

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)

Edgar Filing: CENTRAL FEDERAL CORP - Form 10-Q

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.

---

## CENTRAL FEDERAL CORPORATION

PART I. Financial Information	Page
Item 1. Financial Statements	3
Consolidated Balance Sheets as of September 30, 2015 (unaudited) and December 31, 2014	3
Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014 (unaudited)	4
Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014 (unaudited)	5
Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2015 and 2014 (unaudited)	6
Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 (unaudited)	7
Notes to Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	43
Item 3. Quantitative and Qualitative Disclosures About Market Risk	63
Item 4. Controls and Procedures	64
PART II. Other Information	65
Item 1. Legal Proceedings	65
Item 1A. Risk Factors	65
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	65
Item 3. Defaults Upon Senior Securities	65
Item 4. Mine Safety Disclosures	65
Item 5. Other Information	65
Item 6. Exhibits	65

Signatures

66



## 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

Edgar Filing: CENTRAL FEDERAL CORP - Form 10-Q

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.

3

---

## 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



Edgar Filing: CENTRAL FEDERAL CORP - Form 10-Q

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	\$ 170
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.

5

---

## 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

Edgar Filing: CENTRAL FEDERAL CORP - Form 10-Q

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

Edgar Filing: CENTRAL FEDERAL CORP - Form 10-Q

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.

7

---

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.

9

---

## 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)
Weighted average common shares outstanding 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)
Weighted average common shares outstanding for 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

Edgar Filing: CENTRAL FEDERAL CORP - Form 10-Q

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.

11

---

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.

14

---

## 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.

17

---

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

Edgar Filing: CENTRAL FEDERAL CORP - Form 10-Q

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

18

---

## 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 Home Equity lines of credit Other		Total
	Real Estate			Commercial	Construction				
	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 Home Equity lines of credit Other		Total
	Real Estate			Commercial	Construction				
	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			Commercial	Construction	Consumer		Total
	Commercial	Single-family	Multi-family			Home Equity lines of credit	Other	
ALLL:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	\$ 5	\$ 1	\$ -	\$ 14	\$ -	\$ -	\$ -	\$ 20
Collectively evaluated for impairment	1,268	654	750	2,631	602	491	106	6,502
Total ending allowance balance	\$ 1,273	\$ 655	\$ 750	\$ 2,645	\$ 602	\$ 491	\$ 106	\$ 6,522
Loans:								
Individually evaluated for impairment	\$ 488	\$ 291	\$ 1,601	\$ 3,483	\$ -	\$ -	\$ -	\$ 5,863
Collectively evaluated for impairment	43,039	72,702	28,951	86,467	25,573	21,097	6,264	284,093
Total ending loan balance	\$ 43,527	\$ 72,993	\$ 30,552	\$ 89,950	\$ 25,573	\$ 21,097	\$ 6,264	\$ 289,956

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 December 31, 2014:



	Real Estate			Consumer Home Equity lines of credit			Other	Total
	Commercial	Single-family	Multi-family	Commercial	Construction			
ALLL:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	\$ 29	\$ -	\$ 1	\$ 34	\$ -	\$ -	\$ -	\$ 64
Collectively evaluated for impairment	1,317	634	817	2,507	442	441	94	6,252
Total ending allowance balance	\$ 1,346	\$ 634	\$ 818	\$ 2,541	\$ 442	\$ 441	\$ 94	\$ 6,316
Loans:								
Individually evaluated for impairment	\$ 630	\$ 296	\$ 1,631	\$ 3,695	\$ -	\$ -	\$ -	\$ 6,252
Collectively evaluated for impairment	45,902	51,149	27,159	87,424	23,641	16,898	4,976	257,149
Total ending loan balance	\$ 46,532	\$ 51,445	\$ 28,790	\$ 91,119	\$ 23,641	\$ 16,898	\$ 4,976	\$ 263,401

## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The following table presents loans individually evaluated for impairment by class of loans at September 30, 2015. The unpaid principal balance is the contractual principal balance outstanding. The recorded investment is the unpaid principal balance adjusted for partial charge-offs, purchase premiums and discounts, deferred loan fees and costs. The table presents accrual basis interest income recognized during the three and nine months ended September 30, 2015. Cash payments of interest on these loans during the three and nine months ended September 30, 2015 totaled \$83 and \$251, respectively.

	As of September 30, 2015			Three months ended September 30, 2015		Nine months ended September 30, 2015	
	Unpaid Principal Balance	Recorded Investment	ALLL Allocated	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
With no related allowance recorded:							
Commercial	\$ 77	\$ 69	\$ -	\$ 69	\$ -	\$ 75	\$ 1
Real estate:							
Single-family residential	323	162	-	163	-	167	-
Multi-family residential	1,554	1,554	-	1,557	24	1,565	71
Commercial:							
Non-owner occupied	546	446	-	446	-	458	-
Owner occupied	692	171	-	173	10	176	29
Land	-	-	-	-	-	-	-
Total with no allowance recorded	3,192	2,402	-	2,408	34	2,441	101
With an allowance recorded:							
Commercial	419	419	5	427	3	452	9
Real estate:							
Single-family residential	129	129	1	130	1	131	5
Multi-family residential	47	47	-	47	1	49	2
Commercial:							
Non-owner occupied	2,234	2,234	9	2,238	34	2,247	102
Owner occupied	368	368	1	369	5	373	16
Land	309	264	4	267	4	280	13
Total with an allowance recorded	3,506	3,461	20	3,478	48	3,532	147
Total	\$ 6,698	\$ 5,863	\$ 20	\$ 5,886	\$ 82	\$ 5,973	\$ 248



## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The following table presents loans individually evaluated for impairment by class of loans at December 31, 2014. The unpaid principal balance is the contractual principal balance outstanding. The recorded investment is the unpaid principal balance adjusted for partial charge-offs, purchase premiums and discounts, deferred loan fees and costs. The table presents accrual basis interest income recognized during the three and nine months ended September 30, 2014. Cash payments of interest during the three and nine months ended September 30, 2014 totaled \$52 and \$157, respectively.

	As of December 31, 2014			Three months ended September 30, 2014		Nine months ended September 30, 2014	
	Unpaid Principal Balance	Recorded Investment	ALLL Allocated	Recorded Investment	Average Interest Recognized	Average Interest Recognized	Average Interest Recognized
With no related allowance recorded:							
Commercial	\$ 135	\$ 121	\$ -	\$ 121	\$ -	\$ 121	\$ -
Real estate:							
Single-family residential	334	173	-	178	-	181	-
Multi-family residential	1,579	1,579	-	-	-	-	-
Commercial:							
Non-owner occupied	577	477	-	495	-	508	-
Owner occupied	704	183	-	201	-	215	-
Land	-	-	-	152	2	-	7
Total with no allowance recorded	3,329	2,533	-	1,147	2	1,025	7
With an allowance recorded:							
Commercial	509	509	29	750	6	783	17
Real estate:							
Single-family residential	123	123	-	125	2	125	5
Multi-family residential	52	52	1	1,670	-	1,703	3
Commercial:							
Non-owner occupied	2,352	2,352	17	2,092	33	2,107	100
Owner occupied	380	380	2	386	6	390	16
Land	348	303	15	300	3	593	8
Total with an allowance recorded	3,764	3,719	64	5,323	50	5,701	149
Total	\$ 7,093	\$ 6,252	\$ 64	\$ 6,470	\$ 52	\$ 6,726	\$ 156



## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The following table presents the recorded investment in nonperforming loans by class of loans:

	September 30, 2015	December 31, 2014
Loans past due over 90 days still on accrual	\$ -	\$ -
Nonaccrual loans:		
Commercial	277	369
Real estate:		
Single-family residential	652	549
Multi-family residential	-	-
Commercial:		
Non-owner occupied	446	477
Owner occupied	-	-
Land	-	-
Consumer:		
Home equity lines of credit:		
Originated for portfolio	21	51
Purchased for portfolio	96	102
Other consumer	-	-
Total nonaccrual	1,492	1,548
Total nonaccrual and nonperforming loans	\$ 1,492	\$ 1,548

Nonaccrual loans include both smaller balance single-family mortgage and consumer loans that are collectively evaluated for impairment and individually classified impaired loans. There were no loans 90 days or more past due and still accruing interest at September 30, 2015 or December 31, 2014.

## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The following table presents the aging of the recorded investment in past due loans by class of loans as of September 30, 2015:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Nonaccrual Loans Not > 90 days Past Due
Commercial	\$ 176	\$ -	\$ 69	\$ 245	\$ 43,282	\$ 208
Real estate:						
Single-family residential	498	75	149	722	72,271	503
Multi-family residential	-	-	-	-	30,552	-
Commercial:						
Non-owner occupied	807	-	-	807	50,190	446
Owner occupied	-	-	-	-	32,117	-
Land	358	-	-	358	6,478	-
Construction	-	-	-	-	25,573	-
Consumer:						
Home equity lines of credit:						
Originated for portfolio	400	41	-	441	19,435	21
Purchased for portfolio	-	-	-	-	1,221	96
Other	-	-	-	-	6,264	-
Total	\$ 2,239	\$ 116	\$ 218	\$ 2,573	\$ 287,383	\$ 1,274

The following table presents the aging of the recorded investment in past due loans by class of loans as of December 31, 2014:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Nonaccrual Loans Not > 90 days Past Due
Commercial	\$ 18	\$ -	\$ 121	\$ 139	\$ 46,393	\$ 248

Edgar Filing: CENTRAL FEDERAL CORP - Form 10-Q

Real estate:						
Single-family residential	521	55	68	644	50,801	481
Multi-family residential	-	-	-	-	28,790	-
Commercial:						
Non-owner occupied	115	-	-	115	48,879	477
Owner occupied	-	-	-	-	35,900	-
Land	-	-	-	-	6,225	-
Construction	52	-	-	52	23,589	-
Consumer:						
Home equity lines of credit:						
Originated for portfolio	-	-	51	51	15,414	-
Purchased for portfolio	30	102	-	132	1,301	102
Other	5	10	-	15	4,961	-
Total	\$ 741	\$ 167	\$ 240	\$ 1,148	\$ 262,253	\$ 1,308

24

---



## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

## Troubled Debt Restructurings (TDRs):

As of September 30, 2015 and December 31, 2014, TDRs totaled \$5,348 and \$5,655, respectively. The Company allocated \$20 and \$64 of specific reserves to loans whose terms had been modified in TDRs as of September 30, 2015 and December 31, 2014, respectively. The Company had not committed to lend any additional amounts as of September 30, 2015 or December 31, 2014 to customers with outstanding loans classified as nonaccrual TDRs.

During the three months ended September 30, 2015, there were no loans modified as a TDR. During the nine months ended September 30, 2015, there was one single-family residential loan in the amount of \$9 and one home equity line of credit in the amount of \$9 that were modified as TDRs, where concessions were granted to borrowers experiencing financial difficulties. The home equity line of credit was paid off prior to September 30, 2015. During the three and nine months ended September 30, 2014, no loans were modified as a TDR.

There were no TDRs in payment default or that became nonperforming during the period ended September 30, 2015 and 2014. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms, at which time the loan is re-evaluated to determine whether an impairment loss should be recognized, either through a write-off or specific valuation allowance, so that the loan is reported, net, at the present value of estimated future cash flows, or at the fair value of collateral, less cost to sell, if repayment is expected solely from the collateral.

The terms of certain other loans were modified during the quarter ended September 30, 2015 and 2014 that did not meet the definition of a TDR. These loans had a total recorded investment of \$6,915 and \$2,709 as of September 30, 2015 and 2014, respectively. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties, a delay in payments that was considered to be insignificant or there were no concessions granted.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

Nonaccrual loans include loans that were modified and identified as TDRs and the loans are not performing. At September 30, 2015 and December 31, 2014, nonaccrual TDRs were as follows:

	September 30, 2015	December 31, 2014
Commercial	\$ 208	\$ 249
Real estate:		
Single-family residential	162	173

Multi-family residential	-	-
Commercial:		
Non-owner occupied	-	-
Owner occupied	-	-
Total	\$ 370	\$ 422

Nonaccrual loans at September 30, 2015 and December 31, 2014 do not include \$4,978 and \$5,233, respectively, of TDRs where customers have established a sustained period of repayment performance, generally six months, the loans are current according to their modified terms and repayment of the remaining contractual payments is expected. These loans are included in total impaired loans.

25

---

## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

## Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. Management analyzes loans individually by classifying the loans as to credit risk. This analysis includes commercial, commercial real estate and multi-family residential real estate loans. Internal loan reviews for these loan types are performed at least annually, and more often for loans with higher credit risk. Adjustments to loan risk ratings are made based on the reviews and at any time information is received that may affect risk ratings. The following definitions are used for risk ratings:

**Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of CFBank's credit position at some future date.

**Substandard.** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that there will be some loss if the deficiencies are not corrected.

**Doubtful.** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loans not meeting the criteria to be classified into one of the above categories are considered to be not rated or pass-rated loans. Loans listed as not rated are primarily groups of homogeneous loans. Past due information is the primary credit indicator for groups of homogenous loans. Loans listed as pass-rated loans are loans that are subject to internal loan reviews and are determined not to meet the criteria required to be classified as special mention, substandard or doubtful.

