OptimumBank Holdings, Inc.
Form 10-Q
August 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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: **000-50755**

OPTIMUMBANK HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Florida	000-50755
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2477 East Commercial Boulevard, Fort Lauderdale, FL 33308
(Address of principal executive offices)

954-776-2332

(Registrant's telephone number, including area code)

N/A
(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 S 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 S 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer £	Accelerated filer £
Non-accelerated filer £(Do not check if a smaller reporting company)	Smaller reporting company S

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes £ No S

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 27,380,994 shares of Common Stock, $.01 par value, issued and outstanding as of August 9, 2012

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

INDEX

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)

Assets	June 30, 2012 (Unaudited)	December 31, 2011
Cash and due from banks	$ 817	$ 1,101
Interest-bearing deposits with banks	5,165	5,123
Federal funds sold	22,071	16,552
Total cash and cash equivalents	28,053	22,776
Securities available for sale	25,004	28,907
Loans, net of allowance for loan losses of $2,102 and $2,349	86,641	89,217
Federal Home Loan Bank stock	1,770	2,159
Premises and equipment, net	2,738	2,691
Foreclosed real estate, net	9,088	7,646
Accrued interest receivable	484	499
Other assets	370	577
Total assets	$ 154,148	$ 154,472
Liabilities and Stockholders’ Equity		
Liabilities:		
Noninterest-bearing demand deposits	427	515
Savings, NOW and money-market deposits	36,268	35,538
Time deposits	69,969	71,842
Total deposits	106,664	107,895

Federal Home Loan Bank advances	31,700	31,700
Junior subordinated debenture	5,155	5,155
Advanced payment by borrowers for taxes and insurance	897	567
Official checks	1,324	1,113
Other liabilities	731	1,256
Total liabilities	146,471	147,686
Stockholders' equity:		
Preferred stock, no par value; 6,000,000 shares authorized, no shares issued or outstanding	0	0
Common stock, $.01 par value; 50,000,000 shares authorized, 26,880,994 and 22,411,108 shares issued and outstanding in 2012 and 2011	269	224
Additional paid-in capital	29,251	27,491
Accumulated deficit	(21,343)	(19,991)
Accumulated other comprehensive loss	(500)	(938)
Total stockholders' equity	7,677	6,786
Total liabilities and stockholders' equity	$ 154,148	$ 154,472

See Accompanying Notes to Condensed Consolidated Financial Statements.

2

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest income:				
Loans	$982	$1,197	$1,977	$2,486
Securities	276	500	574	1,029
Other	22	14	38	29
Total interest income	1,280	1,711	2,589	3,544
Interest expense:				
Deposits	285	498	576	1,048
Borrowings	388	384	777	765
Total interest expense	673	882	1,353	1,813
Net interest income	607	829	1,236	1,731
Provision for loan losses	154	860	181	894
Net interest income (expense) after provision for loan losses	453	(31)	1,055	837
Noninterest income:				
Service charges and fees	8	6	11	16
Loan prepayment fees	0	0	0	6
Gain on sale of securities	0	153	0	153
Other	178	46	178	46
Total noninterest income	186	205	189	221
Noninterest expenses:				
Salaries and employee benefits	426	461	836	937
Occupancy and equipment	125	134	243	267
Data processing	63	49	114	101
Professional fees	288	459	527	849
Insurance	70	113	139	227
Stationary and supplies	10	8	21	17

Foreclosed real estate	70	592	138	983
Regulatory assessment	78	160	123	381
Other	279	168	455	423
Total noninterest expenses	1,409	2,144	2,596	4,185
Net loss	$(770)	$(1,970)	$(1,352)	$(3,127)
Net loss per share- Basic and diluted	$(.03)	$(2.40)	$(.05)	$(3.82)
Dividends per share	$0	$0	$0	$0

See Accompanying Notes to Condensed Consolidated Financial Statements.

3

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Comprehensive Loss (Unaudited)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net loss	$(770)	$(1,970)	$(1,352)	$(3,127)
Other comprehensive loss-				
Unrealized gains (loss) on securities available for sale-				
Unrealized holding gains (losses) arising during period	111	(875)	438	(875)
Comprehensive loss	$(659)	$(2,845)	$(914)	$(4,002)

See Accompanying Notes to Condensed Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Stockholders' Equity (Deficit)

Six Months Ended June 30, 2012 and 2011

(Dollars in thousands)

	Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Compre-hensive Loss	Total Stockholders' Equity (Deficit)
Balance at December 31, 2010	819,358	$ 8	$ 19,071	$ (16,244)	$ 0	$ 2,835
Net loss for the six months ended June 30, 2011 (unaudited)	0	0	0	(3,127)	0	(3,127)
Unrealized loss on securities available for sale (unaudited)	0	0	0	0	(875)	(875)
Balance at June 30, 2011 (unaudited)	819,358	$ 8	$ 19,071	$ (19,371)	$ (875)	$ (1,167)
Balance at December 31, 2011	22,411,108	$ 224	$ 27,491	$ (19,991)	$ (938)	$ 6,786
Proceeds from sale of common stock (unaudited)	4,447,500	45	1,735	0	0	1,780
Common stock issued as compensation to directors	22,386	0	25	0	0	25
Net loss for the six months ended June 30, 2012 (unaudited)	0	0	0	(1,352)	0	(1,352)
Net change in unrealized loss on securities available for sale (unaudited)	0	0	0	0	438	438
Balance at June 30, 2012 (unaudited)	26,880,994	$ 269	$ 29,251	$ (21,343)	$ (500)	$ 7,677

See Accompanying Notes to Condensed Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net loss	$(1,352)	$(3,127)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	52	65
Provision for loan losses	181	894
Gain on sale of securities	0	(153)
Net amortization of fees, premiums and discounts	(10)	78
Common stock issued as compensation to directors	25	0
Decrease in other assets	207	470
Loss on sale of foreclosed real estate	0	166
Write-down of foreclosed real estate	45	704
Decrease in accrued interest receivable	15	47
Other-than-temporary impairment of securities available for sale	103	0
(Decrease) increase in official checks and other liabilities	(314)	276
Net cash used in operating activities	(1,048)	(580)
Cash flows from investing activities:		
Purchases of securities held to maturity	0	(5,048)
Principal repayments of securities available for sale	4,238	5,428
Net decrease in loans	750	5,443
Proceeds from sale of securities	0	10,961
Purchase of premises and equipment	(99)	(5)
Proceeds from sale of foreclosed real estate, net	190	1,643
Capital improvements on foreclosed real estate	(22)	0
Redemption of Federal Home Loan Bank stock	389	501
Net cash provided by investing activities	5,446	18,923
Cash flows from financing activities:		
Net decrease in deposits	(1,231)	(10,667)
Net increase in advance payments by borrowers for taxes and insurance	330	245
Proceeds from sale of common stock	1,780	0

