	20	1,986
Issued by U.S. government-sponsored entities and agencies:				
Mortgage-backed securities - residential	1,399	87	-	1,486
Collateralized mortgage obligations	9,698	117	13	9,802
Total	\$ 17,532	\$ 204	\$ 97	\$ 17,639

There was no other-than-temporary impairment recognized in accumulated other comprehensive income (loss) for securities available for sale at June 30, 2013 or December 31, 2012.

The proceeds from the sales of securities for the three and six months ended June 30, 2012 are listed below.

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Proceeds	\$ -	\$ 2,144	\$ -	\$ 2,144
Gross gains	-	143	-	143
Gross losses	-	-	-	-
Tax effect-expense	\$ -	\$ -	\$ -	\$ -

The amortized cost and fair value of debt securities at June 30, 2013 are shown 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.

	June 30, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ -	\$ -	\$ 50	\$ 50
Due from one to five years	6,336	6,310	6,385	6,301
Mortgage-backed securities	1,159	1,217	1,399	1,486
Collateralized mortgage obligations	4,564	4,628	9,698	9,802
Total	\$ 12,059	\$ 12,155	\$ 17,532	\$ 17,639

Fair value of securities pledged was as follows:

	June 30, 2013	December 31, 2012
Pledged as collateral for:		
FHLB advances	\$ 3,324	\$ 4,707
Public deposits	1,713	2,199
Interest-rate swaps	787	1,511
Total	\$ 5,824	\$ 8,417

## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

At June 30, 2013 and December 31, 2012, 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.

The following table summarizes securities with unrealized losses at June 30, 2013 and December 31, 2012 aggregated by major security type and length of time in a continuous unrealized loss position.

June 30, 2013 Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate debt	\$ 3,873	\$ 22	\$ -	\$ -	\$ 3,873	\$ 22
State and municipal Issued by U.S. government-sponsored entities and agencies:	909	7	-	-	909	7
Collateralized mortgage obligations	-	-	-	-	-	-
Total temporarily impaired	\$ 4,782	\$ 29	\$ -	\$ -	\$ 4,782	\$ 29

December 31, 2012 Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate debt	\$ 4,365	\$ 64	\$ -	\$ -	\$ 4,365	\$ 64
State and municipal	1,936	20	-	-	1,936	20

Issued by U.S. government-sponsored entities and agencies:

Collateralized mortgage obligations	1,673	13	-	-	1,673	13
Total temporarily impaired	\$ 7,974	\$ 97	\$ -	\$ -	\$ 7,974	\$ 97

The unrealized losses in Corporate debt and State and Municipal Securities at June 30, 2013 and December 31, 2012, 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 June 30, 2013 and December 31, 2012.

There was no unrealized loss in Collateralized Mortgage Obligations at June 30, 2013. The unrealized loss at December 31, 2012 is related to one Ginnie Mae collateralized mortgage obligation. This security carries the full faith and credit guarantee of the U.S. government. 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 this security and it is likely that it will not be required to sell this security before their anticipated recovery, the Company did not consider this security to be other-than-temporarily impaired at December 31, 2012.

## 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, deferred loan fees and costs and includes accrued interest.

	June 30, 2013	December 31, 2012
Commercial	\$ 27,611	\$ 25,408
Real estate:		
Single-family residential	55,123	43,058
Multi-family residential	24,501	21,576
Commercial	62,242	54,291
Construction	1,701	14
Consumer:		
Home equity lines of credit	13,809	12,963
Other	955	970
Subtotal	185,942	158,280
Less: ALLL	(6,065)	(5,237)
Loans, net	\$ 179,877	\$ 153,043

Commercial loans included \$12,538 and \$11,782, respectively, of commercial lines of credit which required interest only payments at June 30, 2013 and December 31, 2012.

Home equity lines of credit included \$11,658 and \$10,447, respectively, of loans which required interest only payments at June 30, 2013 and December 31, 2012.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Mortgage Purchase Program

On December 11, 2012, CFBank entered into a Mortgage Purchase Program with Northpointe Bank (Northpointe), a Michigan banking corporation. At June 30, 2013 and December 31, 2012, CFBank held \$35,763 and \$25,373, respectively, of such loans which have been included in single family residential loan totals above. Through a participation agreement, CFBank agreed to purchase from Northpointe an 80% interest in fully underwritten and pre-sold mortgage loans originated by various prescreened mortgage brokers located throughout the U.S. The participation agreement provides for CFBank to purchase individually (MERS registered) loans from Northpointe and hold them 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 nature of each of these individual loans, common credit risks such as past due, impairment and trouble debt restructure (TDR), nonperforming, and nonaccrual classification are substantially reduced. The maximum aggregate purchase interest shall not exceed \$45,000. Northpointe maintains a 20% ownership interest in each loan it participates. The agreement further calls for full control to be relinquished by the broker to Northpointe and its participants with recourse to the broker after 120 days, at the sole discretion of Northpointe. As such, these purchased loans are classified as portfolio loans. These loans are 100% risk rated for CFBank capital adequacy purposes.

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 Consolidated Financial Statements contained in the Company's 2012 Annual Report that was filed as Exhibit 13.1 to the Company's Form 10-K for the year ended December 31, 2012.

The following tables present the activity in the ALLL by portfolio segment for the three and six months ended June 30, 2013:

Three months ended June 30, 2013							
Real Estate						Consumer	
Single-		Multi-				Home	
family		family				Equity	
Commercial	family	family	Commercial	Construction		Other	Total

						lines of credit			
Beginning balance	\$ 1,409	\$ 239	\$ 1,604	\$ 2,197	\$ 1		\$ 220	\$ 12	\$ 5,682
Addition to (reduction in) provision for loan losses	31	128	69	(44)	18		125	(3)	324
Charge-offs	-	-	-	-	-		(17)	-	(17)
Recoveries	9	1	57	4	-		3	2	76
Ending balance	\$ 1,449	\$ 368	\$ 1,730	\$ 2,157	\$ 19		\$ 331	\$ 11	\$ 6,065



## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

	Six months ended June 30, 2013						Consumer Home Equity lines of credit	Other	Total
	Real Estate		Commercial	Construction	Commercial	Construction			
	Single-family	Multi-family							
Beginning balance	\$ 1,311	\$ 332	\$ 1,396	\$ 1,946	\$ -	\$ 241	\$ 11	\$ 5,237	
Addition to (reduction in) provision for loan losses	112	34	248	153	19	102	(18)	650	
Charge-offs	-	-	-	-	-	(17)	-	(17)	
Recoveries	26	2	86	58	-	5	18	195	
Ending balance	\$ 1,449	\$ 368	\$ 1,730	\$ 2,157	\$ 19	\$ 331	\$ 11	\$ 6,065	

The following tables present the activity in the ALLL by portfolio segment for the three and six months ended June 30, 2012:

	Three months ended June 30, 2012						Consumer Home Equity lines of credit	Other	Total
	Real Estate		Commercial	Construction	Commercial	Construction			
	Single-family	Multi-family							
Beginning balance	\$ 1,802	\$ 190	\$ 1,446	\$ 1,912	\$ -	\$ 274	\$ 17	\$ 5,641	
Addition to (reduction in) provision for loan losses	(589)	58	(58)	712	-	45	32	200	
Charge-offs	(84)	(7)	(18)	(496)	-	(40)	(34)	(679)	
Recoveries	248	4	-	2	-	-	-	254	