The recorded investment in loans by risk category and by class of loans as of September 30, 2015 and based on the most recent analysis performed follows. There were no loans rated doubtful at September 30, 2015.

	Not Rated	Pass	Special Mention	Substandard	Total
Commercial	\$ 90	\$ 41,041	\$ 2,042	\$ 354	\$ 43,527
Real estate:					
Single-family residential	72,311	-	-	682	72,993
Multi-family residential	-	29,837	-	715	30,552
Commercial:					

Edgar Filing: CENTRAL FEDERAL CORP - Form 10-Q

Non-owner occupied	127	46,768	-	4,102	50,997
Owner occupied	-	29,938	1,132	1,047	32,117
Land	76	4,140	-	2,620	6,836
Construction	11,065	14,508	-	-	25,573
Consumer:					
Home equity lines of credit:					
Originated for portfolio	19,761	-	-	115	19,876
Purchased for portfolio	672	-	298	251	1,221
Other	2,428	3,836	-	-	6,264
	\$ 106,530	\$ 170,068	\$ 3,472	\$ 9,886	\$ 289,956

26

---

## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The recorded investment in loans by risk category and by class of loans as of December 31, 2014 follows. There were no loans rated doubtful at December 31, 2014.

	Not Rated	Pass	Special Mention	Substandard	Total
Commercial	\$ 1,088	\$ 44,543	\$ 441	\$ 460	\$ 46,532
Real estate:					
Single-family residential	50,864	-	-	581	51,445
Multi-family residential	-	26,412	-	2,378	28,790
Commercial:					
Non-owner occupied	139	43,547	89	5,219	48,994
Owner occupied	-	33,305	1,507	1,088	35,900
Land	78	3,417	-	2,730	6,225
Construction	8,645	14,996	-	-	23,641
Consumer:					
Home equity lines of credit:					
Originated for portfolio	15,316	-	-	149	15,465
Purchased for portfolio	857	-	313	263	1,433
Other	4,976	-	-	-	4,976
	\$ 81,963	\$ 166,220	\$ 2,350	\$ 12,868	\$ 263,401

## NOTE 5 - FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of asset and liability:

Securities available for sale: The fair value of securities available for sale is determined using pricing models that vary based on asset class and include available trade, bid and other market information or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities (Level 2).

Derivatives: The fair value of derivatives, which includes yield maintenance provisions, interest rate lock commitments and interest rate swaps, is based on valuation models using observable market data as of the measurement date (Level 2).

## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Impaired loans: The fair value of impaired loans with specific allocations of the ALLL is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by a third-party appraisal management company approved by the Board of Directors annually. Once received, the loan officer or a member of the credit department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Appraisals are updated as needed based on facts and circumstances associated with the individual properties. Real estate appraisals typically incorporate measures such as recent sales prices for comparable properties. Appraisers may make adjustments to the sales prices of the comparable properties as deemed appropriate based on the age, condition or general characteristics of the subject property. Management applies an additional discount to real estate appraised values, typically to reflect changes in market conditions since the date of the appraisal if warranted and to cover disposition costs (including selling expenses) based on the intended disposition method of the property. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Loans held for sale: Loans held for sale are carried at fair value, as determined by outstanding commitments from third party investors (Level 2). Loans originated as construction loans, that were subsequently transferred to held for sale, are carried at the lower of cost or market, and are excluded from the fair value measurement table; these loans totaled \$0 at September 30, 2015 and \$1,833 at December 31, 2014. During the second quarter of 2015, CFBank commenced activity and signed an agreement with the intent to sell its credit card portfolio to a third party. As a result, as of June 30, 2015, the credit card portfolio was transferred to loans held for sale at the lower of cost or market of \$175,000, which approximated fair value. As of September 30, 2015, the balance of this portfolio was \$163,000, which approximates fair value.

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

Fair Value  
Measurements  
at September  
30, 2015 using  
Significant  
Other  
Observable

Inputs  
(Level 2)

## Financial Assets:

## Securities available for sale:

Corporate debt	\$ 1,000
State and municipal	-
Issued by U.S. government-sponsored entities and agencies:	
U.S. Treasury	9,628
Mortgage-backed securities - residential	524
Collateralized mortgage obligations	421
Total securities available for sale	\$ 11,573

Loans held for sale	673
---------------------	-----

Yield maintenance provisions (embedded derivatives)	\$ 265
---	--------

Interest rate lock commitments	\$ 10
--------------------------------	-------

## Financial Liabilities:

Interest-rate swaps	\$ 265
---------------------	--------



## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

	Fair Value Measurements at December 31, 2014 using Significant Other Observable Inputs (Level 2)
Financial Assets:	
Securities available for sale:	
Corporate debt	\$ 2,936
State and municipal	886
Issued by U.S. government-sponsored entities and agencies:	
U.S. Treasury	5,011
Mortgage-backed securities - residential	727
Collateralized mortgage obligations	885
Total securities available for sale	\$ 10,445
Loans held for sale	1,672
Yield maintenance provisions (embedded derivatives)	\$ 318
Interest rate lock commitments	\$ 25
Financial Liabilities:	
Interest-rate swaps	\$ 318

The Company had no assets or liabilities measured at fair value on a recurring basis that were measured using Level 1 or Level 3 inputs at September 30, 2015 or December 31, 2014.

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

Fair Value Measurements at  
September 30, 2015 Using

Significant Unobservable Inputs  
(Level 3)

Impaired loans:

Commercial	\$ 147
Real Estate:	
Single-family residential	129
Multi-family residential	47
Commercial:	
Non-owner occupied	2,225
Owner occupied	216
Land	260
Total impaired loans	\$ 3,024

## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Fair Value Measurements at  
December 31, 2014 Using  
Significant Unobservable Inputs  
(Level 3)

## Impaired loans:

Commercial	\$ 157
Real Estate:	
Single-family residential	123
Multi-family residential	-
Commercial:	
Non-owner occupied	-
Owner occupied	225
Land	289
Total impaired loans	\$ 794

The Company had no material assets or liabilities measured at fair value on a non-recurring basis that were measured using Level 1 or Level 2 inputs at September 30, 2015 or December 31, 2014.

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of \$804 with a valuation allowance of \$7, at September 30, 2015. There were no write-downs of impaired collateral dependent loans during the three and nine months ended September 30, 2015 or 2014. Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of \$867, with a valuation allowance of \$20 at December 31, 2014.

During the three and nine months ended September 30, 2015, the Company did not have any significant transfers of assets or liabilities between those measured using Level 1, 2 or 3 inputs. The Company recognizes transfers of assets and liabilities between Level 1 and 2 inputs based on the information relating to those assets and liabilities at the end of the reporting period.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at September 30, 2015:

	Fair Value	Valuation Technique(s)	Unobservable Inputs	(Range) Weighted Average
Impaired loans:				
Commercial	\$ 147	Comparable sales approach	Adjustment for differences between the comparable market transactions	1.10%
Commercial real estate:				

Edgar Filing: CENTRAL FEDERAL CORP - Form 10-Q

Single-family residential	129	Comparable sales approach	Adjustment for differences between the comparable market transactions	(-1.23% , 4.63%) -.17%
Multi-family residential	47	Comparable sales approach	Adjustment for differences between the comparable market transactions	5.74%
Commercial:				
Non-owner occupied	2,225	Comparable sales approach	Adjustment for differences between the comparable market transactions	(1.10%, 5.74%) 1.35%
Owner occupied	216	Comparable sales approach	Adjustment for differences between the comparable market transactions	-29.30%
Land	260	Comparable sales approach	Adjustment for differences between the comparable market transactions	(-1.89%, 2.54%) .08%

30

---

## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measures at fair value on a non-recurring basis at December 31, 2014:

	Fair Value	Valuation Technique(s)	Unobservable Inputs	(Range) Weighted Average
Impaired loans:				
Commercial	\$ 157	Income approach	Adjustment for differences in net operating income expectations	-16.00%
Commercial real estate:				
Single -family residential	123	Comparable sales approach	Adjustment for differences between the comparable market transactions	2.35%
Commercial:				
Owner occupied	225	Comparable sales approach	Adjustment for differences between the comparable market transactions	-12.21%
Land	289	Comparable sales approach	Adjustment for differences between the comparable market transactions	8.10%

## Financial Instruments Recorded Using Fair Value Option

The Company has elected the fair value option for loans held for sale. These loans are intended for sale and the Company believes that the fair value is the best indicator of the resolution of these loans. Loans originated as construction loans, that were subsequently transferred to held for sale, are carried at the lower of cost or market and are not included. Interest income is recorded based on the contractual terms of the loan and in accordance with the Company's policy on loans held for investment. None of these loans were 90 days or more past due or on nonaccrual as of September 30, 2015 or December 31, 2014.

As of September 30, 2015 and December 31, 2014, the aggregate fair value, contractual balance and gain or loss of loans held for sale were as follows:

	September 30, 2015	December 31, 2014
Aggregate fair value	\$ 510	\$ 1,672
Contractual balance	506	1,657
Gain (loss)	4	15

The total amount of gains and losses from changes in fair value included in earnings for the three and nine months ended September 30, 2015 and 2014 for loans held for sale were:

	Three months ended September 30, 2015		Nine months ended September 30, 2014	
Interest income	\$ 14	\$ 31	\$ 54	\$ 84
Interest expense	-	-	-	-
Change in fair value	(14)	(3)	(11)	13
Total change in fair value	\$ -	\$ 28	\$ 43	\$ 97

31

---

## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The carrying amounts and estimated fair values of financial instruments at September 30, 2015 were as follows:

	Fair Value Measurements at September 30, 2015 Using:				
	Carrying Value	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Cash and cash equivalents	\$ 20,101	\$ 20,101	\$ -	\$ -	\$ 20,101
Interest-bearing deposits in other financial institutions	494	494	-	-	494
Securities available for sale	11,573	-	11,573	-	11,573
Loans held for sale	673	-	673	-	673
Loans, net	283,434	-	-	286,028	286,028
FHLB stock	1,942	n/a	n/a	n/a	n/a
Accrued interest receivable	833	3	45	785	833
Yield maintenance provisions (embedded derivatives)	265	-	265	-	265
Interest rate lock commitments	10	-	10	-	10
<b>Financial liabilities</b>					
Deposits	\$ (273,814)	\$ (133,082)	(141,605)	\$ -	\$ (274,687)
FHLB advances and other borrowings	(14,500)	-	(14,843)	-	(14,843)
Advances by borrowers for taxes and insurance	(311)	-	-	(311)	(311)
Subordinated debentures	(5,155)	-	(2,429)	-	(2,429)
Accrued interest payable	(46)	-	(46)	-	(46)
Interest-rate swaps	(265)	-	(265)	-	(265)

The carrying amounts and estimated fair values of financial instruments at December 31, 2014 were as follows:

	Fair Value Measurements at December 31, 2014 Using:				
	Carrying Value	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Cash and cash equivalents	\$ 28,207	\$ 28,207	\$ -	\$ -	\$ 28,207
Interest-bearing deposits in other financial institutions	494	494	-	-	494
Securities available for sale	10,445	-	10,445	-	10,445
Loans held for sale	1,672	-	1,672	-	1,672

Edgar Filing: CENTRAL FEDERAL CORP - Form 10-Q

Loans, net	257,085	-	-	257,333	257,333
FHLB stock	1,942	n/a	n/a	n/a	n/a
Accrued interest receivable	780	2	32	746	780
Yield maintenance provisions (embedded derivatives)	318	-	318	-	318
Interest rate lock commitments	25	-	25	-	25
Financial liabilities					
Deposits	\$ (258,315)	\$ (121,132)	\$ (137,700)	\$ -	\$ (258,832)
FHLB advances and other borrowings	(14,500)	-	(14,663)	-	(14,663)
Advances by borrowers for taxes and insurance	(401)	-	-	(401)	(401)
Subordinated debentures	(5,155)	-	(2,536)	-	(2,536)
Accrued interest payable	(48)	-	(48)	-	(48)
Interest-rate swaps	(318)	-	(318)	-	(318)

32

---



CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Interest-Bearing Deposits in Other Financial Institutions

The carrying amounts of interest bearing deposits in other financial institutions approximate fair values and are classified as Level 1.

FHLB Stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Loans

Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans that repriced frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Deposits

The fair values disclosed for demand deposits (e.g., interest and noninterest bearing checking, passbook savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Other Borrowings

The fair values of the Company's long-term FHLB advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

The fair values of the Company's subordinated debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

#### Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate fair value resulting in a Level 1, 2 or 3 classification, consistent with the asset or liability with which they are associated.