Net cash provided by (used in) financing activities	879	(10,422)
Net increase in cash and cash equivalents	5,277	7,921
Cash and cash equivalents at beginning of the period	22,776	14,367
Cash and cash equivalents at end of the period	$28,053	$22,288

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows (Unaudited), Continued

(In thousands)

	Six Months Ended June 30,	
	2012	2011
Supplemental disclosure of cash flow information:		
Cash paid during the period for -		
Interest	$1,276	$1,744
Noncash investing and financing activities:		
Change in accumulated other comprehensive loss, net change in unrealized loss on securities available for sale	$438	$(875)
Transfer of securities held to maturity to available for sale	$0	$50,534
Loans transferred to foreclosed real estate	$1,655	$5,032

See Accompanying Notes to Condensed Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited)

(1) ***General.*** OptimumBank Holdings, Inc. (the "Holding Company") is a one-bank holding company and owns 100% of OptimumBank (the "Bank"), a state (Florida)-chartered commercial bank. The Bank's wholly-owned subsidiaries are OB Real Estate Management, LLC, OB Real Estate Holdings, LLC and OB Real Estate Holdings 1503, LLC, all of which were formed in 2009, OB Real Estate Holdings 1695, LLC, OB Real Estate Holdings 1669, LLC, OB Real Estate Holdings 1645, LLC, OB Real Estate Holdings 1620, LLC, and OB Real Estate Holdings 1565, LLC, all formed in 2010, and OB Real Estate Holdings 1443, LLC, and OB Real Estate Holdings 1596, LLC, OB Real Estate Holdings 1636, LLC, and OB Real Estate Holdings Northwood, LLC, formed in 2011, OB Real Estate Holdings Sillato, LLC, and OB Real Estate Holdings 1655, LLC, formed in 2012. The Holding Company's only business is the operation of the Bank and its subsidiaries (collectively, the "Company"). The Bank's deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank offers a variety of community banking services to individual and corporate customers through its three banking offices located in Broward County, Florida. OB Real Estate Management, LLC is primarily engaged in managing foreclosed real estate. This subsidiary had no activity in 2012 and 2011. All other subsidiaries are primarily engaged in holding and disposing of foreclosed real estate.

In the opinion of management, the accompanying condensed consolidated financial statements of the Company contain all adjustments (consisting principally of normal recurring accruals) necessary to present fairly the financial position at June 30, 2012, and the results of operations for the three- and six-month periods ended June 30, 2012 and 2011. The results of operations for the three and six months ended June 30, 2012, are not necessarily indicative of the results to be expected for the full year.

Comprehensive Loss. Generally accepted accounting principles generally requires that recognized revenue, expenses, gains and losses be included in net loss. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items along with net loss, are components of comprehensive loss. The only component of other comprehensive loss is the net change in the unrealized loss on the securities available for sale.

Income Taxes. During the year ended December 31, 2009, the Company assessed its earnings history and trend over the past year and its estimate of future earnings, and determined that it is more likely than not that the deferred tax asset will not be realized in the near term. Accordingly, a valuation allowance was recorded against the net deferred tax asset for the amount not expected to be realized in the future. Based on the available evidence at June 30, 2012, the Company determined that it is still more likely than not that the deferred tax asset will not be realized in the near term. Accordingly, the valuation allowance was increased in 2012 to offset the increase in the net deferred tax asset.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(1) General, Continued.

Recent Pronouncements. In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-12 ("ASU 2011-12"), *Comprehensive Income (Topic 220), Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 ("ASU 2011-05").* Stakeholders raised concerns that the new presentation requirements about reclassifications of items out of accumulated other comprehensive income would be difficult for preparers and may add unnecessary complexity to financial statements. In addition, it is difficult for some stakeholders to change systems in time to gather the information for the new presentation requirements by the effective date of Update 2011-05. All other requirements in ASU 2011-05 are not affected by this update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The amendments in ASU 2011-12 are effective on a retrospective basis for public entities for annual periods beginning after December 15, 2011, and interim periods within those years. An entity should provide the disclosures required by ASU 2011-12 retrospectively for all comparative periods presented. The adoption of this guidance did not have a material effect on the Company's condensed consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11 ("ASU 2011-11"), *Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities.* The objective of ASU 2011-11 is to enhance disclosures required by U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with Section 210-20-45 or Section 815-10-45. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The amendments in ASU 2011-11 are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by ASU 2011-11 retrospectively for all comparative periods presented. The adoption of this guidance did not have a material effect on the Company's condensed consolidated financial statements.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(1) General, Continued.

Recent Pronouncements, Continued. In June 2011, the FASB issued ASU No. 2011-05 ("ASU 2011-05"), *Comprehensive Income (Topic 220), Presentation of Comprehensive Income.* The objective of ASU 2011-05 is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To achieve this goal and to facilitate convergence of U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS), the FASB decided to eliminate the option to present components of other comprehensive income as part of the consolidated statement of changes in stockholders' equity. The amendments in ASU 2011-05 require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in ASU 2011-05 should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. The adoption of this guidance did not have a material effect on the Company's condensed consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04 ("ASU 2011-04"), *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The objective of ASU 2011-04 is to provide clarification of Topic 820 and, also, to ensure that fair value has the same meaning in U.S. generally accepted accounting principles ("GAAP") and in international financial reporting standards ("IFRSs") and that their respective fair value measurement and disclosure requirements are generally the same. Thus, this update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRSs. The amendment is effective for interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. Early application is not permitted. The adoption of this guidance did not have a material effect on the Company's condensed consolidated financial statements.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(2) ***Securities.*** Securities have been classified according to management's intent. The carrying amount of securities and approximate fair values are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At June 30, 2012:				
Securities Available for Sale-				
Mortgage-backed securities	$ 25,504	$ 236	$ (736)	$ 25,004
At December 31, 2011:				
Securities Available for Sale-				
Mortgage-backed securities	$ 29,845	$ 202	$ (1,140)	$ 28,907

In June 2011, the Company transferred securities with a book value of approximately $50.5 million from the held to maturity category to the available for sale category. The fair value of the securities was $49.8 million resulting in unrealized losses of approximately $0.7 million. The net unrealized loss was recorded in accumulated other comprehensive loss. Due to this transfer, the Company will be prohibited from classifying securities as held to maturity for a period of two years.

Securities with gross unrealized losses at June 30, 2012, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale-				
Mortgage-backed securities	$ 1	$ 188	$ 735	$ 8,059

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(2) ***Securities, Continued.*** Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. A security is impaired if the fair value is less than its carrying value at the financial statement date. When a security is impaired, the Company determines whether this impairment is temporary or other-than-temporary. In estimating other-than-temporary impairment ("OTTI") losses, management assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in operations. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in operations is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive loss. Management utilizes cash flow models to segregate impairments to distinguish between impairment related to credit losses and impairment related to other factors. To assess for OTTI, management considers, among other things, (i) the severity and duration of the impairment; (ii) the ratings of the security; (iii) the overall transaction structure (the Company's position within the structure, the aggregate, near-term financial performance of the underlying collateral, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, and discounted cash flows); and (iv) the timing and magnitude of a break in modeled cash flows.

In evaluating mortgage-backed securities with unrealized losses greater than twelve months, management utilizes various resources, including input from independent third party firms to perform an analysis of expected future cash flows. The process begins with an assessment of the underlying collateral backing the mortgage pools. Management develops specific assumptions using as much market data as possible and includes internal estimates as well as estimates published by rating agencies and other third-party sources. The data for the individual borrowers in the underlying mortgage pools are generally segregated by state, FICO score at issue, loan to value at issue and income documentation criteria. Mortgage pools are evaluated for current and expected levels of delinquencies and foreclosures, based on where they fall in the proscribed data set of FICO score, geographics, LTV and documentation type and a level of loss severity is assigned to each security based on its experience. The above-described historical data is used to develop current and expected measures of cumulative default rates as well as ultimate loss frequency and severity within the underlying mortgages. This reveals the expected future cash flows within the mortgage pool. The data described above is then input to an industry recognized model to assess the behavior of the particular security tranche owned by the Company. Significant inputs in this process include the structure of any subordination structures, if applicable, and are dictated by the structure of each particular security as laid out in the offering documents. The forecasted cash flows from the mortgage pools are input through the security structuring model to derive expected cash flows for the specific security owned by the Company to determine if the future cash flows are expected to exceed the book value of the security. The values for the significant inputs are updated on a regular basis. During the three and six months ended June 30, 2012, the Company recorded other-than-temporary impairment charges totaling $103,000.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(2) ***Securities, Continued.*** The unrealized losses on nine investment securities were caused by market conditions. It is expected that the securities would not be settled at a price less than the book value of the investments. Because the decline in fair value is attributable to market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

(3) ***Loans.*** The segments of loans are as follows (in thousands):

	At June 30, 2012	At December 31, 2011
Residential real estate	$31,821	$ 30,434
Multi-family real estate	4,316	4,109
Commercial real estate	39,805	41,307
Land and construction	8,935	11,783
Commercial	3,673	3,713
Consumer	124	175
Total loans	88,674	91,521
Add (deduct):		
Net deferred loan fees, costs and premiums	69	45
Allowance for loan losses	(2,102)	(2,349)
Loans, net	$86,641	$ 89,217

An analysis of the change in the allowance for loan losses follows (in thousands):

	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Land and Construction	Commercial	Consumer	Total
Three-Month Period Ended June 30, 2012:							
Beginning balance	$ 661	$ 214	$ 814	$ 146	$ 117	$ 23	$1,975
Provision (credit) for loan losses	189	31	97	(161)	(2)	0	154

Charge-offs	(147)	0	(141)	0	0	0	(288)
Recoveries	0	0	29	230	0	2	261
Ending balance	$ 703	$ 245	$ 799	$ 215	$ 115	$ 25	$2,102
Six-Month Period Ended June 30, 2012:							
Beginning balance	$ 549	$ 247	$ 1,190	$ 187	$ 161	$ 15	$2,349
Provision (credit) for loan losses	301	(2)	(210)	133	(46)	5	181
Charge-offs	(147)	0	(210)	(335)	0	0	(692)
Recoveries	0	0	29	230	0	5	264
Ending balance	$ 703	$ 245	$ 799	$ 215	$ 115	$ 25	$2,102

(continued)

13

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) Loans, Continued.

	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Land and Construction	Consumer	Total
Three-Month Period Ended June 30, 2011:						
Beginning balance	$ 1,314	$ 305	$ 1,445	$ 382	$ 74	$3,520
Provision (credit) for loan losses	54	2	7	797	0	860
Charge-offs	(309)	0	(52)	(982)	0	(1,343)
Recoveries	34	1	0	0	3	38
Ending balance	$ 1,093	$ 308	$ 1,400	$ 197	$ 77	$3,075
Six-Month Period Ended June 30, 2011:						
Beginning balance	$ 1,285	$ 282	$ 1,542	$ 514	$ 80	$3,703
Provision (credit) for loan losses	82	23	(90)	888	(9)	894
Charge-offs	(307)	0	(52)	(1,229)	0	(1,588)
Recoveries	33	3	0	24	6	66
Ending balance	$ 1,093	$ 308	$ 1,400	$ 197	$ 77	$3,075

	At June 30, 2012						
	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Land and Construction	Commercial	Consumer	Total
Individually evaluated for impairment:							
Recorded investment	$7,814	$ 0	$ 14,365	$ 2,489	$ 0	$ 0	$24,668
Balance in allowance for loan losses	$0	$ 0	$ 0	$ 0	$ 0	$ 0	$0
Collectively evaluated for impairment:							
Recorded investment	$24,007	$ 4,316	$ 25,440	$ 6,446	$ 3,673	$ 124	$64,006
Balance in allowance for loan losses	$703	$ 245	$ 799	$ 215	$ 115	$ 25	$2,102