#### Off-Balance-Sheet Instruments

The fair value of off-balance-sheet items is not considered material.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

NOTE 6 – SUBORDINATED DEBENTURES

In December 2003, Central Federal Capital Trust I, a trust formed by the Holding Company, closed a pooled private offering of 5,000 trust preferred securities with a liquidation amount of \$1 per security. The Holding Company issued \$5,155 of subordinated debentures to the trust in exchange for ownership of all of the common stock of the trust and the proceeds of the preferred securities sold by the trust. The Holding Company is not considered the primary beneficiary of this trust (variable interest entity); therefore, the trust is not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability. The Holding Company's investment in the common stock of the trust was \$155 and is included in other assets.

The subordinated debentures mature on December 30, 2033. The Holding Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of \$1, at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the trust indenture. There are no required principal payments on the subordinated debentures over the next five years. The Holding Company has the option to defer interest payments on the subordinated debentures for a period not to exceed five consecutive years.

The Holding Company's Board of Directors elected to defer interest payments on the subordinated debentures from time to time since 2010. However, in June 2014, the Holding Company paid all deferred and current interest payments in the amount of \$293, with the prior approval of the FRB. The Holding Company subsequently paid the interest current on the subordinated debentures as of September 30, 2014, December 31, 2014, March 31, 2015, June 30, 2015 and September 30, 2015, after receiving the prior approval or written non-objection of the FRB to make such payments as required by the terms of the Holding Company Order and the subsequent commitments made by the Company following the termination of the Holding Company Order.

The subordinated debentures have a variable rate of interest, reset quarterly, equal to the three-month London Interbank Offered Rate plus 2.85%, which was 3.13% at September 30, 2015 and 3.11% at December 31, 2014.

NOTE 7 – STOCK-BASED COMPENSATION

The Company has issued awards under three stock-based compensation plans (the "Plans"), as described below. Total compensation cost that has been charged against income for those Plans totaled \$31 and \$102, respectively, for the three and nine months ended September 30, 2015 and \$69 and \$218, respectively for the three and nine months ended September 30, 2014. The total income tax effect was not material for the three and nine months ended September 30, 2015 and 2014.

The Plans are all stockholder-approved and provide for stock option grants and restricted stock awards to be made to directors, officers and employees. The 1999 Stock-Based Incentive Plan, which expired July 13, 2009, provided 38,778 shares of common stock for stock option grants and 15,511 shares of common stock for restricted stock awards. The 2003 Equity Compensation Plan (the "2003 Plan"), as amended and restated, provided an aggregate of 100,000 shares for stock option grants and restricted stock awards, of which up to 30,000 shares could be awarded in

the form of restricted stock awards. The 2009 Equity Compensation Plan (the “2009 Plan”), which was approved by stockholders on May 21, 2009, replaced the 2003 Plan and provided for 200,000 shares, plus any remaining shares available to grant or that are later forfeited or expire under the 2003 Plan, to be made available to be issued as stock option grants, stock appreciation rights or restricted stock awards. On May 16, 2013, the Company’s stockholders approved the First Amendment to the 2009 Plan to increase the number of shares of common stock reserved for stock option grants and restricted stock awards thereunder to 1,500,000.

34

---

## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

## Stock Options

The Plans permit the grant of stock options to directors, officers and employees of the Holding Company and CFBank. Option awards are granted with an exercise price equal to the market price of the Company's common stock on the date of grant, generally have vesting periods ranging from one to three years, and are exercisable for ten years from the date of grant. Unvested stock options immediately vest upon a change of control.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. Employee and management options are tracked separately. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

There were no options granted or exercised during the three and nine months ended September 30, 2015 and September 30, 2014.

A summary of stock option activity in the Plans for the nine months ended September 30, 2015 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Intrinsic Value
Outstanding at beginning of year	621,396	\$ 1.56		
Granted	-	-		
Exercised	-	-		
Expired	(1,000)	52.10		
Cancelled or Forfeited	(7,867)	1.51		
Outstanding at end of period	612,529	\$ 1.48	7.7	\$ -
Expected to vest	302,330	\$ 1.40	7.9	\$ -
Exercisable at end of period	310,199	\$ 1.55	7.5	\$ -

During the nine months ended September 30, 2015, there were 7,867 stock options canceled or forfeited. During the nine months ended September 30, 2014, there were 16,490 stock options canceled or forfeited. Previously recognized expense associated with nonvested forfeited shares was reversed.

As of September 30, 2015, there was \$48 of total unrecognized compensation cost related to nonvested stock options granted under the Plans. The cost is expected to be recognized over a weighted-average period of 0.9 years. Substantially all of the 302,330 nonvested stock options at September 30, 2015 are expected to vest.

35

---

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Restricted Stock Awards

The Plans permit the grant of restricted stock awards to directors, officers and employees. Compensation is recognized over the vesting period of the awards based on the fair value of the stock at grant date. The fair value of the stock is determined using the closing share price on the date of grant and shares generally have vesting periods of one to three years. There were no shares of restricted stock issued during the three and nine months ended September 30, 2015 and 2014. As of September 30, 2015, there were no nonvested shares of restricted stock outstanding.

There were no shares of restricted stock forfeited during the three and nine months ended September 30, 2015 and 2014. Also, there were no shares vested during the three and nine months ended September 30, 2015 and 2014.

There were 962,509 shares remaining available for stock option grants and restricted stock awards under the 2009 Plan at September 30, 2015.

NOTE 8 – REGULATORY CAPITAL MATTERS

CFBank is subject to regulatory capital requirements administered by federal banking agencies. Prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

Prompt corrective action regulations provide five classifications for banking organizations: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If a banking organization is classified as adequately capitalized, regulatory approval is required to accept brokered deposits. If a banking organization is classified as undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

In July 2013, the Holding Company's primary federal regulator, the FRB, published final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The implementation of the Basel III Capital Rules result in higher capital requirements and more restrictive leverage and liquidity ratios than those previously in place. In addition, in order to avoid limitations on capital distributions, such as dividend payments and certain bonus payments to executive officers, the Basel III Capital Rules require insured financial institutions to hold a capital conservation buffer of common equity tier 1 capital above the minimum risk-based capital requirements. The capital conservation buffer will be phased in over time, becoming effective on January 1, 2019, and will consist of an additional amount of common equity equal to 2.5% of risk-weighted assets. The Basel III Capital Rules revise the regulatory agencies' prompt corrective action framework by incorporating the new regulatory capital minimums and updating the definition of common equity. The Basel III Capital Rules became effective for the Company on January 1, 2015, and will be fully phased in by January 1, 2019. The Company's implementation of the new rules on January 1, 2015 did

not have a material impact on our capital needs or classifications.

The CFBank Order required CFBank to have an 8% Tier 1 (Core) Capital to adjusted total assets and 12% Total Capital to risk weighted assets. Although the CFBank Order was terminated by the OCC effective January 23, 2014, CFBank remains subject to the heightened capital requirements imposed by the OCC and is required to maintain an 8% Tier 1 (core) Capital ratio to adjusted total assets and 12% Total Capital to risk weighted assets. CFBank met the heightened capital requirements imposed by the OCC at September 30, 2015 and December 31, 2014. See Note 2-Regulatory Order Considerations for additional information.

36

---



## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Actual and required capital amounts and ratios of CFBank are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Applicable Regulatory Regulations		Required Pursuant to OCC Commitment	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2015								
Total Capital to risk weighted assets	\$ 39,594	13.77%	\$ 23,010	8.00%	\$ 28,762	10.00%	\$ 34,515	12.00%
Tier 1 (Core) Capital to risk weighted assets	35,963	12.50%	17,257	6.00%	23,010	8.00%	N/A	N/A
Common equity tier 1 capital to risk-weighted assets	35,963	12.50%	12,943	4.50%	18,695	6.50%	N/A	N/A
Tier 1 (Core) Capital to adjusted total assets	35,963	10.82%	13,291	4.00%	16,613	5.00%	26,581	8.00%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Applicable Regulatory Capital Standards		Required Pursuant to OCC Commitment	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio

Edgar Filing: CENTRAL FEDERAL CORP - Form 10-Q

December 31, 2014

Total Capital to risk weighted assets	\$ 37,898	14.18%	\$ 21,379	8.00%	\$ 26,724	10.00%	\$ 32,069	12.00%
Tier 1 (Core) Capital to risk weighted assets	34,520	12.92%	10,690	4.00%	16,034	6.00%	N/A	N/A
Common equity tier 1 capital to risk-weighted assets	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tier 1 (Core) Capital to adjusted total assets	34,520	11.03%	12,515	4.00%	15,643	5.00%	25,029	8.00%

37

---

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The Qualified Thrift Lender test requires CFBank to maintain at least 65% of assets in housing related finance and other specified areas. If this test is not met, limits are placed on growth, branching, new investments, FHLB advances and dividends. Management believes that this test was met by CFBank at September 30, 2015 and December 31, 2014.

CFBank converted from a mutual to a stock institution in 1998, and a "liquidation account" was established in the amount of \$14,300, which was the net worth reported in the conversion prospectus. The liquidation account represents a calculated amount for the purposes described below, and it does not represent actual funds included in the consolidated financial statements of the Company. Eligible depositors who have maintained their accounts, less annual reductions to the extent they have reduced their deposits, would receive a distribution from this account if CFBank liquidated and its assets exceeded its liabilities. Dividends may not reduce CFBank's stockholder's equity below the required liquidation account balance.

#### Dividend Restrictions

The Holding Company's principal source of funds for dividend payments is dividends received from CFBank. Banking regulations limit the amount of dividends that may be paid by CFBank without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. As of September 30, 2015, CFBank was not permitted to 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 regulatory approval. The payment of dividends from CFBank to the Holding Company is not likely to be approved by regulators until CFBank is able to generate consistent earnings.

Any future dividends by the Holding Company on its common stock or Series B Preferred Stock, and any dividends or capital contributions by CFBank to the Holding Company, are also subject to prior regulatory approval in accordance with the commitments made in connection with the release and termination of the Orders. The Holding Company received prior approval from the FRB for the payment of quarterly cash dividends 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). 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.

The Holding Company's ability to pay dividends on its stock is also conditioned upon the payment, on a current basis, of quarterly interest payments on the subordinated debentures underlying the Company's trust preferred securities, which also requires the written non-objection of the FRB. Additionally, so long as the Company's Series B Preferred Stock remains outstanding, the Holding Company will be prohibited from paying dividends (other than dividends payable solely in shares) on the Company's common stock for the then-current dividend period, unless full dividends on the Series B Preferred Stock have been paid or set aside for payment. Dividends on the Series B Preferred Stock are non-cumulative, which means that if for any reason we do not declare cash dividends on the Series B Preferred Stock for a quarterly dividend period we will have no obligation to pay any dividends for that period (i.e., the dividends will not accrue or cumulate), whether or not we declare dividends on the Series B Preferred Stock for any

subsequent dividend period.

Additionally, CFBank does not intend to make distributions to the Holding Company that would result in a recapture of any portion of its thrift bad debt reserve as discussed in Note 10-Income taxes.

38

---

## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

## NOTE 9 – DERIVATIVE INSTRUMENTS

## Interest-rate swaps:

CFBank utilizes interest-rate swaps as part of its asset/liability management strategy to help manage its interest rate risk position, and does not use derivatives for trading purposes. The notional amount of the interest-rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest-rate swap agreements. CFBank was party to interest-rate swaps with a combined notional amount of \$2,904 at September 30, 2015 and \$3,811 at December 31, 2014.

The objective of the interest-rate swaps is to protect the related fixed-rate commercial real estate loans from changes in fair value due to changes in interest rates. CFBank has a program whereby it lends to its borrowers at a fixed rate with the loan agreement containing a two-way yield maintenance provision, which will be invoked in the event of prepayment of the loan, and is expected to exactly offset the fair value of unwinding the swap. The yield maintenance provision represents an embedded derivative which is bifurcated from the host loan contract and, as such, the swaps and embedded derivatives are not designated as hedges. Accordingly, both instruments are carried at fair value and changes in fair value are reported in current period earnings. CFBank currently does not have any derivatives designated as hedges.

## Contingent Features:

The counterparty to CFBank's interest-rate swaps is exposed to credit risk whenever the interest-rate swaps are in a liability position. At September 30, 2015, CFBank had \$789 in securities and cash pledged as collateral for these derivatives. Should the liability increase, CFBank will be required to pledge additional collateral.

Additionally, CFBank's interest-rate swap instruments contain provisions that require CFBank to remain well capitalized under regulatory capital standards. The interest-rate swaps may be called by the counterparty if CFBank fails to maintain well-capitalized status under regulatory capital standards. As of September 30, 2015, CFBank was well-capitalized under regulatory capital standards

Summary information about the derivative instruments is as follows:

	September 30, 2015	December 31, 2014
Notional amount	\$ 2,904	\$ 3,811
Weighted average pay rate on interest-rate swaps	3.67%	4.06%
Weighted average receive rate on interest-rate swaps	0.23%	0.18%
Weighted average maturity (years)	4.3	4.3
Fair value of interest-rate swaps	\$ (265)	\$ (318)
Fair value of yield maintenance provisions	265	318

The fair value of the yield maintenance provisions and interest-rate swaps is recorded in other assets and other liabilities, respectively, in the consolidated balance sheet. Changes in the fair value of the yield maintenance provisions and interest-rate swaps are reported currently in earnings, as other noninterest income in the consolidated statements of operations. There were no net gains or losses recognized in earnings related to yield maintenance provisions and interest-rate swaps for the three and nine months ended September 30, 2015 or 2014.

39

---

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Mortgage banking derivatives:

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market are considered derivatives. These mortgage banking derivatives are not designated in hedge relationships. The Company had approximately \$1,754 and \$2,964 of interest rate lock commitments related to residential mortgage loans at September 30, 2015 and December 31, 2014, respectively. The fair value of these mortgage banking derivatives was reflected by a derivative asset of \$10 and \$25 at September 30, 2015 and December 31, 2014, respectively, which was included in other assets in the consolidated balance sheet. Fair values were estimated based on anticipated gains on the sale of the underlying loans. Changes in the fair values of these mortgage banking derivatives are included in net gains on sales of loans.

NOTE 10 – INCOME TAXES

The Company maintained a valuation allowance against the net deferred tax assets at September 30, 2015, December 31, 2014 and December 31, 2013, based on its estimate of future reversal and utilization. When determining the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded as a benefit, the Company conducts a regular assessment of all available information. This information includes, but is not limited to, taxable income in prior periods, projected future income and projected future reversals of deferred tax items. Based on these criteria, the Company determined that it was necessary to maintain a full valuation allowance against the entire net deferred tax asset.

In 2012, a recapitalization program through the sale of \$22.5 million in common stock improved the capital levels of CFBank and provided working capital for the Holding Company. The result of the change in stock ownership associated with the stock offering, within the guidelines of Section 382 of the Internal Revenue Code of 1986, was that the Company incurred an ownership change. At year-end 2014, the Company had net operating loss carryforwards of \$26,732, which expire at various dates from 2024 to 2033, and has alternative minimum tax credit carryforwards of \$75, which do not expire. As a result of the ownership change, the Company's ability to utilize carryforwards that arose before the stock offering closed is limited to \$163 per year. Due to this limitation, management determined it is more likely than not that \$20,520 of net operating loss carryforwards will expire unutilized. As required by accounting standards, the Company reduced the carrying value of deferred tax assets, and the corresponding valuation allowance, by the \$6,977 tax effect of this lost realizability.

Federal income tax laws provided additional deductions, totaling \$2,250, for thrift bad debt reserves established before 1988. Accounting standards do not require a deferred tax liability to be recorded on this amount, which otherwise would total \$765 at year-end 2014. However, if CFBank were wholly or partially liquidated or otherwise ceases to be a bank, or if tax laws were to change, this amount would have to be recaptured and a tax liability recorded. Additionally, any distributions in excess of CFBank's current or accumulated earnings and profits would reduce amounts allocated to its bad debt reserve and create a tax liability for CFBank. The amount of additional taxable income created by such a distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if CFBank makes a distribution that reduces the amount allocated to its bad debt reserve, then approximately one and one-half times the amount used would be includible in gross income for

federal income tax purposes, assuming a 34% corporate income tax rate. CFBank does not intend to make distributions that would result in a recapture of any portion of its bad debt reserve.

At September 30, 2015 and December 31, 2014, the Company had no unrecognized tax benefits recorded. On a quarterly basis, the Company assesses the facts and circumstances to determine if the recognition of the deferred tax asset is appropriate. The Company is subject to U.S. federal income tax and is no longer subject to federal examination for years prior to 2011.

40

---



## CENTRAL FEDERAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

## NOTE 11- ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the changes within each classification of accumulated other comprehensive income, net of tax, for the three and nine months ended September 30, 2015 and 2014 and summarizes the significant amounts reclassified out of each component of accumulated other comprehensive income:

## Changes in Accumulated Other Comprehensive Income by Component (1)

	Three months ended September 30, 2015		Nine months ended September 30, 2014	
	Unrealized Gains and Losses on Available-for-Sale Securities		Unrealized Gains and Losses on Available-for-Sale Securities	
Accumulated Other Comprehensive income (loss), beginning of period	\$ 74	\$ 74	\$ 51	\$ 98
Other comprehensive income (loss) before reclassifications	5	(7)	16	(31)
Less amount reclassified from accumulated other comprehensive loss (2)	-	-	12	-
Net current-period other comprehensive income (loss)	5	(7)	28	(31)
Accumulated Other Comprehensive income (loss), end of period	\$ 79	\$ 67	\$ 79	\$ 67

(1) All amounts are net of tax. Amounts in parentheses indicate a reduction of other comprehensive income.

(2) There were no amounts reclassified out of other comprehensive income for the three months ended September 30, 2015 and 2014. There was \$12 reclassified out of other comprehensive income for the nine months ended September 30, 2015 due to an early redemption on a municipal security. There were no amounts reclassified out of other comprehensive income for the nine months ended September 30, 2014.

## NOTE 12- PREFERRED STOCK

Commencing in April 2014, the Company conducted a private placement of 6.25% Non-Cumulative Convertible Perpetual Preferred Stock, Series B (“Series B Preferred Stock”) for an offering price of \$25.00 per share (the “Private Placement”). Pursuant to the Private Placement, the Company sold an aggregate of 480,000 shares of Series B Preferred Stock on May 12, 2014 and July 15, 2014, for an aggregate offering price of \$12,000. The Series B Preferred Stock was sold by the Company with the assistance of McDonald Partners, LLC, as placement agent, on a best efforts basis. After payment of approximately \$482 in placement fees to McDonald Partners, LLC and approximately \$149 of other offering expenses, the Company’s net proceeds from its sale of the 480,000 shares of Series B Preferred Stock in the Private Placement were approximately \$11,369.

For each share of Series B Preferred Stock sold in the Private Placement, the Company also agreed to issue, at no additional charge, a Warrant to purchase (i) 2.00 shares of common stock of the Company if the purchaser purchased less than \$700 (28,000 shares) of Series B Preferred Stock in the Private Placement, or (ii) 3.25 shares of common stock if the purchaser purchased \$700 (28,000 shares) or more of Series B Preferred Stock in the Private Placement. See Note 13- Warrants for additional information.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The Series B Preferred Stock and Warrants have not been registered under the Securities Act of 1933, as amended (the “Securities Act”), or under the securities laws of any state in reliance upon exemptions from registration thereunder, including the exemptions provided under Section 4(a)(2) of the Securities Act and Rule 506(b) promulgated thereunder. The Series B Preferred Stock and Warrants were sold solely to “accredited investors” as defined in Rule 501(a), and neither the Series B Preferred Stock or Warrants, nor any shares of common stock of the Company into which the Series B Preferred Stock may be converted or for which the Warrants may be exercised, may be resold for a period of at least six months from the date of issue without registration or an exemption from registration under the Securities Act and applicable state securities laws. However, the Company has agreed to provide certain registration rights to the holders of the Warrants pursuant to the terms of a Registration Rights Agreement between the Company and each purchaser of Series B Preferred Stock and Warrants in the Private Placement.

NOTE 13- COMMON STOCK WARRANTS

The Company issued Warrants to purchase an aggregate of 1,152,125 shares of common stock to the purchasers of the 480,000 shares of Series B Preferred Stock sold in the Private Placement. Subject to certain limitations, the Warrants are exercisable until July 15, 2019, at a cash purchase price of \$1.85 per share of common stock.

CENTRAL FEDERAL CORPORATION

PART 1. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD LOOKING STATEMENTS

Statements in this annual report and in other communications by Central Federal Corporation (the "Holding Company") and/or CFBank (collectively, the "Company") that are not statements of historical fact are forward-looking statements which are made in good faith by us. Forward-looking statements include, but are not limited to: (1) projections of revenues, income or loss, earnings or loss per common share, capital structure and other financial items; (2) plans and objectives of the management or Boards of Directors of the Holding Company or CFBank; (3) statements regarding future events, actions or economic performance; and (4) statements of assumptions underlying such statements. Words such as "estimate," "strategy," "may," "believe," "anticipate," "expect," "predict," "will," "intend," "plan," "targeted," and the negative of these terms, or similar expressions, are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Various risks and uncertainties may cause actual results to differ materially from those indicated by our forward-looking statements. The following, among other factors, could cause such differences:

- difficult economic conditions including high unemployment rates or other adverse changes in general economic conditions and/or economic conditions in the markets we serve, any of which may affect, among other things, our level of nonperforming assets, charge-offs, and provision for loan loss expense;
- changes in interest rates that may reduce net interest margin and impact funding sources;
- the possibility that we will need to make increased provisions for loan losses;
- our ability to maintain sufficient liquidity to continue to fund our operations;
  - our ability to reduce our high level of nonperforming assets and the associated operating expenses;
- changes in market rates and prices, including real estate values, which may adversely impact the value of financial products including securities, loans and deposits;
- the possibility of other-than-temporary impairment of securities held in our securities portfolio;
- results of examinations of the Holding Company and CFBank by the regulators, including the possibility that the regulators may, among other things, require CFBank to increase its allowance for loan losses or write-down assets;
  - our ability to continue to meet regulatory guidelines, commitments or requirements to which we are subject;
- our ability to generate profits in the future;
- our ability to raise additional capital in the future, if necessary;
- changes in tax laws, rules and regulations;
- increases in deposit insurance rates or premiums;
  - further legislative and regulatory changes which may increase compliance costs and burdens;
- unexpected losses of key management;
- various monetary and fiscal policies and regulations, including those determined by the Board of Governors of the Federal Reserve System (the "FRB"), the Federal Deposit Insurance Corporation (the "FDIC") and the Office of the Comptroller of the Currency (the "OCC");
- competition with other local and regional commercial banks, savings banks, credit unions and other non-bank financial institutions;
- our ability to grow our core businesses;
- our ability to effectively manage our growth;



CENTRAL FEDERAL CORPORATION

PART 1. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

- any failure, interruption or breach in security of our communications and information systems;
- technological factors which may affect our operations, pricing, products and services;
- unanticipated litigation, claims or assessments; and
- Management's ability to manage these and other risks.

Forward-looking statements are not guarantees of performance or results. A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. The Company believes it has chosen these assumptions or bases in good faith and that they are reasonable. We caution you, however, that assumptions or bases almost always vary from actual results, and the differences between assumptions or bases and actual results can be material. The forward-looking statements included in this report speak only as of the date of the report. We undertake no obligation to publicly release revisions to any forward-looking statements to reflect events or circumstances after the date of such statements, except to the extent required by law.

Our filings with the Securities and Exchange Commission (the "SEC") detail other risks, all of which are difficult to predict and many of which are beyond our control.

CENTRAL FEDERAL CORPORATION

PART 1. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Overview

The Holding Company is a savings and loan holding company incorporated in Delaware in 1998. Substantially all of our business is conducted through our principal subsidiary, CFBank, a federally chartered savings association formed in Ohio in 1892.

CFBank is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. Our business model emphasizes personalized service, clients' access to decision makers, solution-driven lending and quick execution, efficient use of technology and the convenience of online internet banking, mobile banking, remote deposit and corporate cash management. We attract retail and business deposits from the general public and use the deposits, together with borrowings and other funds, primarily to originate commercial and commercial real estate loans, single-family and multi-family residential mortgage loans and home equity lines of credit. The majority of our customers are small businesses, small business owners and consumers.

Our principal market area for loans and deposits includes the following Ohio counties: Summit County through our office in Fairlawn, Ohio; Franklin County through our office in Worthington, Ohio; Columbiana County through our offices in Calcutta and Wellsville, Ohio; and Cuyahoga County, through our loan production office in Woodmere, Ohio. We originate commercial and residential real estate loans and business loans primarily throughout Ohio. Most of our deposits and loans come from our market area. Because of CFBank's concentration of business activities in Ohio, the Company's financial condition and results of operations depend upon economic conditions in Ohio.

General

Our net income is dependent primarily on net interest income, which is the difference between the interest income earned on loans and securities and our cost of funds, consisting of interest paid on deposits and borrowed funds. Net interest income is affected by regulatory, economic and competitive factors that influence interest rates, loan demand, the level of nonperforming assets and deposit flows.

Net income is also affected by, among other things, provisions for loan losses, loan fee income, service charges, gains on loan sales, operating expenses, income and other various taxes. Operating expenses principally consist of employee compensation and benefits, occupancy expense, FDIC insurance premiums and other general and administrative expenses. In general, results of operations are significantly affected by general economic and competitive conditions, changes in market interest rates and real estate values, government policies and actions of regulatory authorities. Our regulators have extensive discretion in their supervisory and enforcement activities, including the authority to impose restrictions on our operations, to classify our assets and to determine the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our business, financial condition, results of operations and/or cash flows.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act included numerous provisions designed to strengthen the financial industry, enhance consumer protection, expand disclosures and provide for transparency. Some of these provisions included changes to FDIC insurance coverage, which included a permanent increase in the coverage to \$250,000 per

depositor. Additional provisions created a Bureau of Consumer Financial Protection, which is authorized to write rules on all consumer financial products. Still other provisions created a Financial Stability Oversight Council, which is not only empowered to determine the entities that are systemically significant and therefore require more stringent regulations, but which is also charged with reviewing, and, when appropriate, submitting comments to the SEC and Financial Accounting Standards Board (FASB) with respect to existing or proposed accounting principles, standards or procedures. The aforementioned are only a few of the numerous provisions included in the Dodd-Frank Act. The overall impact of the entire Dodd-Frank Act will not be known until full implementation is completed, but the possibility of significant additional compliance costs exists, and the Dodd-Frank Act consequently may have a material adverse impact on our operations.