	At December 31, 2011					
	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Land and Construction	Consumer	Total
Individually evaluated for impairment:						
Recorded investment	$7,919	$ 0	$ 16,716	$ 7,241	$ 68	$31,944
Balance in allowance for loan losses	$0	$ 0	$ 11	$ 0	$ 0	$11
Collectively evaluated for impairment:						
Recorded investment	$23,223	$ 4,109	$ 27,596	$ 4,542	$ 107	$59,577
Balance in allowance for loan losses	$566	$ 247	$ 1,323	$ 187	$ 15	$2,338

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) ***Loans, Continued.*** The Company has divided the loan portfolio into six portfolio segments, each with different risk characteristics and methodologies for assessing risk. The portfolio segments identified by the Company are as follows:

Real Estate Mortgage Loans. Real estate mortgage loans are typically segmented into four categories: Residential real estate, Multi-family real estate, Commercial real estate, and Land and Construction. Residential real estate loans are underwritten in accordance with policies set forth and approved by the Board of Directors (the "Board"), including repayment capacity and source, value of the underlying property, credit history and stability. Multi-family real estate and commercial real estate loans are secured by the subject property and are underwritten based upon standards set forth in the policies approved by the Company's Board. Such standards include, among other factors, loan to value limits, cash flow coverage and general creditworthiness of the obligors. Land and construction loans to borrowers are to finance the construction of owner occupied and leased properties. These loans are categorized as construction loans during the construction period, later converting to commercial or residential real estate loans after the construction is complete and amortization of the loan begins. Real estate development and construction loans are approved based on an analysis of the borrower and guarantor, the viability of the project and on an acceptable percentage of the appraised value of the property securing the loan. Real estate development and construction loan funds are disbursed periodically based on the percentage of construction completed. The Company carefully monitors these loans with on-site inspections and requires the receipt of lien waivers on funds advanced. Development and construction loans are typically secured by the properties under development or construction, and personal guarantees are typically obtained. Further, to assure that reliance is not placed solely on the value of the underlying property, the Company considers the market conditions and feasibility of proposed projects, the financial condition and reputation of the borrower and guarantors, the amount of the borrower's equity in the project, independent appraisals, costs estimates and pre-construction sale information. The Company also makes loans on occasion for the purchase of land for future development by the borrower. Land loans are extended for the future development for either commercial or residential use by the borrower. The Company carefully analyzes the intended use of the property and the viability thereof.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) Loans, Continued.

Commercial Loans. Commercial loans are primarily underwritten on the basis of the borrowers' ability to service such debt from income. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. As a general practice, the Company takes as collateral a security interest in any available real estate, equipment, or other chattel, although loans may also be made on an unsecured basis. Collateralized working capital loans typically are secured by short-term assets whereas long-term loans are primarily secured by long-term assets. These loans are also affected by adverse economic conditions should they prevail within the Company's local market.

Consumer Loans. Consumer loans are extended for various purposes, including purchases of automobiles, recreational vehicles, and boats. Also offered are home improvement loans, lines of credit, personal loans, and deposit account collateralized loans. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Loans to consumers are extended after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Consumer loans are made at fixed and variable interest rates and may be made on terms of up to ten years. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) ***Loans, Continued.*** The following summarizes the loan credit quality (in thousands):

	Pass	OLEM (Other Loans Especially Mentioned)	Substandard	Doubtful	Loss	Total
At June 30, 2012:						
Residential real estate:						
Closed-end first mortgages	$20,871	$ 2,919	$ 4,895	$ 0	$ 0	$28,685
Closed-end second mortgages	3,136	0	0	0	0	3,136
Total residential real estate	24,007	2,919	4,895	0	0	31,821
Multi-family real estate	4,316	0	0	0	0	4,316
Commercial real estate:						
Owner-occupied	10,011	1,992	78	0	0	12,081
Non-owner-occupied	12,303	1,133	14,288	0	0	27,724
Total commercial real estate	22,314	3,125	14,366	0	0	39,805
Land and construction	6,397	49	2,489	0	0	8,935
Commercial	3,673	0	0	0	0	3,673
Consumer	57	67	0	0	0	124
Total	$60,764	$ 6,160	$ 21,750	$ 0	$ 0	$88,674
At December 31, 2011:						
Residential real estate:						
Closed-end first mortgages	$18,588	$ 3,686	$ 5,001	$ 0	$ 0	$27,275
Closed-end second mortgages	3,159	0	0	0	0	3,159
Total residential real estate	21,747	3,686	5,001	0	0	30,434

Multi-family real estate	4,109	0	0	0	0	4,109
Commercial real estate:						
Owner-occupied	10,132	2,012	369	0	0	12,513
Non-owner-occupied	10,822	2,764	15,208	0	0	28,794
Total commercial real estate	20,954	4,776	15,577	0	0	41,307
Land and construction	4,493	49	7,241	0	0	11,783
Commercial	3,713	0	0	0	0	3,713
Consumer	107	68	0	0	0	175
Total	$55,123	$ 8,579	$ 27,819	$ 0	$ 0	$91,521

(continued)

17

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3)***Loans, Continued.*** Internally assigned loan grades are defined as follows:

Pass – a Pass loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary. These are loans that conform in all aspects to bank policy and regulatory requirements, and no repayment risk has been identified.

OLEM (Other Loans Especially Mentioned) – an Other Loan Especially Mentioned has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company's credit position at some future date.

Substandard – a Substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – a loan classified Doubtful has all the weaknesses inherent in one classified Substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. The Company fully charges off any loan classified as Doubtful.