45

---



CENTRAL FEDERAL CORPORATION

PART 1. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cease and Desist Orders

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 Act, the FRB replaced the OTS as the primary regulator of the Holding Company and the OCC replaced the OTS as the primary regulator of CFBank.

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 and 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. We have also incurred significant additional regulatory compliance expense in connection with the Orders and our regulatory commitments, and it is possible that regulatory compliance expenses could continue to have a material adverse impact on us in the future.

Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Currently, CFBank cannot declare or pay dividends or make any other capital distributions without receiving prior written regulatory approval. Future dividend payments by CFBank to the Holding Company would be based on future earnings and regulatory approval. The payment of dividends from CFBank to the Holding Company

is not likely to be approved by regulators until CFBank is able to generate consistent earnings. As a result of the current level of problem assets and the continuing slow economy, it is unlikely CFBank will be able to pay dividends to the Holding Company until such issues are resolved. The Holding Company has adequate operating capital for the foreseeable future. The Holding Company had \$2.9 million in cash and cash equivalents at September 30, 2015. The regulators have further required the Holding Company to develop a business plan, separate from CFBank, that enables it to significantly reduce its dependence on CFBank for dividends through alternative funding mechanisms.

Management's discussion and analysis represents a review of our consolidated financial condition and results of operations for the periods presented. This review should be read in conjunction with our consolidated financial statements and related notes.

CENTRAL FEDERAL CORPORATION

PART 1. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Condition

General. Assets totaled \$331.4 million at September 30, 2015 and increased \$15.9 million, or 5.0%, from \$315.6 million at December 31, 2014. The increase was primarily due to a \$26.3 million increase in net loan balances, partially offset by a \$8.1 million decrease in cash and cash equivalents and a \$2.8 million decrease in loans held for sale.

Cash and cash equivalents. Cash and cash equivalents totaled \$20.1 million at September 30, 2015 and decreased \$8.1 million, or 28.7%, from \$28.2 million at December 31, 2014. The decrease was primarily due to funding loan growth.

Securities. Securities available for sale totaled \$11.6 million at September 30, 2015 and increased \$1.1 million, or 10.8%, compared to \$10.4 million at December 31, 2014. The increase was due to \$4.5 million in purchases, offset by maturities, repayments and an early redemption of a \$885,000 municipal security.

Loans. Net loans totaled \$283.4 million at September 30, 2015 and increased \$26.3 million, or 10.2%, from \$257.1 million at December 31, 2014. The increase was primarily due to a \$21.5 million increase in single-family residential loan balances, a \$4.2 million increase in home equity lines of credit, a \$1.9 million increase in construction loan balances, and a \$1.8 million increase in multi-family loan balances, partially offset by a \$3.0 million decrease in commercial loans balances. The increase in single-family residential loan balances was primarily attributed to an increase in balances associated with our Northpointe mortgage program. The increase in home equity lines of credit, construction loans and multi-family loans was due to increased sales activity, coupled with draws on existing lines or construction loans. The decline in commercial loan balances was due to loan repayments.

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. During the three and nine months ended September 30, 2015, loan origination activity in the program totaled \$214.7 million and \$543.3 million, respectively and payoffs for the same period totaled \$213.5 million and \$529.5 million, respectively. At September 30, 2015 and December 31, 2014, CFBank held \$38.8 million and \$25.0 million, of such loans which are included in single family residential loan totals.

Allowance for loan losses (ALLL). The ALLL totaled \$6.5 million at September 30, 2015 and increased \$206,000, or 3.3%, from \$6.3 million at December 31, 2014. The increase in the ALLL was primarily due to an increase in overall loan balances and net recoveries during the nine months ended September 30, 2015, which was partially offset by continued improvement in credit quality. The ratio of the ALLL to total loans was 2.25% at September 30, 2015 compared to 2.39% at December 31, 2014. In addition, the ratio of the ALLL to nonperforming loans was 437.1% at September 30, 2015, compared to 408.0% at December 31, 2014.

47

---

CENTRAL FEDERAL CORPORATION

PART 1. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

The ALLL is a valuation allowance for probable incurred credit losses. The ALLL methodology is designed as part of a thorough process that incorporates management's current judgments about the credit quality of the loan portfolio into a determination of the ALLL in accordance with generally accepted accounting principles and supervisory guidance. Management analyzes the adequacy of the ALLL quarterly through reviews of the loan portfolio, including the nature and volume of the loan portfolio and segments of the portfolio; industry and loan concentrations; historical loss experience; delinquency statistics and the level of nonperforming loans; specific problem loans; the ability of borrowers to meet loan terms; an evaluation of collateral securing loans and the market for various types of collateral; various collection strategies; current economic conditions, trends and outlook; and other factors that warrant recognition in providing for an adequate ALLL. Based on the variables involved and the significant judgments management must make about outcomes that are uncertain, the determination of the ALLL is considered to be a critical accounting policy. See the section titled "Critical Accounting Policies" for additional discussion.

The ALLL 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 of all classes within the commercial, commercial real estate and multi-family residential loan segments, regardless of size, and loans of all other classes over \$250,000, 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 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. Loans within any 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 are classified as impaired. See Notes 1 and 4 to our consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information regarding the ALLL.

Individually evaluated impaired loans totaled \$5.9 million at September 30, 2015, and decreased \$389,000, or 6.2%, from \$6.3 million at December 31, 2014. The decrease was primarily due to loan repayments. The amount of the ALLL specifically allocated to individually impaired loans totaled \$20,000 at September 30, 2015 and \$64,000 at December 31, 2014. The decrease in the ALLL specifically allocated to impaired loans was primarily due to loan repayments.

The specific reserve on impaired loans is based on management's estimate of the present value of estimated future cash flows using the loan's effective rate or the fair value of collateral, if repayment is expected solely from the collateral. On at least a quarterly basis, management reviews each impaired loan to determine whether it should have a specific reserve or partial charge-off. Management relies on appraisals or internal evaluations to help make this determination. Determination of whether to use an updated appraisal or internal evaluation is based on factors including, but not limited to, the age of the loan and the most recent appraisal, condition of the property and whether we expect the collateral to go through the foreclosure or liquidation process. Management considers the need for a downward adjustment to the valuation based on current market conditions and on management's analysis, judgment and experience. The amount ultimately charged-off for these loans may be different from the specific reserve, as the

ultimate liquidation of the collateral and/or projected cash flows may be different from management's estimates.

Nonperforming loans, which are nonaccrual loans and loans at least 90 days past due but still accruing interest, decreased \$56,000, or 3.6%, and totaled \$1.5 million at September 30, 2015, compared to \$1.5 million at December 31, 2014. The ratio of nonperforming loans to total loans was 0.51% at September 30, 2015 compared to 0.59% at December 31, 2014.

Nonaccrual loans include some loans that were modified and identified as TDRs and are not performing. TDRs included in nonaccrual loans totaled \$370,000 at September 30, 2015 and \$422,000 at December 31, 2014. The decrease in TDRs included in nonaccrual loans was primarily due to loan repayments.

48

---

CENTRAL FEDERAL CORPORATION

PART 1. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nonaccrual loans at September 30, 2015 and December 31, 2014 do not include \$5.0 million and \$5.2 million, respectively, in TDRs where customers have established a sustained period of repayment performance, generally six months, loans are current according to their modified terms and repayment of the remaining contractual payments is expected. These loans are included in total impaired loans. See Note 4 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information regarding impaired loans and nonperforming loans.

The general reserve component of ALLL 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.

Management's loan review process is an integral part of identifying problem loans and determining the ALLL. We maintain an internal credit rating system and loan review procedures specifically developed as the primary credit quality indicator to monitor credit risk for commercial, commercial real estate and multi-family residential real estate loans. We analyze these loans individually and categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. Credit reviews for these loan types are performed at least annually, and more often for loans with higher credit risk. Loan officers maintain close contact with borrowers between reviews. Adjustments to loan risk ratings are based on the reviews and also may be made at any time information is received that may affect risk ratings. Additionally, an independent third party review of commercial, commercial real estate and multi-family residential loans is performed at least annually. Management uses the results of these reviews to help determine the effectiveness of the existing policies and procedures and to provide an independent assessment of our internal loan risk rating system.

We have incorporated the regulatory asset classifications as a part of our credit monitoring and internal loan risk rating system. In accordance with regulations, problem loans are classified as special mention, substandard, doubtful or loss, and the classifications are subject to review by the regulators. Assets designated as special mention are considered criticized assets. Assets designated as substandard, doubtful or loss are considered classified assets. See Note 4 to our consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information regarding descriptions of the regulatory asset classifications.

The level of total criticized and classified loans decreased during the nine months ended September 30, 2015, due to management's focused efforts to improve credit quality, and continued repayment of loans by customers. Loans designated as special mention increased \$1.1 million, or 47.7%, and totaled \$3.5 million at September 30, 2015, compared to \$2.4 million at December 31, 2014. Loans classified as substandard decreased \$3.0 million, or 23.2%,

and totaled \$9.9 million at September 30, 2015, compared to \$12.9 million at December 31, 2014. No loans were classified as doubtful at September 30, 2015 and December 31, 2014. See Note 4 to our consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information regarding risk classification of loans.

In addition to credit monitoring through our internal loan risk rating system, we also monitor past due information for all loan segments. Loans that are not rated under our internal credit rating system include groups of homogenous loans, such as single-family residential real estate loans and consumer loans. The primary credit indicator for these groups of homogenous loans is past due information.

Total past due loans increased \$1.4 million, or 124.1%, and totaled \$2.6 million at September 30, 2015, compared to \$1.1 million at December 31, 2014. Past due loans totaled 0.9% of the loan portfolio at September 30, 2015, compared to 0.4% at December 31, 2014. The increase in the 30-59 days past due category was primarily due to three loans totaling \$883,000, that had matured and were in the process of being renewed as of September 30, 2015, which impacted the commercial, land and a portion of the commercial non-



CENTRAL FEDERAL CORPORATION

PART 1. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

owner occupied loan categories. See Note 4 to our consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information regarding loan delinquencies.

All lending activity involves risk of loss. Certain types of loans, such as option adjustable-rate mortgage (ARM) products, junior lien mortgages, high loan-to-value ratio mortgages, interest only loans, subprime loans and loans with initial teaser rates, can have a greater risk of non-collection than other loans. CFBank has not engaged in subprime lending, used option ARM products or made loans with initial teaser rates.

Loans that contain interest only payments may present a higher risk than those loans with an amortizing payment that includes periodic principal reductions. Interest only loans are primarily commercial lines of credit secured by business assets and inventory, and consumer home equity lines of credit secured by the borrower's primary residence. Due to the fluctuations in business assets and inventory of our commercial borrowers, CFBank has increased risk due to a potential decline in collateral values without a corresponding decrease in the outstanding principal. Interest only commercial lines of credit totaled \$19.3 million, or 44.3%, of the commercial portfolio at September 30, 2015 compared to \$17.9 million, or 38.4%, at December 31, 2014. Given the recessionary effects of the economy in the past several years, the collateral that secures the home equity lines of credit may have experienced a deterioration in value since the loan was originated, increasing the risk to CFBank. Interest only home equity lines of credit totaled \$18.3 million, or 84.7%, of the total home equity lines of credit at September 30, 2015 compared to \$14.9 million, or 85.2%, at December 31, 2014.

We believe the ALLL is adequate to absorb probable incurred credit losses in the loan portfolio as of September 30, 2015; however, future additions to the allowance may be necessary based on factors including, but not limited to, further deterioration in client business performance, continued or deepening recessionary economic conditions, declines in borrowers' cash flows and market conditions which result in lower real estate values. Additionally, various regulatory agencies, as an integral part of their examination process, periodically review the ALLL. Such agencies may require additional provisions for loan losses based on judgments and estimates that differ from those used by management, or on information available at the time of their review. Management continues to diligently monitor credit quality in the existing portfolio and analyze potential loan opportunities carefully in order to manage credit risk. An increase in loan losses could occur if economic conditions and factors which affect credit quality, real estate values and general business conditions worsen or do not improve.

Foreclosed assets. Foreclosed assets totaled \$1.6 million at September 30, 2015, and remained constant compared to \$1.6 million at December 31, 2014. Foreclosed assets at September 30, 2015 and December 31, 2014 consisted of one multi-family property in Mansfield, Ohio. The level of foreclosed assets and charges to foreclosed assets expense may increase in the future as we increase our workout efforts related to foreclosed assets, nonperforming loans and other loans with credit issues.

Deposits. Deposits totaled \$273.8 million at September 30, 2015 and increased \$15.5 million, or 6.0%, from \$258.3 million at December 31, 2014. The increase was primarily attributed to a \$20.4 million increase in money market account balances, and a \$3.5 million increase in certificates of deposits, partially offset by a \$8.3 million decrease in checking account balances and a \$185,000 decrease in savings account balances. The majority of the deposit increase was a result of management's focused sales and marketing efforts to grow core deposits to fund loan growth. The increase in core deposits was partially offset by a decrease in brokered and listing service deposits.

CFBank is a participant in the Certificate of Deposit Account Registry Service® (CDARS) program, a network of banks that allows us to provide our customers with FDIC insurance coverage on certificate of deposit account balances up to \$50 million. CDARS balances are considered brokered deposits by regulation. Brokered deposits, including CDARS balances, totaled \$24.0 million at September 30, 2015, and decreased \$5.3 million, or 18.0%, from \$29.3 million at December 31, 2014. The decrease in brokered deposits is primarily due to the maturity of brokered certificate of deposits, CDARS one-way deposits and the decrease in customers' CDARS balances.

While the CFBank Order was in place from May 2011 until January 2014, CFBank was prohibited from accepting or renewing brokered deposits, including CDARS balances. CFBank received limited waivers from the prohibition on renewal of reciprocal CDARS deposits from the FDIC, and the restrictions were subsequently lifted upon the termination of the CFBank Order in January 2014. Customer balances in the CDARS program totaled \$9.3 million at September 30, 2015 and decreased \$872,000, or 8.6%, from \$10.2 million at December 31, 2014.

CENTRAL FEDERAL CORPORATION

PART 1. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

FHLB advances. FHLB advances remained constant and totaled \$14.5 million at both September 30, 2015 and December 31, 2014.

Subordinated debentures. Subordinated debentures totaled \$5.2 million at both September 30, 2015 and December 31, 2014. These debentures were issued in 2003 in exchange for the proceeds of a \$5.0 million trust preferred securities offering issued by a trust formed by the Holding Company. The terms of the subordinated debentures allow for the Holding Company to defer interest payments for a period not to exceed five years. The Holding Company's Board of Directors elected to defer interest payments on the subordinated debentures from time to time beginning in December 2010 in order to preserve cash at the Holding Company. However, in June 2014, the Holding Company paid all deferred and current interest payments in the amount of \$293, with the prior approval of the FRB. The Holding Company subsequently paid the interest current on the subordinated debentures as of September 30, 2014, December 31, 2014, March 31, 2015, June 30, 2015 and September 30, 2015, after receiving the prior approval or written non-objection of the FRB to make such payments as required by the terms of the Holding Company Order and the subsequent commitments made by the Company following the termination of the Holding Company Order. The Holding Company's ability to continue to pay current interest on the subordinated debentures is conditioned upon receipt of the non-objection of the FRB on a quarterly basis.

Stockholders' equity. Stockholders' equity totaled \$35.1 million at September 30, 2015, an increase of \$616,000, or 1.8%, from \$34.5 million at December 31, 2014. The increase in total stockholders' equity was primarily attributed to net income, which was partially offset by the dividend paid on the Company's Series B Preferred Stock for the three and nine months ended September 30, 2015.

Management continues to proactively monitor capital levels and ratios in its on-going capital planning process and to ensure compliance with its regulatory requirements and commitments. CFBank has leveraged its capital to support balance sheet growth and drive increased net interest income. Management remains focused on growing capital through improving results from operations; however, should the need arise, CFBank has additional sources of capital and alternatives it could utilize to remain in compliance with the increased capital requirements to which CFBank is subject.

Currently, the Holding Company has excess cash to cover its expenses for the foreseeable future, and could inject capital into CFBank if necessary for CFBank to remain in compliance with its required capital ratios. Also, CFBank has the flexibility to manage its balance sheet size as a result of the short duration of the assets as discussed with the Northpointe mortgage program, as well as to deploy those assets into higher earning assets to improve net interest income as the opportunity presents itself.

Comparison of the Results of Operations for the Three Months Ended September 30, 2015 and 2014

General. Net income for the three months ended September 30, 2015 totaled \$330,000 and increased \$44,000, or 15.4%, compared to net income of \$286,000 for the three months ended September 30, 2014, due to a \$17,000 increase in net interest income, a \$25,000 decrease in provision expense, and a \$124,000 decrease in noninterest expense, partially offset by \$122,000 decrease in noninterest income.

Net income attributable to common stockholders for the three months ended September 30, 2015, totaled \$116,000, or \$0.01 per diluted common share, and increased \$4,000, or 3.6%, compared to net income attributable to common stockholders of \$112,000, or \$0.01 per diluted common share, for the three months ended September 30, 2014. For the three months ended September 30, 2015, preferred dividends on the Series B Preferred Stock and accretion of discount reduced net income attributable to common stockholders by \$214,000 compared to \$174,000 for the three months ended September 30, 2014.

Net interest income. Net interest income is a significant component of net income, and consists of the difference between interest income generated on interest-earning assets and interest expense incurred on interest-bearing liabilities. Net interest income is primarily affected by the volumes, interest rates and composition of interest-earning assets and interest-bearing liabilities. The tables below titled “Average Balances, Interest Rates and Yields” and “Rate/Volume Analysis of Net Interest Income” provide important information on factors impacting net interest income and should be read in conjunction with this discussion of net interest income.

Net interest income totaled \$2.5 million for the quarter ended September 30, 2015 and increased \$17,000, or 0.7%, compared to \$2.4 million for the quarter ended September 30, 2014. The increase in net interest income was primarily due to a \$220,000, or 7.5%, increase in interest income, partially offset by a \$203,000, or 42.1%, increase in interest expense. The increase in interest income was primarily attributed to a \$30.1 million, or 10.7%, increase in average interest-earning assets outstanding, partially offset by a 12bps decrease in average yield on interest-earning assets. The increase in interest expense was primarily attributed to a \$32.8 million, or

## CENTRAL FEDERAL CORPORATION

## PART 1. Item 2

## MANAGEMENT'S DISCUSSION AND ANALYSIS

14.1%, increase in average interest-bearing liabilities outstanding and a 20bps increase in the average cost of funds on interest bearing liabilities. As a result, the net interest margin of 3.17% for the quarter ended September 30, 2015 decreased 32bps compared to the net interest margin of 3.49% for the quarter ended September 30, 2014.

Interest income. Interest income totaled \$3.1 million and increased \$220,000, or 7.5%, for the quarter ended September 30, 2015, compared to \$2.9 million for the quarter ended September 30, 2014. The increase in interest income was primarily due to a \$21.8 million, or 8.6%, increase in average loans and loans held for sale balances from \$254.5 million at September 30, 2014, to \$276.3 million at September 30, 2015, partially offset by a 3bps decrease in the average yield on loans and loans held for sale.

Interest expense. Interest expense totaled \$685,000 and increased \$203,000, or 42.1%, for the quarter ended September 30, 2015, compared to \$482,000 for the quarter ended September 30, 2014. The increase in interest expense resulted primarily from increased deposit costs due to a \$31.4 million, or 14.7%, increase in average interest-bearing deposit balances. The overall cost of funds on total interest-bearing liabilities increased 20bps to 103bps at September 30, 2015 compared to 83bps at September 30, 2014 due to higher promotional rates paid to increase core deposit levels.

Provision for loan losses. The provision for loan losses totaled \$50,000 for the quarter ended September 30, 2015 and decreased \$25,000, or 33.3%, compared to \$75,000 for the quarter ended September 30, 2014. The decrease in the provision for loan losses for the quarter ended September 30, 2015 was primarily due to a continued decrease in historical loss rates, lower loan growth, minimal charge-offs for the quarter and continually improving coverage ratios. Net charge-offs for the quarter ended September 30, 2015 totaled \$8,000 compared to net recoveries of \$310,000 for the quarter ended September 30, 2014; the variance of \$318,000 is due to a large commercial real estate loan recovery in the third quarter of 2014. The ratio of the ALLL to nonperforming loans improved to 437.1% as of September 30, 2015.

The following table presents information regarding net charge-offs (recoveries) for the three months ended September 30, 2015 and 2014.

	For the three months ended September 30, 2015 2014 (Dollars in thousands)	
Commercial	\$ -	\$ 18
Single-family residential real estate	9	(1)
Multi-family residential real estate	-	-
Commercial real estate	3	(320)
Home equity lines of credit	(4)	(7)
Other consumer loans	-	-
Total	\$ 8	\$ (310)

Noninterest income. Noninterest income for the quarter ended September 30, 2015 totaled \$324,000 and decreased \$122,000, or 27.4%, compared to \$446,000 for the quarter ended September 30, 2014. The decrease was primarily due to a \$143,000 decrease in net gains on sales of loans, partially offset by a \$28,000 increase in service charges on deposit accounts. The decrease in the net gains on sales of loans was primarily due to lower sales activity. The increase in service charges on deposit accounts was related to increased deposit growth and account relationships.

Noninterest expense. Noninterest expense decreased \$124,000, or 4.9%, and totaled \$2.4 million for the quarter ended September 30, 2015, compared to \$2.5 million for the quarter ended September 30, 2014. The decrease in noninterest expense during the three months ended September, 30 2015 was primarily due to a \$149,000 decrease in foreclosed asset related expenses, a \$87,000 decrease in professional fees, partially offset by a \$98,000 increase in loan expenses. Foreclosed asset related expenses decreased primarily due to elevated levels of maintenance and light rehabilitation work performed during the third quarter of 2014 in order to improve occupancy levels. The decrease in professional fees was due to lower legal expenses incurred, and less reliance on consulting services in third quarter of 2015 since various projects had been completed. The increase in loan expense was primarily due to increased expenses incurred to obtain updated appraisals on certain loans coupled with other related loan costs incurred during the third quarter 2015.

CENTRAL FEDERAL CORPORATION

PART 1. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

Income taxes. The Company recorded a deferred tax valuation allowance which reduced the deferred tax asset to zero beginning in 2009 and continuing through the quarter ended September 30, 2015. However, as a result of net operating loss carryforwards from periods following the post-2012 restructuring, there was no income tax expense for the quarters ended September 30, 2015 or 2014.

Comparison of the Results of Operations for the Nine months Ended September 30, 2015 and 2014

General. Net income for the nine months ended September 30, 2015 totaled \$1.0 million and increased \$878,000, or 516.5%, compared to net income of \$170,000 for the nine months ended September 30, 2014, primarily due to a \$1.1 million increase in net interest income, a \$94,000 increase in noninterest income, partially offset by a \$324,000 increase in noninterest expense.

Net income attributable to common stockholders for the nine months ended September 30, 2015, totaled \$405,000, or \$0.03 per diluted common share, and increased \$468,000 compared to a net loss attributable to common stockholders of \$63,000, or \$0.00 per diluted common share, for the nine months ended September 30, 2014. For the nine months ended September 30, 2015, preferred dividends on the Series B Preferred Stock and accretion of discount reduced net income attributable to common stockholders by \$643,000 compared to \$233,000 at September 30, 2014; the 2014 amount was lower due to the pro-rated dividend as a result of the timing of the private placement of Series B Preferred Stock that commenced during the second quarter of the prior year.

Net interest income. Net interest income is a significant component of net income, and consists of the difference between interest income generated on interest-earning assets and interest expense incurred on interest-bearing liabilities. Net interest income is primarily affected by the volumes, interest rates and composition of interest-earning assets and interest-bearing liabilities. The tables below titled "Average Balances, Interest Rates and Yields" and "Rate/Volume Analysis of Net Interest Income" provide important information on factors impacting net interest income and should be read in conjunction with this discussion of net interest income.

Net interest income totaled \$7.3 million for the nine months ended September 30, 2015 and increased \$1.1 million, or 17.7%, compared to \$6.2 million for the nine months ended September 30, 2014. The increase in net interest income was primarily due to a \$1.7 million, or 22.0%, increase in interest income, offset by a \$565,000, or 41.6%, increase in interest expense. The increase in interest income was primarily attributed to a \$47.4 million, or 18.6%, increase in average interest-earning assets outstanding, a 12bps increase in average yield on interest-earning assets and improved mix of earning assets. The increase in interest expense was attributed to a \$44.9 million, or 21.0%, increase in average interest-bearing liabilities outstanding and a 14bps increase in the average cost of funds on interest bearing liabilities. As a result, the net interest margin of 3.24% for the nine months ended September 30, 2015 decreased 2bps compared to the net interest margin of 3.26% for the nine months ended September 30, 2014.

Interest income. Interest income totaled \$9.3 million and increased \$1.7 million, or 22.0%, for the nine months ended September 30, 2015, compared to \$7.6 million for the nine months ended September 30, 2014. The increase in interest income was primarily due to a \$40.9 million, or 17.9%, increase in average loans and loans held for sale balances from \$228.9 million at September 30, 2014, to \$269.9 million at September 30, 2015 and a 19bps improvement in the average yield on loans and loans held for sale.