Loss – a loan classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. The Company fully charges off any loan classified as Loss.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) ***Loans, Continued.*** Age analysis of past-due loans is as follows (in thousands):

	Accruing Loans						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
At June 30, 2012:							
Residential real estate:							
Closed-end first mortgages	$0	$0	$ 0	$0	$23,789	$ 4,896	$28,685
Closed-end second mortgages	0	0	0	0	3,136	0	3,136
Subtotal	0	0	0	0	26,925	4,896	31,821
Multi-family real estate	0	0	0	0	4,316	0	4,316
Commercial real estate:							
Owner-occupied	1,241	0	0	1,241	10,763	78	12,082
Non-owner-occupied	0	0	0	0	13,436	14,287	27,723
Subtotal	1,241	0	0	1,241	24,199	14,365	39,805
Land and construction	0	0	0	0	6,446	2,489	8,935
Commercial	0	0	0	0	3,673	0	3,673
Consumer	0	0	0	0	124	0	124
Total	$1,241	$0	$ 0	$1,241	$65,683	$ 21,750	$88,674
At December 31, 2011:							
Residential real estate:							
Closed-end first mortgages	$0	$768	$ 0	$768	$21,506	$ 5,001	$27,275
Closed-end second mortgages	0	0	0	0	3,159	0	3,159
Subtotal	0	768	0	768	24,665	5,001	30,434
Multi-family real estate	0	0	0	0	4,109	0	4,109

Commercial real estate:							
Owner-occupied	0	0	0	0	12,144	369	12,513
Non-owner-occupied	0	0	0	0	13,586	15,208	28,794
Subtotal	0	0	0	0	25,730	15,577	41,307
Land and construction	0	0	0	0	4,542	7,241	11,783
Commercial	0	0	0	0	3,713	0	3,713
Consumer	0	0	0	0	175	0	175
Total	$0	$768	$ 0	$768	$62,934	$ 27,819	$91,521

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) ***Loans, Continued.*** The following summarizes the amount of impaired loans (in thousands):

	At June 30, 2012			At December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Residential real estate-						
Closed-end first mortgages	$7,814	$8,506	$ 0	$7,919	$8,465	$ 0
Commercial real estate:						
Owner-occupied	78	78	0	369	376	0
Non-owner-occupied	14,287	16,816	0	15,208	17,584	0
Land and construction	2,489	5,482	0	7,241	11,652	0
Consumer	0	0	0	68	68	0
With an allowance recorded:						
Commercial real estate-						
Non-owner-occupied	0	0	0	1,139	1,139	11
Total:						
Residential real estate-						
Closed-end first mortgages	$7,814	$8,506	$ 0	$7,919	$8,465	$ 0
Commercial real estate:						
Owner-occupied	$78	$78	$ 0	$369	$376	$ 0
Non-owner-occupied	$14,287	$16,816	$ 0	$16,347	$18,723	$ 11
Land and construction	$2,489	$5,482	$ 0	$7,241	$11,652	$ 0
Consumer	$0	$0	$ 0	$68	$68	$ 0
Total	$24,668	$30,882	$ 0	$31,944	$39,284	$ 11

The average net investment in impaired loans and interest income recognized and received on impaired loans are as follows (in thousands):

Three Months Ended June 30,					
2012			2011		
Average Recorded	Interest Income	Interest Income	Average Recorded	Interest Income	Interest Income

	Investment	Recognized	Received	Investment	Recognized	Received
Residential real estate-						
Closed-end first mortgages	$7,870	$ 52	$ 84	$11,831	$ 5	$ 10
Multi-family real estate	$0	$ 0	$ 0	$0	$ 0	$ 0
Commercial real estate:						
Owner-occupied	$85	$ 0	$ 0	$355	$ 0	$ 0
Non-owner-occupied	$14,681	$ 0	$ 59	$19,171	$ 32	$ 94
Land and construction	$4,574	$ 0	$ 14	$7,834	$ 0	$ 36
Consumer	$0	$ 0	$ 0	$223	$ 1	$ 1
Total	$27,210	$ 52	$ 157	$39,414	$ 38	$ 141

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) Loans, Continued.

	Six Months Ended June 30,					
	2012			2011		
	Average Recorded Investment	Interest Income Recognized	Interest Income Received	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Residential real estate-						
Closed-end first mortgages	$7,941	$ 104	$ 152	$12,005	$ 56	$ 88
Multi-family real estate	$0	$ 0	$ 0	$0	$ 0	$ 0
Commercial real estate:						
Owner-occupied	$227	$ 0	$ 0	$552	$ 0	$ 1
Non-owner-occupied	$14,925	$ 0	$ 110	$19,317	$ 85	$ 211
Land and construction	$5,848	$ 0	$ 4	$8,191	$ 21	$ 91
Consumer	$0	$ 0	$ 0	$228	$ 4	$ 4
Total	$28,941	$ 104	$ 306	$40,293	$ 166	$ 395

No loans have been determined to be restructured as troubled debt restructurings (“TDR’s”) during the six months ended June 30, 2012 and 2011. In addition there were no defaults of TDR’s during the six months ended June 30, 2011 or 2012.

(4) ***Regulatory Capital.*** The Bank is required to maintain certain minimum regulatory capital requirements. The following is a summary at June 30, 2012 of the regulatory capital requirements and the Bank’s capital on a percentage basis:

	Bank	**Regulatory** Requirement
Tier I capital to total average assets	8.63 %	8.00 %
Tier I capital to risk-weighted assets	11.92 %	4.00 %
Total capital to risk-weighted assets	13.18 %	12.00 %

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(5) ***Loss Per Share***. Basic loss per share has been computed on the basis of the weighted-average number of shares of common stock outstanding during the period. Basic and diluted loss per share is the same due to the net loss incurred by the Company. Loss per common share has been computed based on the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Weighted-average number of common shares outstanding used to calculate basic and diluted loss per common share	26,735,541	819,358	24,622,418	819,358

(6) ***Stock-Based Compensation***. On December 27, 2011, the Company's stockholders approved the 2011 Equity Incentive Plan ("2011 Plan"). A total of 2,200,000 shares of common stock are available to be issued under the 2011 Plan. Options, restricted stock, performance share awards and bonus share awards in lieu of obligations may be issued under the 2011 Plan. Both incentive stock options and nonqualified stock options can be granted under the 2011 Plan. The exercise price of the stock options cannot be less than the fair market value of the common stock on the date of grant. Effective January 1, 2012, the Company adopted a Non- Employee Director Compensation Plan under which bonus shares issuable under the 2011 Plan may be issued as compensation to outside directors. During the six months ended June 30, 2012, 22,386 shares of stock valued at approximately $25,000 have been issued under the 2011 Plan and Non-Employee Director Compensation Plan as compensation to outside directors.

The Company's prior stock option plan terminated on February 27, 2011. At June 30, 2012, no options were available for grant under this plan. Options must be exercised within ten years of the date of grant.

A summary of the activity in the prior plan is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	50,900	$ 34.31		
Options forfeited	(11,392)	32.97		

Outstanding and exercisable at June 30, 2012	39,508	$ 34.70	2.6 years	$ 0

(continued)

22

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(7) ***Fair Value Measurements.*** Securities available for sale measured at fair value on a recurring basis are summarized below (in thousands):

		Fair Value Measurements at Reporting Date Using		
	Fair	Quoted Prices In Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	Value	(Level 1)	(Level 2)	(Level 3)
As of June 30, 2012- Mortgage-backed securities	$25,004	$0	$ 25,004	$ 0
As of December 31, 2011- Mortgage-backed securities	$28,907	$0	$ 28,907	$ 0

There were no transfers of securities between levels of inputs for the six months ended June 30, 2012.

Impaired collateral-dependent loans are carried at fair value when the current collateral value less estimated selling costs is lower than the carrying value of the loan. Those impaired collateral-dependent loans which are measured at fair value on a nonrecurring basis are as follows (in thousands):

At June 30, 2012					Losses Recorded in Operations For the Six Months Ended
Fair				Total	June 30,
Value	Level 1	Level 2	Level 3	Losses	2012

Residential real estate-						
Closed-end first mortgages	$1,476	$ 0	$ 0	$1,476	$692	$ 147
Commercial real estate:						
Non-owner-occupied	9,429	0	0	9,429	2,138	175
Land and construction	2,489	0	0	2,489	442	335
	$13,394	$ 0	$ 0	$13,394	$3,272	$ 657

	At December 31, 2011					Losses Recorded in Operations For the Year Ended December 31,
	Fair Value	Level 1	Level 2	Level 3	Total Losses	2011
Residential real estate-						
Closed-end first mortgages	$1,591	$ 0	$ 0	$1,591	$545	$ 308
Commercial real estate:						
Owner-occupied	291	0	0	291	8	8
Non-owner-occupied	6,540	0	0	6,540	2,652	150
Land and construction	6,793	0	0	6,793	1,511	834
	$15,215	$ 0	$ 0	$15,215	$4,716	$ 1,300

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(7) ***Fair Value Measurements, Continued.*** Foreclosed real estate is recorded at fair value less estimated costs to sell. Foreclosed real estate which is measured at fair value on a nonrecurring basis is as follows (in thousands):

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded During the Period
At June 30, 2012	$9,088	$ 0	$ 0	$9,088	$ 817	$ 45
At December 31, 2011	$7,646	$ 0	$ 0	$7,646	$ 772	$ 772

The estimated fair values and fair value measurement method with respect to the Company's financial instruments were as follows (in thousands):

	At June 30, 2012			**At December 31, 2011**		
	Carrying Amount	Fair Value	Level	Carrying Amount	Fair Value	Level
Financial assets:						
Cash and cash equivalents	$28,053	$28,053	3	$22,776	$22,776	3
Securities available for sale	25,004	25,004	2	28,907	28,907	2
Loans	86,641	85,978	89,217	89,069	3	
Federal Home Loan Bank stock	1,770	1,770	3	2,159	2,159	3
Accrued interest receivable	484	484	3	499	499	3
Financial liabilities:						
Deposit liabilities	106,664	106,986	3	107,895	108,461	3
Federal Home Loan Bank advances	31,700	33,836	3	31,700	33,920	3
Junior subordinated debenture	5,155	4,836	3	5,155	4,734	3
Off-balance sheet financial instruments	0	0	3	0	0	3

Discussion regarding the assumptions used to compute the estimated fair values of financial instruments can be found in Note 1 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2011.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(8) ***Regulatory Matters - Company.*** The Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the “Federal Reserve”). On June 22, 2010, the Company entered into a written agreement with the Federal Reserve Bank of Atlanta (“Reserve Bank”) with respect to certain aspects of the operation and management of the Company (the “Written Agreement”).

The Written Agreement contains the following principal requirements:

- The Board of the Company must take appropriate steps to fully utilize the Company’s financial and managerial resources to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with the Consent Order entered into with the OFR and the FDIC and any other supervisory action taken by the Bank’s state or federal regulator.
- The Company may not declare or pay any dividends without prior Reserve Bank and Federal Reserve approval.
- The Company may not, directly or indirectly, take dividends or any other form of payment representing a reduction in capital from the Bank without prior Reserve Bank approval.
- The Company and its nonbank subsidiary, OptimumBank Holdings Capital Trust I, may not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Federal Reserve.
- The Company and its nonbank subsidiary, OptimumBank Holdings Capital Trust I, may not, directly or indirectly, incur, increase, or guarantee any debt or purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.
- The Company must obtain prior written consent from the Reserve Bank before appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, and must comply with the regulations applicable to indemnification and severance payments.
- The Company must provide quarterly progress reports to the Reserve Bank, along with parent company only financial statements.

Management believes the Company is in substantial compliance with the requirements of the Written Agreement.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(9) ***Regulatory Matters- Bank.*** Effective April 16, 2010, the Bank consented to the issuance of a Consent Order by the FDIC and the OFR, also effective as of April 16, 2010.

The Consent Order represents an agreement among the Bank, the FDIC and the OFR as to areas of the Bank's operations that warrant improvement and presents a plan for making those improvements. The Consent Order imposes no fines or penalties on the Bank. The Consent Order will remain in effect and enforceable until it is modified, terminated, suspended, or set aside by the FDIC and the OFR.

The Consent Order contains the following principal requirements:

- The Board of the Bank is required to increase its participation in the affairs of the Bank and assume full responsibility for the approval of sound policies and objectives for the supervision of all of the Bank's activities.
- The Bank is required to have and retain qualified and appropriately experienced senior management, including a chief executive officer, a chief lending officer and a chief financial officer, who are given the authority to implement the provisions of the Consent Order.
- Any proposed changes in the Bank's Board of Directors or senior executive officers are subject to the prior consent of the FDIC and the OFR.
- The Bank is required to maintain both a fully funded allowance for loan and lease losses satisfactory to the FDIC and the OFR and a minimum Tier 1 leverage capital ratio of 8% and a total risk-based capital ratio of 12% for as long as the Consent Order remains in effect.
- The Bank must undertake over a two-year period a scheduled reduction of the balance of loans classified "substandard" and "doubtful" in its 2009 FDIC examination by at least 75%.
- The Bank is required to reduce the volume of its adversely classified private label mortgage backed securities under a plan acceptable to the FDIC and OFR.
- The Bank must submit to the FDIC and the OFR for their review and comment a written business/strategic plan covering the overall operation of the Bank.
- The Bank must implement a plan to improve earnings, addressing goals and strategies for improving and sustaining earnings, major areas for improvement in the Bank's operating performance, realistic and comprehensive budgets and a budget review process.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(9) ***Regulatory Matters – Bank, Continued.***