Interest expense. Interest expense totaled \$1.9 million and increased \$565,000, or 41.6%, for the nine months ended September 30, 2015, compared to \$1.4 million for the nine months ended September 30, 2014. The increase in interest expense resulted primarily from increased deposit costs due to a \$43.3 million, or 22.2%, increase in average interest-bearing deposit balances. The overall cost of funds on total interest-bearing deposits increased 14bps to 91bps at September 30, 2015 compared to 77bps at September 30, 2014 due to higher promotional rates paid to increase core deposit levels.

Provision for loan losses. The provision for loan losses totaled \$200,000 for the nine months ended September 30, 2015 and decreased \$3,000, or 1.5%, compared to \$203,000 for the nine months ended September 30, 2014. The decrease in the provision for loan losses for the nine months ended September 30, 2015 was primarily due to improved credit quality, a continued decrease in historical loss rates, net recoveries and improving coverage ratios. Net recoveries for the nine months ended September 30, 2015 totaled \$6,000 and decreased \$318,000 compared to net recoveries of \$324,000 for the nine months ended September 30, 2014; the variance is due to a large commercial real estate loan recovery in the third quarter of 2014. The ratio of the ALLL to nonperforming loans improved to 437.1% as of September 30, 2015.



## CENTRAL FEDERAL CORPORATION

## PART 1. Item 2

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table presents information regarding net charge-offs (recoveries) for the nine months ended September 30, 2015 and 2014.

	For the nine months ended September 30, 2015 2014 (Dollars in thousands)	
Commercial	\$ (17)	\$ 15
Single-family residential real estate	39	(2)
Multi-family residential real estate	-	-
Commercial real estate	(8)	(326)
Home equity lines of credit	(24)	(9)
Other consumer loans	4	(2)
Total	\$ (6)	\$ (324)

**Noninterest income.** Noninterest income for the nine months ended September 30, 2015 totaled \$1.1 million and increased \$94,000, or 9.0%, compared to \$1.0 million for the nine months ended September 30, 2014. The increase was primarily due to a \$53,000 increase in other noninterest income and a \$51,000 increase in service charges on deposit accounts. The increase in service charges was related to increased deposit growth and account relationships. The increase in other noninterest income is primarily due to increased sales activity related to the Company's joint ventures, as further discussed in Note 22 to the 2014 Audited Financial Statements.

**Noninterest expense.** Noninterest expense increased \$324,000, or 4.7%, and totaled \$7.2 million for the nine months ended September 30, 2015, compared to \$6.9 million for the nine months ended September 30, 2014. The increase in noninterest expense during the nine months ended September 30, 2015 was primarily due to a \$273,000 increase in salaries and employee benefits, and a \$132,000 increase in data processing expenses, and a \$126,000 increase in loan expense, partially offset by a \$195,000 decrease in professional fees. Salaries and benefit expenses increased primarily due to an increase in personnel in the credit administration, operations, and treasury management areas. The increase in data processing expenses was driven by expanded information technology services associated with the Company's growth and expansion, along with investments in our infrastructure. The increase in loan expense was primarily due to increased expenses incurred to obtain updated appraisals on certain loans coupled with other related loan costs incurred during the third quarter 2015.

Income taxes. The Company recorded a deferred tax valuation allowance which reduced the deferred tax asset to zero beginning in 2009 and continuing through the nine months ended September 30, 2015. However, as a result of net operating loss carryforwards from periods following the post-2012 restructuring, there was no income tax expense for the nine months ended September 30, 2015 or 2014.

54

---

## CENTRAL FEDERAL CORPORATION

## PART 1. Item 2

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Average Balances, Interest Rates and Yields. The following table presents, for the periods indicated, the total dollar amount of fully taxable equivalent interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed in both dollars and rates. Average balances are computed using month-end balances.

	For Three Months Ended September 30,					
	2015			2014		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Securities (1) (2)	\$ 9,050	\$ 31	1.38%	\$ 8,396	\$ 38	1.83%
Loans and loans held for sale (3)	276,309	3,073	4.45%	254,495	2,848	4.48%
Other earning assets	22,396	16	0.29%	14,805	14	0.38%
FHLB stock	1,942	19	3.91%	1,942	19	3.91%
Total interest-earning assets	309,697	3,139	4.06%	279,638	2,919	4.18%
Noninterest-earning assets	24,370			22,729		
Total assets	\$ 334,067			\$ 302,367		
Interest-bearing liabilities:						
Deposits	\$ 245,918	585	0.95%	\$ 214,494	400	0.75%
FHLB advances and other borrowings	19,656	100	2.04%	18,285	82	1.79%
Total interest-bearing liabilities	265,574	685	1.03%	232,779	482	0.83%
Noninterest-bearing liabilities	33,475			36,968		
Total liabilities	299,049			269,747		
Equity	35,018			32,620		
Total liabilities and equity	\$ 334,067			\$ 302,367		
Net interest-earning assets	\$ 44,123			\$ 46,859		
Net interest income/interest rate spread		\$ 2,454	3.03%		\$ 2,437	3.35%
Net interest margin			3.17%			3.49%
Average interest-earning assets to average interest-bearing liabilities	116.61%			120.13%		

(1) Average balance is computed using the carrying value of securities. Average yield is computed using the historical amortized cost average balance for available for sale securities.

(2) Average yields and interest earned are stated on a fully taxable equivalent basis.

(3) Average balance is computed using the recorded investment in loans net of the ALLL and includes nonperforming loans.

55

---

## CENTRAL FEDERAL CORPORATION

## PART 1. Item 2

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	For Nine Months Ended September 30,					
	2015			2014		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Securities (1) (2)	\$ 9,282	\$ 100	1.45%	\$ 8,875	\$ 124	1.88%
Loans and loans held for sale (3)	269,840	9,063	4.48%	228,895	7,372	4.29%
Other earning assets	21,562	49	0.30%	15,489	46	0.40%
FHLB stock	1,942	58	3.98%	1,942	58	3.98%
Total interest-earning assets	302,626	9,270	4.09%	255,201	7,600	3.97%
Noninterest-earning assets	23,588			21,937		
Total assets	\$ 326,214			\$ 277,138		
Interest-bearing liabilities:						
Deposits	\$ 238,572	1,628	0.91%	\$ 195,239	1,123	0.77%
FHLB advances and other borrowings	19,656	296	2.01%	18,092	236	1.74%
Total interest-bearing liabilities	258,228	1,924	0.99%	213,331	1,359	0.85%
Noninterest-bearing liabilities	33,191			37,021		
Total liabilities	291,419			250,352		
Equity	34,795			26,786		
Total liabilities and equity	\$ 326,214			\$ 277,138		
Net interest-earning assets	\$ 44,398			\$ 41,870		
Net interest income/interest rate spread		\$ 7,346	3.10%		\$ 6,241	3.12%
Net interest margin			3.24%			3.26%
Average interest-earning assets to average interest-bearing liabilities	117.19%			119.63%		

(1) Average balance is computed using the carrying value of securities. Average yield is computed using the historical amortized cost average balance for available for sale securities.

(2) Average yields and interest earned are stated on a fully taxable equivalent basis.

(3) Average balance is computed using the recorded investment in loans net of the ALLL and includes nonperforming loans.

56

---

## CENTRAL FEDERAL CORPORATION

## PART 1. Item 2

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Rate/Volume Analysis of Net Interest Income. The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the increase and decrease related to changes in balances and/or changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by the prior rate) and (ii) changes in rate (i.e., changes in rate multiplied by prior volume). For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014			Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014		
	Increase (decrease) due to			Increase (decrease) due to		
	Rate	Volume	Net	Rate	Volume	Net
	(Dollars in thousands)			(Dollars in thousands)		
Interest-earning assets:						
Securities (1)	\$ (23)	\$ 16	\$ (7)	\$ (33)	\$ 9	\$ (24)
Loans and loans held for sale	(116)	341	225	327	1,364	1,691
Other earning assets	(18)	20	2	(17)	20	3
FHLB Stock	-	-	-	-	-	-
Total interest-earning assets	(157)	377	220	277	1,393	1,670
Interest-bearing liabilities:						
Deposits	121	64	185	231	274	505
FHLB advances and other borrowings	12	6	18	38	22	60
Total interest-bearing liabilities	133	70	203	269	296	565
Net change in net interest income	\$ (290)	\$ 307	\$ 17	\$ 8	\$ 1,097	\$ 1,105

(1) Securities amounts are presented on a fully taxable equivalent basis.





CENTRAL FEDERAL CORPORATION

PART 1. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

Critical Accounting Policies

We follow financial accounting and reporting policies that are in accordance with U.S. generally accepted accounting principles and conform to general practices within the banking industry. These policies are presented in Note 1 to our 2014 Audited Financial Statements. Some of these accounting policies are considered to be critical accounting policies, which are those policies that are both most important to the portrayal of the Company's financial condition and results of operations, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Application of assumptions different than those used by management could result in material changes in our financial condition or results of operations. These policies, current assumptions and estimates utilized, and the related disclosure of this process, are determined by management and routinely reviewed with the Audit Committee of the Board of Directors. We believe that the judgments, estimates and assumptions used in the preparation of the consolidated financial statements were appropriate given the factual circumstances at the time.

We have identified accounting policies that are critical accounting policies, and an understanding of these policies is necessary to understand our financial statements. The following discussion details the critical accounting policies and the nature of the estimates made by management.

**Determination of the ALLL.** The ALLL represents management's estimate of probable incurred credit losses in the loan portfolio at each balance sheet date. The allowance consists of general and specific components. The general component covers loans not classified as impaired and is based on historical loss experience, adjusted for current factors. Current factors considered include, but are not limited to, management's oversight of the portfolio, including lending policies and procedures; nature, level and trend of the portfolio, including past due and nonperforming loans, loan concentrations, loan terms and other characteristics; current economic conditions and outlook; collateral values; and other items. The specific component of the ALLL relates to loans that are individually classified as impaired. Loans exceeding policy thresholds are regularly reviewed to identify impairment. 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 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 and classified as impaired. Determining whether a loan is impaired and whether there is an impairment loss requires judgment and estimates, and the eventual outcomes may differ from estimates made by management. The determination of whether a loan is impaired includes: review of historical data; judgments regarding the ability of the borrower to meet the terms of the loan; an evaluation of the collateral securing the loan and estimation of its value, net of selling expenses, if applicable; various collection strategies; and other factors relevant to the loan or loans. Impairment is measured based on the fair value of collateral, less costs to sell, if the loan is collateral dependent, or alternatively, the present value of expected future cash flows discounted at the loan's effective rate, if the loan is not collateral dependent. When the selected measure is less than the recorded investment in the loan, an impairment loss is recorded. As a result, determining the appropriate level for the ALLL involves not only evaluating the current financial situation of individual borrowers or groups of borrowers, but also current predictions about future events that could change before an actual loss is determined. Based on the variables involved and the fact that management must make judgments about outcomes that are inherently uncertain, the determination of the ALLL is considered to be a critical accounting policy. Additional information regarding this policy is included in the previous section titled "Financial Condition - Allowance for loan losses", in Note 4 to the consolidated financial statements included in this Quarterly Report on

Form 10-Q and in Notes 1, 4 and 6 to our 2014 Audited Financial Statements.

58

---

CENTRAL FEDERAL CORPORATION

PART 1. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

Valuation of the deferred tax asset. The Company maintained a valuation allowance against the net deferred tax assets at September 30, 2015, December 31, 2014 and December 31, 2013, based on its estimate of future reversal and utilization. When determining the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded as a benefit, the Company conducts a regular assessment of all available information. This information includes, but is not limited to, taxable income in prior periods, projected future income and projected future reversals of deferred tax items. Based on these criteria, the Company determined that it was necessary to maintain a full valuation allowance against the entire net deferred tax asset.

In 2012, a recapitalization program through the sale of \$22.5 million in common stock improved the capital levels of CFBank and provided working capital for the Holding Company. The result of the change in stock ownership associated with the stock offering, within the guidelines of Section 382 of the Internal Revenue Code of 1986, was that the Company incurred an ownership change. At year-end 2014, the Company had net operating loss carryforwards of \$26,732, which expire at various dates from 2024 to 2033, and had alternative minimum tax credit carryforwards of \$75, which do not expire. As a result of the ownership change, the Company's ability to utilize carryforwards that arose before the stock offering closed is limited to \$163 per year. Due to this limitation, management determined it is more likely than not that \$20,520 of net operating loss carryforwards will expire unutilized. As required by accounting standards, the Company reduced the carrying value of deferred tax assets, and the corresponding valuation allowance, by the \$6,977 tax effect of this lost realizability.

Federal income tax laws provided additional deductions, totaling \$2,250, for thrift bad debt reserves established before 1988. Accounting standards do not require a deferred tax liability to be recorded on this amount, which otherwise would total \$765 at year-end 2014. However, if CFBank were wholly or partially liquidated or otherwise ceases to be a bank, or if tax laws were to change, this amount would have to be recaptured and a tax liability recorded. Additionally, any distributions in excess of CFBank's current or accumulated earnings and profits would reduce amounts allocated to its bad debt reserve and create a tax liability for CFBank. The amount of additional taxable income created by such a distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if CFBank makes a distribution that reduces the amount allocated to its bad debt reserve, then approximately one and one-half times the amount used would be includible in gross income for federal income tax purposes, assuming a 34% corporate income tax rate. CFBank does not intend to make distributions that would result in a recapture of any portion of its bad debt reserve.

At September 30, 2015 and December 31, 2014, the Company had no unrecognized tax benefits recorded. On a quarterly basis, the Company assesses the facts and circumstances to determine if the recognition of the deferred tax asset is appropriate. The Company is subject to U.S. federal income tax and is no longer subject to federal examination for years prior to 2011.

Fair value of financial instruments. Another critical accounting policy relates to the fair values of financial instruments, which are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. Additional information is included in Note 5 to the consolidated financial statements included in this Quarterly Report on Form 10-Q and in Notes 1 and 6 to our 2014 Audited Financial Statements.



## CENTRAL FEDERAL CORPORATION

## PART 1. Item 2

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Fair value of foreclosed assets. Another critical accounting policy relates to the fair values of foreclosed assets, which are estimated based on real estate appraisals which may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant, and changes in assumptions or market conditions could significantly affect the values. Additional information is included in Note 5 to the consolidated financial statements included in this Quarterly Report on Form 10-Q and in Notes 1, 5 and 6 to our 2014 Audited Financial Statements.

## Liquidity and Capital Resources

In general terms, liquidity is a measurement of an enterprise's ability to meet cash needs. The primary objective in liquidity management is to maintain the ability to meet loan commitments and to repay deposits and other liabilities in accordance with their terms without an adverse impact on current or future earnings. Principal sources of funds are deposits; amortization and prepayments of loans; maturities, sales and principal receipts of securities available for sale; borrowings; and operations. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

CFBank is required by regulation to maintain sufficient liquidity to ensure its safe and sound operation. Thus, adequate liquidity may vary depending on CFBank's overall asset/liability structure, market conditions, the activities of competitors, the requirements of our own deposit and loan customers and regulatory considerations. Management believes that the Holding Company's and CFBank's liquidity is sufficient to meet its daily operating needs and fulfill its strategic planning.

Liquidity management is both a daily and long-term responsibility of management. We adjust our investments in liquid assets, primarily cash, short-term investments and other assets that are widely traded in the secondary market, based on our ongoing assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities and the objective of our asset/liability management program. In addition to liquid assets, we have other sources of liquidity available including, but not limited to, access to advances from the FHLB and borrowings from the FRB and our commercial bank line of credit.

The following table summarizes CFBank's cash available from liquid assets and borrowing capacity at September 30, 2015 and December 31, 2014.

	September 30, 2015	December 31, 2014
	(Dollars in thousands)	
Cash, unpledged securities and deposits in other financial institutions	\$ 22,384	\$ 28,309
Additional borrowing capacity at the FHLB	18,038	8,578

Edgar Filing: CENTRAL FEDERAL CORP - Form 10-Q

Additional borrowing capacity at the FRB	29,196	28,585
Unused commercial bank line of credit	1,000	1,000
Total	\$ 70,618	\$ 66,472

Cash, unpledged securities and deposits in other financial institutions decreased \$5.9 million, or 20.9%, to \$22.4 million at September 30, 2015 compared \$28.3 million at December 31, 2014. The decrease is primarily due to a decrease in cash which was used to fund loan growth.

60

---

CENTRAL FEDERAL CORPORATION

PART 1. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

CFBank's additional borrowing capacity with the FHLB increased \$9.5 million to \$18.0 million at September 30, 2015, compared to \$8.6 million at December 31, 2014. The increase in additional borrowing capacity is a result of additional collateral pledged due to the increase in loans. As of December 31, 2013, due to regulatory considerations, CFBank was only eligible for future advances with a maximum maturity of 365 days. On January 24, 2014, CFBank was notified by the FHLB that the restriction on the term of future advances had been lifted as a result of the CFBank Order being terminated effective January 23, 2014.

CFBank's additional borrowing capacity at the FRB increased to \$29.2 million at September 30, 2015 from \$28.6 million at December 31, 2014. CFBank is eligible to participate in the FRB's primary credit program, providing CFBank access to short-term funds at any time, for any reason, based on the collateral pledged.

CFBank's borrowing capacity with both the FHLB and FRB may be negatively impacted by changes such as, but not limited to, further tightening of credit policies by the FHLB or FRB, deterioration in the credit performance of CFBank's loan portfolio or CFBank's financial performance, or a decrease in the balance of pledged collateral.

CFBank had a \$1.0 million unused line of credit with one commercial bank at September 30, 2015 and December 31, 2014.

Deposits are obtained predominantly from the areas in which CFBank's offices are located. We rely primarily on a willingness to pay market-competitive interest rates to attract and retain retail deposits. Accordingly, rates offered by competing financial institutions may affect our ability to attract and retain deposits. As a result of the CFBank Order, we were prohibited from offering above-market interest rates and were subject to market rates published by the FDIC when offering deposits to the general public. However, these limitations are no longer applicable to CFBank as a result of the termination of the CFBank Order in January of 2014.

As a result of the CFBank Order, we were prohibited from accepting or renewing brokered deposits without FDIC approval, although we had the ability to seek wholesale deposits that are not considered brokered deposits. At December 31, 2013, CFBank had \$21.0 million in brokered deposits with maturity dates from January 2014 through August 2016. In addition, the prohibition on brokered deposits limited CFBank's ability to participate in the CDARS program and impacted our liquidity management. Although CFBank customers participate in the CDARS program, CDARS deposits are considered brokered deposits by regulation. As a result of the termination of the CFBank Order effective January 23, 2014, the restrictions on brokered deposits were lifted and, therefore, we now have greater access to more diversified funding sources.

CFBank relies on competitive interest rates, customer service, and relationships with customers to retain deposits. To promote and stabilize liquidity in the banking and financial services sector, the FDIC, pursuant to the provisions of the Dodd-Frank Act as previously discussed, permanently increased deposit insurance coverage from \$100,000 to \$250,000 per depositor.

The Holding Company, as a savings and loan holding company, has more limited sources of liquidity than CFBank. In general, in addition to its existing liquid assets, sources of liquidity include funds raised in the securities markets through debt or equity offerings, dividends received from its subsidiaries or the sale of assets. Pursuant to commitments made in connection with the termination of the Holding Company Order, the Holding Company is not

permitted to 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. In addition, the Holding Company may not incur, increase or guarantee any debt without the prior written consent of the FRB. The Holding Company is not restricted, however, from raising funds in the securities markets through equity offerings.

The Holding Company had adequate funds at September 30, 2015 to meet its current and anticipated operating needs at this time. The Holding Company's current cash requirements include operating expenses and interest on subordinated debentures. The Company may elect to pay dividends on its preferred stock and common stock, if and when declared by the Board of Directors, subject to obtaining prior written regulatory "non-objection" from the FRB and further subject, in the case of dividends on common stock, to the payment in full of the dividend on the Company's Series B Preferred Stock for the current dividend period.



CENTRAL FEDERAL CORPORATION

PART 1. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

Annual debt service on the subordinated debentures is currently approximately \$170,000. The subordinated debentures have a variable rate of interest, reset quarterly, equal to the three-month LIBOR plus 2.85%. The total rate in effect was 3.13% at September 30, 2015. An increase in the three-month LIBOR would increase the debt service requirement of the subordinated debentures.

Banking regulations limit the amount of dividends that can be paid to the Holding Company by CFBank without prior regulatory approval. Generally, financial institutions may pay dividends without prior approval as long as the dividend does not exceed the total of the current calendar year-to-date earnings plus any earnings from the previous two years not already paid out in dividends, and as long as the financial institution remains well capitalized after the dividend payment. As of September 30, 2015, CFBank could not pay any dividends to the Holding Company 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 subject to regulatory approval. However, the payment of dividends from CFBank to the Holding Company is not likely to be approved by the OCC until CFBank is able to generate consistent earnings.

The ability of the Holding Company to pay dividends on its common stock and Series B Preferred Stock is generally dependent upon the receipt of dividends and other distributions from CFBank. The Holding Company is a legal entity that is separate and distinct from CFBank, which has no obligation to make any dividends or other funds available for the payment of dividends by the Holding Company. The Holding Company also is subject to various legal and regulatory policies and requirements impacting the Holding Company's ability to pay dividends on its stock. Pursuant to the commitments made to the FRB in connection with the termination of the Holding Company Order, the Holding Company may not declare or pay dividends on its stock without the prior written non-objection of the FRB. In addition, the Holding Company's ability to pay dividends on its stock is conditioned upon the payment, on a current basis, of quarterly interest payments on the subordinated debentures underlying the Company's trust preferred securities, which also requires the written non-objection of the FRB. Finally, so long as the Company's Series B Preferred Stock remains outstanding, the Holding Company will be prohibited from paying dividends on (other than dividends payable solely for the then-current dividend period in shares) the Company's common stock, unless full dividends on the Series B Preferred Stock have been paid or set aside for payment.

CENTRAL FEDERAL CORPORATION

PART 1. Item 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management believes there has been no material change in the Company's market risk from the information contained in the Company's Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2014.

CENTRAL FEDERAL CORPORATION

PART 1. Item 4

CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 (Exchange Act) reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of and for the quarter ended September 30, 2015.

Changes in internal control over financial reporting. We made no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) in the third quarter of 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

CENTRAL FEDERAL CORPORATION

PART II. Item 4

OTHER INFORMATION

Item 1. Legal Proceedings

We may, from time to time, be involved in various legal proceedings in the normal course of business. Periodically, there have been various claims and lawsuits involving CFBank, such as claims to enforce liens, condemnation proceedings on properties in which CFBank holds security interests, claims involving the making and servicing of real property loans and other issues incident to our banking business.

We are not a party to any pending legal proceeding that management believes would have a material adverse effect on our financial condition or operations, if decided adversely to us.

Item 1A. Risk Factors

There were no material changes to the risk factors as presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) None
- (b) Not applicable.
- (c) No repurchases of the Holding Company's common shares were made by or on behalf of the Holding Company or any "affiliated purchaser" as defined in Rule 10b-18(a)(3) under the Exchange Act during the third quarter of 2015.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits.

See Exhibit Index at page 67 of this report on Form 10-Q.

65

---

CENTRAL FEDERAL CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CENTRAL FEDERAL CORPORATION

v

Dated: November 12, 2015    By: /s/ Timothy T O'Dell  
Timothy T. O'Dell  
Chief Executive Officer

Chief Financial Officer

Dated: November 12, 2015    By: /s/ John W. Helmsdoerfer  
John W. Helmsdoerfer, CPA  
Chief Financial Officer

66

---

CENTRAL FEDERAL CORPORATION

Exhibit	Description of Exhibit
Number	
3.1	Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.1 to the registrant's Registration Statement on Form SB-2 (File No. 333-64089), filed with the Commission on September 23, 1998)
3.2	Amendment to Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.2 to the registrant's Registration Statement on Form S-2 (File No. 333-129315), filed with the Commission on October 28, 2005)
3.3	Amendment to Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.4 to the registrant's Form 10-Q for the quarter ended June 30, 2009, filed with the Commission on August 14, 2009 (File No. 0-25045))
3.4	Amendment to Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.5 to the registrant's Form 10-Q for the quarter ended September 30, 2011, filed with the Commission on November 10, 2011 (File No. 0-25045))
3.5	Amendment to Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.5 to the registrant's Post-Effective Amendment to the Registration Statement on Form S-1 (File No. 333-177434), filed with the Commission on May 4, 2012)
3.6	Certificate of Designations to Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K dated May 7, 2014 and filed with the Commission on May 13, 2014. (File No. 0-25045))
3.7	Second Amended and Restated Bylaws of the registrant (incorporated by reference to Exhibit 3.3 to the registrant's Form 10-K for the fiscal year ended December 31, 2007, filed with the Commission on March 27, 2008 (File No. 0-25045))
4.1	Form of Stock Certificate of Central Federal Corporation (incorporated by reference to Exhibit 4.0 to the registrant's Registration Statement on Form SB-2 (File No. 333-64089), filed with the Commission on September 23, 1998)
4.2	Form of Certificate for the Series B Preferred Stock of Central Federal Corporation (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K dated May 7, 2014 and filed with the Commission on May 13, 2014 (File No. 0-25045))
4.3	Form of Warrant for the purchase of common stock of Central Federal Corporation (incorporated by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K dated May 7, 2014 and filed with the Commission on May 13, 2014 (File No. 0-25045))
4.4	

Form of Registration Rights Agreement (incorporated by reference to Exhibit 4.3 to the registrant's Current Report on Form 8-K dated May 7, 2014 and filed with the Commission on May 13, 2014 (File No. 0-25045))



CENTRAL FEDERAL CORPORATION

- 11.1 Statement Re: Computation of Per Share Earnings
- 31.1 Rule 13a-14(a) Certifications of the Chief Executive Officer
- 31.2 Rule 13a-14(a) Certifications of the Chief Financial Officer
- 32.1 Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer
- 101.1 Interactive Data File (XBRL)

68

---