- The Bank is required to revise, implement and incorporate recommendations of the FDIC and OFR with respect to the following policies or plans:

  - Lending and Collection Policies
  - Investment Policy
  - Liquidity, Contingency Funding and Funds Management Plan
  - Interest Rate Risk Management Policy
  - Internal Loan Review and Grading System;
  - Internal Control Policy; and
  - A plan to reduce concentration in commercial real estate loans;

- The Bank's Board of Directors must review the adequacy of the allowance for loan and lease losses and establish a comprehensive policy satisfactory to the FDIC and OFR for determining such adequacy at least quarterly thereafter.
- The Bank may not pay any dividends or bonuses without the prior approval of the FDIC.
- The Bank may not accept, renew or rollover any brokered deposits except with the prior approval of the FDIC.
- The Bank is required to notify the FDIC and OFR prior to undertaking asset growth of 10% or more per annum while the Consent Order remains in effect.
- The Bank is required to file quarterly progress reports with the FDIC and the OFR.

Management believes that the Bank is currently in substantial compliance with all the requirements of the Consent Order except for the following requirements:

- Scheduled reductions by October 31, 2011, and April 30, 2012, of 60% and 75%, respectively, of loans classified as substandard and doubtful in the 2009 FDIC Examination;
- Retention of a qualified chief executive officer and chief lending officer; and
- Development of a plan to reduce Bank's concentration in commercial real estate loans acceptable to the supervisory authorities.

The Bank has implemented comprehensive policies and plans to address all of the requirements of the Consent Order and has incorporated recommendations from the FDIC and OFR into these policies and plans.

(10) ***Junior Subordinated Debenture.*** The terms of the debenture agreement allow the Company to defer payments of interest on the debenture by extending the interest payment period at any time during the term of the debenture for up to twenty consecution quarterly periods. The Company has elected its right to defer payment of interest on the debenture. Accrued and unpaid interest on the debenture totaled $406,491 at June 30, 2012.

27

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto presented elsewhere in this report. For additional information, refer to the financial statements and footnotes for the year ended December 31, 2011 in the Annual Report on Form 10-K.

Regulatory Enforcement Actions

Bank Consent Order. On April 16, 2010, the Bank consented to the issuance of a Consent Order ("Consent Order") by the FDIC and OFR. The Consent Order covers areas of the Bank's operations that warrant improvement and imposes various requirements and restrictions designed to address these areas, including the requirement to maintain certain minimum capital ratios. A detailed discussion of the Consent Order is contained in Footnote 9 to the condensed consolidated financial statements contained in this report. Management believes that the Bank is currently in substantial compliance with all the requirements of the Consent Order except for the following requirements:

- Scheduled reductions by October 31, 2011, and April 30, 2012, of 60% and 75%, respectively, of loans classified as substandard and doubtful in the 2009 FDIC Examination;
- Retention of a qualified chief executive officer and chief lending officer; and
- Development of a plan to reduce Bank's concentration in commercial real estate loans acceptable to the supervisory authorities.

The Bank has implemented comprehensive policies and plans to address all of the requirements of the Consent Order and has incorporated recommendations from the FDIC and OFR into these policies and plans.

Company Written Agreement with Reserve Bank. On June 22, 2010, the Company and the Reserve Bank entered into a Written Agreement with respect to certain aspects of the operation and management of the Company, including, without the prior approval of the Reserve Bank, paying or declaring dividends, taking dividends or payments from the Bank, making any interest, principal or other distributions on trust preferred securities, incurring, increasing or guaranteeing any debt, purchasing or redeeming any shares of stock, or appointing any new director or senior executive officer. Management believes that the Company is currently in substantial compliance with the requirements of the Written Agreement. A detailed discussion of the Written Agreement is contained in Footnote 8 to the condensed consolidated financial statements contained in this report.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Capital Levels

At June 30, 2012, the Bank met or exceeded all of its regulatory capital requirements. The following table summarizes the capital measures of the Bank at June 30, 2012 and December 31, 2011:

			FDIC Guideline Requirements		
	June 30, 2012	**December 31, 2011**	**Adequately-Capitalized**	**Well-Capitalized**	**Consent Order**
Tier I risk-based capital ratio	11.92 %	11.22 %	4.00 %	6.00 %	*
Total risk-based capital ratio	13.18 %	12.48 %	8.00 %	10.00 %	12.00 %
Leverage ratio	8.63 %	7.76 %	4.00 %	5.00 %	8.00 %

*No additional requirement is established by the Consent Order

Financial Condition at June 30, 2012 and December 31, 2011

Overview

Our total assets declined by $.3 million to $154.1 million at June 30, 2012, from $154.5 million at December 31, 2011, due to a $3.9 million reduction in securities primarily as a result of repayments and a $2.6 million reduction in net loans primarily as a result of loan payoffs and transfers to foreclosed real estate, partially offset by a $5.3 million increase in cash and cash equivalents. Deposits decreased by $1.2 million to $106.7 million at June 30, 2012, from $107.9 million at December 31, 2011, primarily due to a reduction in time deposits. Total stockholders' equity increased by $0.9 million to $7.7 million at June 30, 2012 from $6.8 million at December 31, 2011, due to the receipt of $1.8 million in proceeds from the sale of common stock and a $0.4 million decrease in accumulated other comprehensive loss from a reduction of unrealized losses on securities available for sale, partially offset by a $1.4 million net loss for the six month period ended June 30, 2012.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

The following table shows selected information for the periods ended or at the dates indicated:

	Six Months Ended June 30, 2012	Year Ended December 31, 2011	Six Months Ended June 30, 2011
Average equity as a percentage of average assets	4.89 %	1.04 %	0.64 %
Equity to total assets at end of period	4.98 %	4.39 %	(.66)%
Return on average assets (1)	(1.77)%	(2.11)%	(3.36)%
Return on average equity (1)	(36.23)%	(203.97)%	(526.43)%
Noninterest expenses to average assets (1)	3.40 %	4.08 %	4.49 %

(1) Annualized for the six months ended June 30, 2012 and 2011.

Despite the slowing decline of real estate values in South Florida, we continue to experience the adverse effects of the prolonged real estate devaluation resulting in significant levels of non-performing loans, foreclosed real estate and loan charge-offs. Management, however, is committed to minimizing further losses in the loan portfolio and reducing our nonperforming assets.

Liquidity and Sources of Funds

The Bank's sources of funds include customer deposits, advances from the Federal Home Loan Bank of Atlanta ("FHLB"), principal repayments and sales of investment securities, loan repayments, foreclosed real estate sales, the use of Federal Funds markets, net income, if any, and loans taken out at the Reserve Bank discount window.

Deposits are our primary source of funds. Under the Consent Order, the interest rates that we pay on our market area deposits and our ability to accept brokered deposits is restricted. The restriction on brokered deposits is not expected to alter the Bank's current deposit gathering activities since the Bank has not accepted, renewed or rolled over any brokered deposits since December 2009. With respect to the yield limitations, it is possible that the Bank could experience a decrease in deposit inflows, or the migration of current deposits to competitor institutions, if other institutions offer higher interest rates than those permitted to be offered by the Bank. Despite these yield limitations, we believe that we have the ability to adjust rates on our deposits to attract or retain deposits as needed.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

In addition to obtaining funds from depositors, we may borrow funds from other financial institutions. At June 30, 2012, the Bank had outstanding borrowings of $31.7 million, against its $31.7 million in established borrowing capacity with the FHLB. The Bank's borrowing facility is subject to collateral and stock ownership requirements, as well as prior FHLB consent to each advance. In 2010, the Bank obtained an available discount window credit line with the Reserve Bank, currently $1.1 million. The Reserve Bank line is subject to collateral requirements and must be repaid within 90 days; each advance is subject to prior Reserve Bank consent. We measure and monitor our liquidity daily and believe our liquidity sources are adequate to meet our operating needs.

The Company, on an unconsolidated basis, typically relies on dividends from the Bank to fund its operating expenses, primarily expenses of being publicly held, and to make interest payments on its outstanding trust preferred securities. Under the Consent Order, the Bank is currently unable to pay dividends without prior regulatory approval. In addition, under the Written Agreement, we may not pay interest payments on the trust preferred securities or dividends on our common stock, incur any additional indebtedness at the holding company level, or redeem our common stock without the prior regulatory approval of the Reserve Bank. Since January 2010, we have deferred interest payments on our trust preferred securities.

Off-Balance Sheet Arrangements

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit and may involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the condensed consolidated balance sheet. The contract amounts of these instruments reflect the extent of the Company's involvement in these financial instruments.

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

The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party. As of June 30, 2012, the Company had no commitments to extend credit.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Results of Operations

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest and dividend income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average cost; (iii) net interest income; (iv) interest-rate spread; (v) net interest margin; and (vi) ratio of average interest-earning assets to average interest-bearing liabilities.

	Three Months Ended June 30,					
	2012			**2011**		
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividends	Average Yield/ Rate
			($ in thousands)			
Interest-earning assets:						
Loans	$89,078	$ 982	4.41 %	$108,219	$ 1,197	4.42 %
Securities	26,563	276	4.16	51,142	500	3.91
Other (1)	27,181	22	0.32	15,796	14	0.35
Total interest-earning assets/interest income	142,822	1,280	3.58	175,157	1,711	3.91
Cash and due from banks	1,962			440		
Premise and equipment	2,688			2,758		
Other	6,702			4,446		
Total assets	$154,174			$182,801		
Interest-bearing liabilities:						
Savings, NOW and money-market deposits	35,339	57	0.65	36,187	76	0.84
Time deposits	70,765	228	1.29	105,974	422	1.59
Borrowings (2)	36,855	388	4.21	36,855	384	4.17
Total interest-bearing liabilities/ interest expense	142,959	673	1.88	179,016	882	1.97

Noninterest-bearing demand deposits	571			513		
Other liabilities	2,759			3,074		
Stockholders' equity	7,885			198		
Total liabilities and stockholders' equity	$154,174			$182,801		
Net interest income		$ 607			$ 829	
Interest-rate spread (3)			1.70%			1.94 %
Net interest margin (4)			1.70%			1.89 %
Ratio of average interest-earning assets to average interest-bearing liabilities	1.00			0.98		

(1) Includes interest-earning deposits with banks, Federal funds sold, and Federal Home Loan Bank stock dividends.
(2) Includes Federal Home Loan Bank advances, other borrowings and junior subordinated debenture.
(3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(4) Net interest margin is net interest income divided by average interest-earning assets.

32

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Results of Operations

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest and dividend income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average cost; (iii) net interest income; (iv) interest-rate spread; (v) net interest margin; and (vi) ratio of average interest-earning assets to average interest-bearing liabilities.

	Six Months Ended June 30, 2012			2011		
	Average Balance	Interest and Dividends	Average Yield/ Rate	Average Balance	Interest and Dividends	Average Yield/ Rate
	($ in thousands)					
Interest-earning assets:						
Loans	$89,900	$ 1,977	4.40 %	$110,062	$ 2,486	4.52 %
Securities	27,465	574	4.18	51,824	1,029	3.97
Other (1)	24,709	38	0.31	16,325	29	0.36
Total interest-earning assets/interest income	142,074	2,589	3.64	178,211	3,544	3.98
Cash and due from banks	1,192			511		
Premise and equipment	2,687			2,773		
Other	6,531			4,895		
Total assets	$152,484			$186,390		
Interest-bearing liabilities:						
Savings, NOW and money-market deposits	35,085	112	0.64	36,176	153	0.85
Time deposits	70,020	464	1.33	108,775	895	1.65
Borrowings (2)	36,855	777	4.22	36,855	765	4.15
Total interest-bearing liabilities/ interest expense	141,960	1,353	1.91	181,806	1,813	1.99

Noninterest-bearing demand deposits	558			497			
Other liabilities	2,503			2,899			
Stockholders’ equity	7,463			1,188			
Total liabilities and stockholders’ equity	$152,484			$186,390			
Net interest income		$ 1,236			$ 1,731		
Interest-rate spread (3)			1.73 %				1.99 %
Net interest margin (4)			1.74 %				1.94 %